

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 (“hardgoods”). 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, as well as the Company’s consolidated affiliate, National Welders (see Notes 2 and 16). Unconsolidated affiliates are accounted for on the equity method and generally consist of 50% owned operations. Intercompany accounts and transactions, including those between the Company and National Welders, 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 85% and 90% of the inventories at March 31, 2004 and 2003, 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.

Financing costs related to the issuance of long-term debt are deferred and recognized in other long-term assets. Deferred financing costs are amortized as interest expense 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 product 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 carryforwards. 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.

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(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.

(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 2), 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 trust (the "Employee Benefits Trust") to fund future obligations of the Company's employee benefit and compensation plans. Shares are purchased by the Employee Benefits 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 Employee Benefits 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 Employee Benefits 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 All Other Operations, which produce much of the gas sold, 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, specialty gases, as well as the oxygen, nitrogen and argon sold by the Company's consolidated affiliate, National Welders.

(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 consolidated statement of earnings line item "Depreciation."

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(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 \$277 million, \$258 million and \$217 million for the fiscal years ended March 31, 2004, 2003 and 2002, 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 \$4.3 million, \$4.5 million, and \$4.9 million was recognized in depreciation for the fiscal years ended March 31, 2004, 2003 and 2002, respectively.

Note 2**Accounting and Disclosure Changes***SFAS 132 (revised 2003)*

In December 2003, the FASB issued SFAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*. This revised statement retains the disclosures required by the original SFAS No. 132, which standardized employers' disclosures about pensions and other postretirement benefits, and requires additional disclosures concerning the economic resources and obligations related to pension plans and other postretirement benefits. This revised statement is effective for fiscal years ending after December 15, 2003. The Company adopted SFAS 132 in fiscal 2004, as required. Since the Company does not have any defined benefit plans, the adoption of SFAS 132 did not impact the Company's benefit plan disclosures.

SFAS 133

On April 1, 2001, the Company adopted SFAS No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities*, as amended by SFAS No. 137 and 138, ("SFAS 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.

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 initi-

ated 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 effective 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.

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, 2003 and 2002, the Company's annual assessment of each of its reporting units indicated that goodwill was not impaired.

SFAS 143

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

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.

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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 15).

SFAS 149

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS 149 requires, among other things, that contracts with comparable characteristics be accounted for similarly and clarifies the circumstances under which a contract with an initial net investment meets the characteristic of a derivative and when a derivative contains a financing component that warrants special reporting in the statement of cash flows. The Company adopted SFAS 149 on July 1, 2003, as required. The adoption of SFAS 149 did not have a material impact on its results of operations, financial position or liquidity.

SFAS 150

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity in the statement of financial position. SFAS 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those financial instruments were previously classified as equity. The Company adopted SFAS 150 on July 1, 2003, as required. The adoption of SFAS 150 did not have a material impact on its results of operations, financial position or liquidity.

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 21).

FASB Financial Interpretation No. 46

In January 2003, the FASB issued Financial Interpretation No. 46, *Consolidation of Variable Interest Entities*, (“FIN 46”). The interpretation was initially effective for the first interim period beginning after June 15, 2003. However, as a result of implementation issues, in December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, (“FIN 46R”), which was effective as of the end of the first reporting period ending after March 15, 2004, with early adoption permitted.

FIN 46 and FIN 46R addresses consolidation by a business enterprise of variable interest entities. Variable interest entities are defined as corporations, partnerships, trusts, or any other legal structure used for business purposes, and by design, the holders of equity instruments in those entities lack one of the characteristics of a financial controlling interest. FIN 46 and FIN 46R changes previous accounting practice by introducing the concept of a “Primary Beneficiary” and requires variable interest entities to be consolidated by the party deemed to be the Primary Beneficiary (i.e., the party that is subject to a majority of the risk of loss from the variable interest entity’s activities or entitled to receive a majority of the entity’s residual returns or both). Under previous accounting practice, entities generally were not consolidated unless the entity was controlled through voting interests.

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Since October 1999, the Company has leased certain real estate and equipment from a grantor trust (the "Trust") under a sale-leaseback arrangement. The Trust incurred debt to purchase the properties and equipment from the Company. The Company, in turn, paid rent to the Trust. The rental payments to the Trust were based on LIBOR plus an applicable margin and matched the debt service requirements for the debt held by the Trust. The Trust was not consolidated for financial reporting purposes and the non-cancelable lease obligation of the real estate and equipment leases totaled approximately \$41 million at March 31, 2003.

Effective July 1, 2003, the Company elected to early adopt FIN 46 with respect to the Trust. The Company determined the Trust to be a variable interest entity as defined by FIN 46. In addition, the Company was determined to be the primary beneficiary of the sale-leaseback arrangement. FIN 46 required the Company to consolidate the Trust for financial reporting purposes. Upon consolidation, the Company recorded on its balance sheet approximately \$29 million of real estate and equipment and debt of \$42 million, while eliminating a long-term deferred gain of \$13 million. The consolidation of the Trust resulted in the Company recognizing \$1 million in interest expense and \$1 million in depreciation expense in the nine months ended March 31, 2004, which had previously been recognized as rent expense to the Trust. The debt of the grantor trust matures in October 2004 and is classified as long-term based upon the Company's ability and intention to refinance it with borrowings under its long-term credit facilities.

Since June 1996, the Company has participated in a joint venture with National Welders Supply Company, Inc. ("National Welders"), a producer and distributor of industrial gases based in Charlotte, North Carolina. The Company determined that National Welders meets the definition of a "Variable Interest Entity" under FIN 46R and that the Company is the Primary Beneficiary of the joint venture. Therefore, effective December 31, 2003, the Company elected to adopt FIN 46R, as it applies to the joint venture, and consolidated National Welders. As permitted by FIN 46R, the Company applied the interpretation prospectively from the date of adoption. Therefore, at December 31, 2003, the consolidation of National Welders only affected the balance sheet. There was no cumulative effect adjustment or impact on cash flows as a result of the consolidation. The consolidation had the effect of eliminating the Company's \$62 million investment in National Welders and recording the joint venture's assets, liabilities and a corresponding minority interest liability. The assets and liabilities of National Welders included goodwill of \$56 million and debt of \$62 million, which is non-recourse to the Company.

Beginning January 1, 2004, National Welders' operating results were no longer reflected as "Equity in Earnings of Unconsolidated Affiliates." Rather, the operating results were reflected broadly across the income statement with minority interest expense representing the quarterly dividend on the joint venture's redeemable preferred stock, net of interest earned on a note receivable from the preferred stockholders. The joint venture is structured such

that the Company earns the residual net income available to the common stockholder, which is net of the minority interest expense. Since the allocation of the joint venture's net earnings was unaffected by the adoption of FIN 46R, the consolidation of National Welders did not impact the Company's net earnings. See Note 16 for additional disclosures regarding National Welders.

Note 3**Acquisitions and 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 date of each respective acquisition. 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 2004

During fiscal 2004, the Company purchased five businesses associated with the distribution of packaged gases and related hard-goods products and dry ice. The largest of these businesses and their effective dates of acquisition included Delta Safety Supply, Inc. (May 1, 2003) and Interstate Welding Sales Corporation (March 31, 2004). The aggregate purchase price of the fiscal 2004 acquisitions was \$41 million, including assumed liabilities. Four of the businesses had aggregate annual revenues of approximately \$57 million and were included in the Distribution segment. One acquired dry ice distribution business generated annual revenues of approximately \$2 million and was included in All Other Operations. The Company negotiated the respective purchase prices of the businesses based on the expected cash flows to be derived from their operations after integration into the Company's existing distribution network. The Company acquired the businesses to expand its geographic coverage and strengthen its national network of branch store locations. Total assets contributed by fiscal 2004 acquisitions were approximately \$41 million. The excess of the purchase price of acquired businesses over the net assets acquired ("goodwill") related to fiscal 2004 acquisitions amounted to approximately \$10 million. Intangible assets, other than goodwill, totaled approximately \$5 million and primarily related to customer lists and non-compete agreements obtained from the sellers of the businesses.

For the fiscal 2004 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.

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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 acquired businesses have been included in the Distribution segment from their effective dates of acquisition. Goodwill related to fiscal 2003 acquisitions totaled approximately \$6.4 million and was deductible for income taxes.

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. Goodwill related to the Air Products acquisition amounted to approximately \$48 million, of which \$25.9 million was recognized in fiscal 2003. The fiscal 2003 increase in goodwill was the result of adjustments to the March 31, 2002 preliminary purchase price allocation. The revised purchase price allocation was based on estimates of fair values determined primarily through third party appraisals. Third party appraisals and cylinder and other fixed asset inventories related to the Air Products acquisition were finalized during fiscal 2003.

Additionally, in September 2001, the Company acquired six retail distributor locations from Air Liquide America Corporation ("Air Liquide"). The purchase price of \$11 million resulted in goodwill of approximately \$7 million. The goodwill associated with the Air Liquide transaction was entirely deductible for income taxes. These operations added annual revenues of approximately \$10 million.

Pro Forma Operating Results

The following presents unaudited pro forma operating results as if the fiscal 2004, 2003 and 2002 acquisitions had occurred on April 1, 2001. The pro forma results were prepared from financial information obtained during the due diligence process associated with the acquisitions. 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, 2001 or of results that may occur in the future.

<i>(In thousands, except per share amounts)</i>	Unaudited Years Ended March 31,		
	2004	2003	2002
Net sales	\$1,941,977	\$1,876,779	\$1,939,383
Income before the cumulative effect of a change in accounting principle	80,195	69,612	53,916
Net earnings (loss)	80,195	69,612	(5,084)
Diluted earnings (loss) per share	\$ 1.07	\$ 0.96	\$ (0.07)

(b) Divestitures

In fiscal 2002, 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. 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 (fiscal 2003) and recognized a loss on the sale of \$1.7 million. Kendeco contributed sales of \$17.7 million and operating income of \$158 thousand in fiscal 2002. 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 fiscal 2003, 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

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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 All Other Operations segment. The divested operations generated sales of \$3.5 million and operating income of \$1.2 million in fiscal 2002.

Note 4**Special Charges (Recoveries), Net**

During the fourth quarter of fiscal 2004, the Company recorded a special charge recovery of \$776 thousand (the “2004 Special Recovery”) consisting of lower estimates of the ultimate cost of prior years’ restructuring charges. The 2004 Special Recovery pertained to a change in estimate related to facility exit costs.

During fiscal 2003, the Company recorded a special charge of \$2.7 million (the “2003 Special Charge”) 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 charge included facility exit costs associated with the closure of certain facilities and severance. 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 fiscal 2002, the Company announced the transition of certain administrative functions to a financial shared services center. The Company recorded a special charge of approximately \$1 million (the “2002 Special Charge”) for severance costs and costs related to exiting one facility associated with the fiscal 2003-2004 transition to the shared services center.

At March 31, 2004, 2003, and 2002, accrued liabilities associated with the special charges were as follows:

<i>(In thousands)</i>			
Years Ended March 31,	Severance costs	Facility exit costs	Total
March 31, 2001 liability	\$ 2,727	\$ 2,430	\$ 5,157
2002 Special Charge	916	41	957
Cash payments	(2,162)	(289)	(2,451)
Change in estimate	(565)	(392)	(957)
March 31, 2002 liability	\$ 916	\$ 1,790	\$ 2,706
2003 Special Charge	1,326	1,368	2,694
Cash payments	(1,269)	(758)	(2,027)
March 31, 2003 liability	\$ 973	\$ 2,400	\$ 3,373
2004 Special Recovery	—	(776)	(776)
Cash payments	(973)	(621)	(1,594)
March 31, 2004 liability	\$ —	\$ 1,003	\$ 1,003

During fiscal 2002, the Company reduced its estimate related to severance and facility exit costs associated with a 2001 cost reduction plan by approximately \$1 million. The change in estimate was recorded as a recovery in fiscal 2002 through the “Special charges (recoveries), net” line in the Consolidated Statement of Earnings.

The remaining liability for facility exit costs at March 31, 2004 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.

Note 5**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 and warrants.

The table below reconciles basic weighted average common shares outstanding to diluted weighted average common shares outstanding for the three years ended March 31, 2004, 2003 and 2002:

(In thousands)

Years Ended March 31,	2004	2003	2002
Weighted average common shares outstanding:			
Basic	72,800	70,500	68,100
Stock options and warrants	1,900	1,800	1,800
Diluted	74,700	72,300	69,900

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 2.3 million shares of Airgas common stock (see Note 16). If Airgas common stock has a market value of \$24.45 per share, the stock and cash redemption options are equivalent. No contingently issuable shares are included in the diluted weighted average common shares calculation (the “diluted computation”), as the conversion of the National Welders preferred stock in exchange for the Company’s common stock is anti-dilutive.

Outstanding stock options and warrants, with an exercise price above market, are excluded from the Company’s diluted computation as their effect would be anti-dilutive. There were approximately 545 thousand, 2 million and 2.6 million outstanding stock options and warrants with an exercise price above the average market price at March 31, 2004, 2003, and 2002, respectively. If the average market value of the Company’s common stock increases above the respective exercise prices of the options and warrants, they will be included in the diluted computation as common stock equivalents.

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Airgas, Inc. and Subsidiaries

Note 6

Inventories, Net

Inventories, net, consist of:

(In thousands)

March 31,	2004	2003
Hardgoods	\$ 154,038	\$ 136,347
Gases	16,262	15,058
	\$ 170,300	\$ 151,405

Net inventories determined by the LIFO inventory method totaled \$26.8 million and \$15.7 million at March 31, 2004 and 2003, respectively. If the FIFO inventory method had been used for these inventories, they would have been \$3 million and \$1.4 million higher at March 31, 2004 and 2003, respectively. Substantially all of the inventories are finished goods. The increase in net inventories determined by the LIFO inventory method resulted from the consolidation of National Welders (see Notes 2 and 16).

Note 7

Plant and Equipment

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

(In thousands)

March 31,	Depreciable Lives (Yrs)	2004	2003
Land and land improvements	—	\$ 61,072	\$ 35,929
Buildings and leasehold improvements	25	167,217	121,303
Cylinders	30	696,624	633,436
Machinery and equipment, including bulk tanks	7 to 30	516,704	384,425
Computers and furniture and fixtures	3 to 10	116,259	102,557
Transportation equipment	3 to 15	92,092	58,868
Construction in progress	—	4,219	9,265
		\$ 1,654,187	\$ 1,345,783

Note 8

Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for fiscal 2004 and 2003 were as follows:

(In thousands)	Distribution Segment	All Other	Total
		Operations Segment	
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
Acquisitions	8,849	1,096	9,945
Consolidation of National Welders (see Notes 2 and 16)	—	55,131	55,131
Other adjustments	1,314	108	1,422
Balance at March 31, 2004	\$ 372,563	\$ 131,644	\$ 504,207

Other intangible assets amounted to \$19.7 million (net of accumulated amortization of \$33.2 million) and \$19.8 million (net of accumulated amortization of \$27.8 million) at March 31, 2004 and 2003, 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: 2005 - \$5.8 million; 2006 - \$4.4 million; 2007 - \$3.2 million; 2008 - \$2.4 million; 2009 - \$1.1 million and \$2.8 million thereafter.

Note 9

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities include:

(In thousands)

March 31,	2004	2003
Accrued payroll and employee benefits	\$ 39,133	\$ 33,548
Business insurance reserves	19,824	15,272
Health insurance reserves	9,627	9,828
Accrued interest expense	12,724	12,000
Taxes other than income taxes	12,828	12,972
Other accrued expenses and current liabilities	27,890	37,672
	\$ 122,026	\$ 121,292

Note 10

Indebtedness

Long-term debt consists of:

(In thousands)

March 31,	2004	2003
Revolving credit borrowings	\$ 26,689	\$ 145,143
Term loan	70,000	87,500
Medium-term notes	106,730	185,202
Senior subordinated notes	382,102	232,478
Debt of grantor trust	41,030	—
Acquisition and other notes	8,464	9,937
National Welders debt	53,823	—
Total long-term debt	688,838	660,260
Less current portion of long-term debt	(6,140)	(2,229)
Long-term debt, excluding current portion	\$ 682,698	\$ 658,031

Revolving Credit Facilities

The Company has unsecured revolving credit facilities with a syndicate of lenders totaling \$367.5 million and \$50 million Canadian (U.S. \$38.2 million). The revolving credit facilities will mature on July 30, 2006. At March 31, 2004, the Company had borrowings under the revolving facilities of approximately \$8 million and \$25 million Canadian (U.S. \$19 million). The Company also had commitments under letters of credit supported by the

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

revolving credit facilities of approximately \$33 million at March 31, 2004. Based on restrictions related to certain leverage ratios, the Company had additional borrowing capacity under the revolving facilities of approximately \$225 million at March 31, 2004. 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, 2004, the effective interest rates on borrowings under the revolving facilities were 3.13% on U.S. borrowings and 4.44% on Canadian borrowings.

Borrowings under the revolving credit facilities are guaranteed by certain of the Company's domestic subsidiaries and Canadian borrowings are guaranteed by Canadian subsidiaries. The Company pledged 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 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 borrowing, the amount of dividends declared and paid, and the repurchase of common stock.

In May 2003, the Company obtained an amendment to its credit agreement that allowed 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 (see Senior Subordinated Notes below). Subject to existing financial covenants, the amendment also provided the Company with additional flexibility to pay dividends, repurchase Company common stock and to invest in acquisitions.

In anticipation of the acquisition of assets from The BOC Group, Inc. ("BOC") (see Note 26), the Company obtained an amendment to its credit agreement in February 2004 that, among other things, permits the Company to invest up to \$275 million in acquisitions during fiscal 2005.

Term Loan

At March 31, 2004, the Company had an outstanding term loan with a principal balance of \$70 million bearing an effective interest rate of 3.11%. The term loan is due in quarterly installments with a final payment due July 30, 2006. The term loan is unsecured and bears a variable interest rate based on LIBOR plus a spread related to the Company's credit rating. 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 the payments with borrowings under its long-term revolving credit facilities.

Medium-Term Notes

At March 31, 2004, the Company had \$100 million of unsecured medium-term notes outstanding due September 2006 and bearing interest at a fixed rate of 7.75%. 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 consist of notes issued to sellers of businesses acquired and are repayable in periodic installments. At March 31, 2004, acquisition and other notes totaled \$8.5 million with interest rates ranging from 4% to 9%.

Senior Subordinated Notes

In March 2004, the Company issued \$150 million of senior subordinated notes (the "2004 Notes") with a maturity date of July 15, 2014. The 2004 Notes bear interest at a fixed annual rate of 6.25%, payable semi-annually on January 15 and July 15 of each year. Proceeds from the issuance of the 2004 Notes were used to redeem \$75 million of medium-term notes due March 2004 and to pay down borrowings on the Company's U.S. revolving credit facility. The 2004 Notes were sold in accordance with the provisions of Rule 144A under the Securities Act of 1933 (the "Securities Act"). During fiscal 2005, the Company will exchange the 2004 Notes for substantially similar notes registered with the Securities and Exchange Commission in accordance with the Securities Act.

In addition to the 2004 Notes, at March 31, 2004, the Company had \$225 million of senior subordinated notes (the "2001 Notes") outstanding with a maturity date of October 1, 2011. The 2001 Notes bear interest at a fixed annual rate of 9.125%, payable semi-annually on April 1 and October 1 of each year.

The 2004 and 2001 Notes contain covenants that could restrict the payment of dividends, the repurchase of common stock, the issuance of preferred stock, and the incurrence of additional indebtedness and liens. The 2004 and 2001 Notes are guaranteed on a subordinated basis by each of the domestic guarantors under the revolving credit facilities.

Debt of Grantor Trust

Since October 1999, the Company has leased certain real estate and equipment from a grantor trust (the "Trust") under a sale-leaseback arrangement. The Trust incurred debt to purchase the properties and equipment from the Company. The Company, in turn, paid rent to the Trust. The rental payments to the Trust were based on LIBOR plus an applicable margin and matched the debt service requirements for the debt held by the Trust. The Trust was not consolidated for financial reporting purposes and the non-cancelable lease obligation of the real estate and equipment leases totaled approximately \$41 million at March 31, 2003.

Effective July 1, 2003, the Company elected to early adopt FIN 46 with respect to the Trust (see Note 2). The Company determined the Trust to be a variable interest entity as defined by FIN 46. In addition, the Company was determined to be the primary beneficiary of the sale-leaseback arrangement. FIN 46 required the

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Company to consolidate the Trust for financial reporting purposes. Upon consolidation, the Company recorded on its balance sheet approximately \$29 million of real estate and equipment and debt of \$42 million, while eliminating a long-term deferred gain of \$13 million. The consolidation of the Trust resulted in the Company recognizing \$1 million in interest expense and \$1 million in depreciation expense in the nine months ended March 31, 2004, which had previously been recognized as rent expense to the Trust. The debt of the grantor trust matures in October 2004 and is classified as long-term based upon the Company's ability and intention to refinance it with borrowings under its long-term credit facilities.

Debt of the National Welders Joint Venture

Effective December 31, 2003, the Company adopted FIN 46R and consolidated its National Welders joint venture. In accordance with the requirements of FIN 46R, the Company's Consolidated Balance Sheet at March 31, 2004 includes the financial obligations of the National Welders joint venture. National Welders' financial debt instruments are non-recourse to the Company, meaning that the creditors of National Welders do not have a claim on the assets of Airgas, Inc. in settlement of the joint venture's debt obligations. The debt of National Welders consists of:

(In thousands)

March 31,	2004
Revolving credit borrowings	\$ 5,507
Term loans	42,142
Acquisition and other notes	6,174
Total long-term debt	53,823
Less current portion of long-term debt	(5,575)
Long-term debt, excluding current portion	\$ 48,248

In July 2002, National Welders entered into a Credit Agreement to provide for available credit of \$100 million secured by certain assets of National Welders. The credit agreement provides for a Term Loan A of \$26.2 million, a Term Loan B of \$21 million, a Term Loan C of \$8.8 million, and a revolving credit line of \$44 million. Term Loan A is repayable in monthly amounts of \$254 thousand through maturity in June 2007. The Term Loan B matures in July 2006. Amounts outstanding at March 31, 2004 under Term Loans A and B were \$21 million and \$21 million, respectively. There were no amounts borrowed or outstanding under Term Loan C at March 31, 2004. The revolving credit line matures in June 2006. Interest rates on the Credit Agreement are variable and range from LIBOR plus 150 to 225 basis points based on National Welders' leverage ratio. The Credit Agreement contains certain covenants which, among other things, limit the ability of National Welders to incur and guarantee new indebtedness, subject National Welders to minimum net worth requirements, and limit its capital expenditures, ownership changes, merger and acquisition activity, and the payment of dividends. In addition, the payment of dividends on National Welders common stock is further limited by the joint venture agreement. The payment of dividends on the common stock is subordinate to the payment of

the 5% dividend on the preferred stock. Additionally, the common stock dividends must be declared by a vote of the joint venture's board of directors.

At March 31, 2004, the effective interest rate for the debt instruments covered under the Credit Agreement was 3.09%. Based on restrictions related to certain leverage ratios, National Welders had additional borrowing capacity under its Credit Agreement of \$47.3 million at March 31, 2004. Acquisition and other notes principally consisted of a note payable to a bank that is secured by a production facility and bears a fixed interest rate of 7%.

Aggregate Long-term Debt Maturities

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

<i>(In thousands)</i>	Airgas, Inc.	National Welders	Total
March 31,			
2005	\$ 565	\$ 5,575	\$ 6,140
2006	7,286	5,000	12,286
2007	244,640	31,180	275,820
2008	81	11,992	12,073
2009	84	—	84
Thereafter	382,359	76	382,435
	\$ 635,015	\$ 53,823	\$ 688,838

Note 11**Fair Value of Financial Instruments**

Summarized below are the carrying and fair values of the Company's financial instruments at March 31, 2004 and 2003.

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

<i>(In thousands)</i>	2004 Carrying Value	2004 Fair Value	2003 Carrying Value	2003 Fair Value
March 31,				
Financial Instruments:				
Revolving credit borrowings	\$ 26,689	\$ 26,689	\$145,143	\$145,143
Senior subordinated notes	382,102	401,331	232,478	247,136
Term loan	70,000	70,000	87,500	87,500
Medium-term notes	106,730	103,980	185,202	186,024
Debt of grantor trust	41,030	41,030	—	—
Acquisition and other notes	8,464	8,552	9,937	10,372
Interest rate swap agreements:				
Fair value hedge-asset	(13,832)	(13,832)	(17,681)	(17,681)
Cash flow hedge-liability	2,380	2,380	4,452	4,452

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

The carrying and fair values of the National Welders joint venture's financial instruments at March 31, 2004 are listed below:

<i>(In thousands)</i>	2004	
March 31,	Carrying Value	Fair Value
National Welders' Financial Instruments		
Revolving credit borrowings	\$ 5,507	\$ 5,507
Term loans	42,142	42,142
Acquisitions and other notes	6,174	6,588
Interest rate swap agreement:		
Cash flow hedge-liability	2,507	2,507

Note 12**Derivative Instruments and Hedging Activities**

The Company manages its exposure to changes in market interest rates. 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 2, the Company adopted SFAS 133 as of April 1, 2001.

At March 31, 2004, the Company had four fixed interest rate swap agreements with a notional amount of \$90 million that effectively convert a corresponding amount of variable interest rate debt of a consolidated grantor trust (see Note 10) and trade receivables securitization agreement (see Note 13). The swap agreements 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 1.12% at March 31, 2004). The remaining terms of these swap agreements range from between four and nineteen months. In fiscal 2004 and 2003, the Company recorded a net change in the fair value of the fixed interest rate swap agreements of \$2 million and \$565 thousand as accumulated other comprehensive income, respectively. The net additional interest payments made under these swap agreements during fiscal 2004 were recognized in interest expense. Over the next 12 months, the Company expects to reclassify \$1.9 million of the deferred loss from accumulated other comprehensive loss to interest expense as the related interest payments that are being hedged are recognized.

At March 31, 2004, the Company also had four variable interest rate swap agreements with a notional amount of \$125 million that effectively converts a corresponding amount of fixed rate medium-term and senior subordinated notes to variable rate debt. The swap agreements require the Company to make variable interest payments based primarily on six-month LIBOR (average rate of 3.16% at March 31, 2004) and receive fixed interest payments from its counterparties based on an average effective rate of 8.36% at March 31, 2004. The remaining terms of these swap agreements range from between two and seven years. 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, 2004 was \$13.8 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.

The effect of these interest rate swap agreements was to adjust the Company's ratio of fixed to variable interest rates to 57% fixed and 43% variable and to reduce interest expense by approximately \$4.7 million and \$3.4 million in fiscal 2004 and 2003, respectively, and increase interest expense by \$2.9 million in fiscal 2002.

National Welders' Hedging Activities

The Company's National Welders joint venture affiliate participates in one interest rate swap with a notional principal amount of \$21 million that effectively converts a corresponding amount of variable interest rate debt (Term Loan B - see Note 10) to a fixed rate debt instrument. The interest rate swap requires National Welders to make interest payments based on a fixed rate of 6.72% and receivable variable interest payments from its counterparty based on a floating LIBOR rate of 1.09% at March 31, 2004. The interest rate swap agreement was not entered into for trading purposes. The consolidation of National Welders resulted in the addition of a cumulative unrealized loss on the National Welders interest rate swap of \$2.5 million and associated tax benefit of \$1 million in "Accumulated Other Comprehensive Loss."

Aggregate Maturities of Interest Rate Swap Agreements

Including National Welders, the aggregate maturities of the Company's interest rate swap agreements by type of swap for the five years ending March 31, 2009 and thereafter are as follows:

<i>(In thousands)</i>	Notional Principal Amounts	
Years Ending March 31,	Pay-Fixed	Pay-Variable
2005	\$ 40,000	\$ —
2006	50,000	—
2007	21,000	50,000
2008	—	—
2009	—	—
Thereafter	—	75,000
	<u>\$ 111,000</u>	<u>\$ 125,000</u>

Note 13**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 will expire in December 2005, but may be renewed subject to renewal provisions contained in the agreement. During fiscal 2004, the Company sold, net of its retained interest, \$1,696 million of trade receivables and remitted to bank conduits, pursuant to a servicing agreement, \$1,692 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 \$162.6 million at March 31, 2004 and \$158.9 million at March 31, 2003.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

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 \$44 million and \$45 million is included in "Trade receivables" in the accompanying Consolidated Balance Sheets at March 31, 2004 and 2003, 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 continues 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 14**Stockholders' Equity****(a) Common Stock**

The Company is authorized to issue up to 200 million shares of common stock with a par value of \$0.01 per share. At March 31, 2004, the number of shares of common stock outstanding was 73.4 million, excluding 1.5 million shares of common stock held as treasury stock (923 thousand shares owned by National Welders), and 2.2 million shares of common stock held in the Employee Benefits Trust as described below. 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 by the Employee Benefits 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 Stockholder Rights Plan below). At March 31, 2004 and 2003, 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, 2004 and 2003, no shares of redeemable preferred stock were issued or outstanding.

(c) Dividends

On May 13, 2003, the Company's Board of Directors declared the first quarterly cash dividend in the Company's history of \$0.04 per share, which was paid to stockholders on June 30, 2003.

Subsequently, at the end of each quarter during fiscal 2004, the Company paid its stockholders regular quarterly cash dividends of \$0.04 per share. In addition, on May 25, 2004, the Company announced that its Board of Directors declared a regular quarterly cash dividend of \$0.045 per share, representing a 13% increase compared to the prior year quarterly dividend. The dividend is payable June 30, 2004 to stockholders of record as of June 15, 2004. Future dividend declarations and associated amounts paid will depend upon the Company's earnings, financial condition, loan covenants, capital requirements and other factors deemed relevant by management and the Company's Board of Directors.

(d) Shares in Employee Benefits Trust

In March 1999, the Company established a trust ("the Employee Benefits Trust") to fund certain future obligations of the Company's employee benefit and compensation plans. From inception through fiscal 2001, the Company, pursuant to a Common Stock Purchase Agreement, sold 7 million shares of common stock to the Employee Benefits Trust. The Company holds promissory notes from the Employee Benefits Trust in the amount of each purchase. Shares held by the Employee Benefits Trust serve as collateral for the promissory notes and are available to fund certain employee benefit plan obligations as the promissory notes are repaid. The shares held by the Employee Benefits 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 funded by the trust. Approximately 1.2 million and 909 thousand shares were issued from the Employee Benefits Trust for employee benefit programs during fiscal 2004 and 2003, respectively. As of March 31, 2004, the Employee Benefits Trust held 2.2 million shares of the Company's common stock.

(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.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

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 years 2004 or 2003.

Note 15**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 2004, 2003 and 2002 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,	2004	2003	2002
Net earnings (loss), as reported	\$ 80,192	\$ 68,105	\$ (10,415)
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(5,469)	(6,820)	(6,670)
Pro forma net earnings (loss)	\$ 74,723	\$ 61,285	\$ (17,085)
Earnings (loss) per share:			
Basic – as reported	\$ 1.10	\$ 0.97	\$ (0.15)
Basic – pro forma	\$ 1.03	\$ 0.87	\$ (0.25)
Diluted – as reported	\$ 1.07	\$ 0.94	\$ (0.15)
Diluted – pro forma	\$ 1.00	\$ 0.85	\$ (0.24)

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

(a) Employee Stock Option Plans

In May 1997, the Company adopted the 1997 Stock Option Plan (the "1997 Plan") under which officers and key employees may be granted options. 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, 2004, 2003 and 2002, 3.8 million, 4.7 million and 2.6 million options, respectively, were available for issuance. In fiscal 2004, 2003 and 2002, 1.1 million, 1.2 million and 1.5 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 2004, 2003 and 2002 option grants, respectively: expected volatility of 40.1%, 40.3% and 48.8%, risk-free interest rate of 2.6%, 4.3% and 4.7%, expected life of 7.3, 7.5, and 7.2 years, and a dividend yield of 0.83% (fiscal 2004). The weighted average fair value per share of the options granted during fiscal 2004, 2003 and 2002 was \$8.22, \$8.42 and \$5.31, respectively.

The following table summarizes the activity of the employee stock option plans during the three years ended March 31, 2004:

	Number of Shares	Exercise Price Per Share		
March 31, 2002				
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
March 31, 2003				
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
March 31, 2004				
Outstanding, beginning of year	8,185,156	4.63	-	23.25
Granted	1,104,800		19.36	
Exercised	(1,364,769)	5.21	-	19.00
Expired	(302,784)	5.21	-	22.00
Outstanding, end of year	7,622,403	\$ 4.63	-	\$ 23.25

Options for 4.7 million, 5.1 million and 4.7 million shares were exercisable at March 31, 2004, 2003 and 2002, respectively.

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Airgas, Inc. and Subsidiaries

(b) Board of Directors Stock Option Plans

In May 1997, the Company adopted the 1997 Directors' Stock Option Plan (the "1997 Directors' Plan") under which directors of the Company who are not employees may be granted options. The 1997 Directors' Plan replaced the previous 1989 Stock Option Plan for Directors. The 1997 Directors' Plan reserved 500 thousand shares for issuance. In May 2004, the Company amended the 1997 Directors' Plan, subject to stockholder approval, to increase the total number of shares of common stock reserved for issuance under the 1997 Directors' Plan from 500 thousand to 800 thousand.

Under the 1997 Directors' Plan, at March 31, 2004, 49,500 options were available for issuance. During fiscal 2004, 2003 and 2002, 60,000, 64,000 and 80,000 options, respectively, were granted with an exercise price equal to the market price at the date of grant and have a maximum term of ten years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for fiscal 2004, 2003 and 2002 option grants, respectively: expected volatility of 40.5%, 41.5% and 51.1%, risk-free interest rate of 3.2%, 3.6% and 4.6%, expected life of 5.9, 5.9 and 5.7 years and a dividend yield of 0.84% (fiscal 2004). The weighted average fair value per share of the stock options granted during fiscal 2004, 2003 and 2002 was \$7.58, \$6.70 and \$6.61, respectively.

The following table summarizes the activity of the Board of Directors stock option plans during the three years ended March 31, 2004:

	Number of Shares	Exercise Price Per Share		
March 31, 2002				
Outstanding and exercisable, beginning of year	428,500	\$ 2.09	–	\$ 19.25
Granted	80,000		12.40	
Exercised	(32,000)	2.09	–	13.82
March 31, 2003				
Outstanding and exercisable, beginning of year	476,500	4.16	–	19.25
Granted	64,000		14.85	
Exercised	(48,000)	4.16	–	8.56
March 31, 2004				
Outstanding and exercisable, beginning of year	492,500	5.25	–	19.25
Granted	60,000		18.97	
Exercised	(48,500)	18.01	–	22.30
Outstanding and exercisable, end of year	504,000	\$ 5.25	–	\$ 19.25

Options granted to the Board of Directors are exercisable in full as of the date of grant.

The following table summarizes information about options outstanding and exercisable for the employee and Board of Directors stock option plans at March 31, 2004:

Options Outstanding		
Weighted Average Remaining Life-Years	Number Outstanding	Exercise Price Per Share
6.03	1,391,886	\$ 4.63 – \$ 8.50
6.13	1,307,811	8.54 – 11.32
4.14	1,123,246	11.44 – 14.00
3.58	1,353,216	14.60 – 15.94
7.14	1,240,618	16.52 – 17.31
8.71	1,240,295	17.38 – 21.53
2.17	469,331	22.00 – 23.25
5.73	8,126,403	\$ 4.63 – \$ 23.25

Options Exercisable	
Number of Options Exercisable	Weighted Average Exercise Price Per Share
1,052,486	\$ 6.42
688,541	9.62
1,112,496	12.39
1,336,155	15.60
435,477	16.75
156,501	18.97
468,581	22.05
5,250,237	\$ 13.06

(c) Employee Stock Purchase Plans

In July 2003, the Company's stockholders approved the 2003 Employee Stock Purchase Plan (the "2003 Plan") to encourage and assist employees in acquiring an equity interest in the Company. The 2003 Plan replaced the Company's 2001 Employee Stock Purchase Plan (the "2001 Plan"). During fiscal 2004, substantially all of the authorized shares remaining under the 2001 Plan were issued. During fiscal 2005, the 2001 Plan will be terminated and the remaining authorized shares will be deregistered.

The 2003 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 2003 Plan is defined as either the closing share price on the New York Stock Exchange as of an employee's enrollment date or the closing price on the first business day of a fiscal quarter when the shares are purchased, whichever is lower. An employee may lock-in a purchase price for up to 12 months. The 2003 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 2001 Plan were substantially the same as the 2003 Plan, except that under the 2001 Plan, employees could lock-in a purchase price for up to 27 months. During fiscal 2004 and 2003, the Company issued 554 thousand shares and 809 thousand shares, provided from the Employee Benefits Trust, to fund purchases made by employees under the 2003 and 2001 Plans. The average

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

purchase price per share in fiscal 2004 and 2003 was \$12.44 and \$11.06, respectively. During fiscal 2002, the Company also issued 1.1 million shares, provided from the Employee Benefits Trust, to fund purchases made by employees at an average price of \$6.58 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 2004 and 2002, respectively, were: average expected volatility of 31.1% and 61%, average risk-free interest rate of 0.96% and 2.6%, dividend yield of 0.87% (fiscal 2004), and expected option terms ranging from 3 to 6 months for the 2003 Plan and 3 to 27 months for previous employee stock purchase plans. Had the Company adopted SFAS 123, compensation expense related to the Employee Stock Purchase Plans would have been \$1.5 million, \$3.6 million and \$4.1 million in fiscal 2004, 2003 and 2002, respectively. Fiscal 2003 expense is related to the fiscal 2002 grant and represents the value of the options as they vest over the employee service period.

Note 16**Consolidated and Unconsolidated Affiliates**

With the adoption of FIN 46R (Note 2), the Company's previously unconsolidated joint venture affiliate, National Welders, became a consolidated affiliate. The Company's other joint venture affiliates were not impacted by FIN 46R. The Company has participated in a joint venture with National Welders since June 1996. National Welders 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 all of the joint venture's oxygen and nitrogen and over 50% of its argon requirements. The joint venture also distributes medical and specialty gases, process chemicals and welding equipment and supplies.

Ownership interests in National Welders consist 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 holds 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 stockholders 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 2.3 million shares of Airgas common stock. If Airgas' common stock has a market value of \$24.45 per share, the common stock and cash redemption options are equiv-

alent. If the preferred stockholders 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. The preferred stockholders may also elect to retain their interest in the preferred stock beyond June 30, 2009.

FIN 46R addresses the consolidation of variable interest entities. Variable interest entities are defined as corporations, partnerships, trusts, or any other legal structure used for business purposes, and by design, the holders of equity instruments in those entities lack one of the characteristics of a financial controlling interest. FIN 46R changes previous accounting practice by introducing the concept of a "Primary Beneficiary" and requiring variable interest entities to be consolidated by the party deemed to be the Primary Beneficiary (i.e., the party that is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both).

The Company determined that National Welders met the definition of a "Variable Interest Entity" under FIN 46R. Additionally, the Company, as the only common stockholder, was determined to be the Primary Beneficiary of the joint venture. Therefore, effective December 31, 2003, the Company elected to adopt FIN 46R, as it applies to the joint venture, and consolidated National Welders. As permitted by FIN 46R, the Company applied the interpretation prospectively from the date of adoption (prior periods not restated). Therefore, at December 31, 2003, the consolidation of National Welders only affected the balance sheet. There was no cumulative effect adjustment as a result of the consolidation. The consolidation had the effect of eliminating the Company's \$62 million investment in National Welders and recording the joint venture's assets, liabilities and a corresponding minority interest liability. The minority interest liability represents the redemption value of the joint venture's preferred stock (\$57 million), net of a \$21 million note receivable, bearing interest at 8%, due from the preferred stockholders. At March 31, 2004, National Welders' impact on the consolidated balance sheet is summarized below:

<i>(In thousands)</i>	Increase/(Decrease)
Current assets	\$ 29,922
Non-current assets	109,750
Total assets	<u>\$ 139,672</u>
Current liabilities	\$ 21,217
Non-current liabilities	82,929
Minority interest	36,191
Common stockholder's equity	(665)
Total liabilities and stockholder's equity	<u>\$ 139,672</u>

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Airgas, Inc. and Subsidiaries

The assets and liabilities of National Welders at March 31, 2004 include \$55.1 million of goodwill and \$53.8 million of debt, which is non-recourse to the Company.

The Company recognized \$4.4 million of "Equity in Earnings of Unconsolidated Affiliates" related to National Welders through the nine-months ended December 31, 2003. With the prospective adoption permitted by FIN 46R, the Company's proportionate share of the joint venture's operating results for the fourth fiscal quarter was not reflected as "Equity in Earnings of Unconsolidated Affiliates." Rather, the fourth fiscal quarter operating results of the joint venture were reflected broadly across the income statement with minority interest expense reflecting the quarterly dividend on the joint venture's redeemable preferred stock, net of interest earned on the note receivable from the preferred stockholders. For both the fourth quarter and fiscal year 2004, National Welders contributed \$39.2 million to sales, \$3.4 million to operating income, \$291 thousand of minority interest expense and \$1.2 million in net earnings. The liabilities of the joint venture are non-recourse to the Company. Likewise, the cash flows in excess of a management fee paid by National Welders are not available to the Company. For the fourth quarter and fiscal year 2004, National Welders contributed net cash from operating activities of \$9.8 million of which \$249 thousand was paid to the Company.

Summarized below are pro forma results of National Welders that would have been reflected had the Company consolidated the joint venture as of April 1, 2001. Since the Company had previously recorded its proportionate share of the operating results of National Welders under the equity method of accounting, the consolidation of National Welders' did not impact the Company's net earnings.

Pro forma results of National Welders:

(In thousands)

Years Ended March 31,	2004	2003	2002
Net sales	\$ 147,604	\$ 142,056	\$ 132,148
Operating income	11,337	11,151	11,043
Minority interest expense	1,170	1,170	1,170
Net earnings available to common stockholder	\$ 5,617	\$ 2,684	\$ 2,861

In fiscal 2004, National Welders recognized a non-recurring, after-tax insurance gain of \$1.7 million.

The Company accounts for investments in unconsolidated affiliates by the equity method of accounting, as described in Note 1(b). The Company's investment in its unconsolidated affiliates totaled approximately \$6.3 million and \$66 million at March 31, 2004 and 2003, respectively. Unconsolidated affiliates in Fiscal 2003 included a \$59 million investment in National Welders, which was consolidated in Fiscal 2004. Unconsolidated affiliates at March 31, 2004 principally consist of a 50% joint venture interest in AC Industries, which is a carbon dioxide production plant reported under All Other Operations in Note 24. The Company's share of earnings from AC Industries was \$830 thousand; \$1.1 million and \$1.0 million for the years ended March 31, 2004, 2003, and 2002, respectively.

Note 17 Interest Expense, Net

Interest expense, net, consists of:

(In thousands)

Years Ended March 31,	2004	2003	2002
Interest expense	\$ 43,028	\$ 47,272	\$ 48,035
Interest and finance charge income	(671)	(897)	(1,022)
	\$ 42,357	\$ 46,375	\$ 47,013

Note 18 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,	2004	2003	2002
United States	\$ 122,641	\$ 106,258	\$ 74,947
Foreign	5,065	3,046	3,444
	\$ 127,706	\$ 109,304	\$ 78,391

Income tax expense (benefit) consists of:

(In thousands)

Years Ended March 31,	2004	2003	2002
Current:			
Federal	\$ 21,784	\$ 30,552	\$ (6,693)
Foreign	2,120	1,509	1,534
State	438	483	387
	24,342	32,544	(4,772)
Deferred:			
Federal	19,584	6,312	32,348
Foreign	198	(640)	329
State	3,390	2,983	1,901
	23,172	8,655	34,578
	\$ 47,514	\$ 41,199	\$ 29,806

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.

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Airgas, Inc. and Subsidiaries

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

Years Ended March 31,	2004	2003	2002
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	2.2%	2.1%	1.5%
Divestitures	—	0.4%	1.8%
Equity accounting for unconsolidated affiliates	(0.9%)	(0.6%)	(1.2%)
Other, net	0.9%	0.8%	0.9%
	37.2%	37.7%	38.0%

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,	2004	2003
Deferred Tax Assets:		
Inventories	\$ 6,021	\$ 5,637
Accounts receivable	(1,044)	(589)
Deferred rental income	2,125	1,872
Insurance reserves	10,008	7,320
Special charges (Note 4)	912	1,817
Litigation settlement and other reserves	210	1,913
Net operating loss carryforwards	38,458	31,228
Other	1,096	1,390
Valuation allowance	(9,922)	(9,646)
	47,864	40,942
Deferred Tax Liabilities:		
Plant and equipment	(256,955)	(204,645)
Intangible assets	(19,647)	(14,141)
Other	(7,239)	(13,608)
	(283,841)	(232,394)
Net deferred tax liability	\$(235,977)	\$(191,452)

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,	2004	2003
Current deferred tax asset, net	\$ 21,054	\$ 17,688
Non-current deferred tax liability, net	(257,031)	(209,140)
Net deferred tax liability	\$(235,977)	\$(191,452)

The Company has recorded tax benefits amounting to \$6.2 million, \$5.8 million, and \$4.3 million in fiscal 2004, 2003 and 2002, 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, 2004. Valuation allowances primarily relate to certain state tax net operating loss carryforwards.

The Internal Revenue Service conducted an examination of the Company's federal income tax return for the fiscal years ended March 31, 2003, 2002 and 2001. The results of this examination had no material effect on the Company's net earnings, financial position or liquidity.

Note 19 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. Amounts expensed under the 401(k) plan for fiscal 2004, 2003, and 2002 were \$3.9 million, \$5 million and \$4.7 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. If the Company elected to withdraw from these plans at March 31, 2004, the withdrawal liability would have been approximately \$3.2 million. Amounts expensed under the pension plans for fiscal 2004, 2003 and 2002 were \$686 thousand, \$679 thousand and \$642 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 2004 and 2003 were \$135 thousand and \$64 thousand, respectively. At March 31, 2004, the Company had a liability of \$3 million related to compensation deferred under the Plan. At March 31, 2004, the Company also had life insurance policies with a cash surrender value of \$3 million available to fund the plan liability. Subsequent to March 31, 2004, the Company's Board of Directors elected to terminate the Plan.

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Airgas, Inc. and Subsidiaries

Note 20**Related Parties**

Effective with the consolidation of National Welders on December 31, 2003, National Welders has been reflected as part of the Company's consolidated results and is no longer considered a related party. Transactions between the Company and National Welders have been eliminated in consolidation. The related party transactions between the Company and National Welders presented below relate to historical periods prior to December 31, 2003.

During the years ended March 31, 2003 and 2002, National Welders (see Note 16), an unconsolidated equity affiliate, paid \$4.7 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 and \$1.1 thousand in fiscal 2003 and 2002, respectively. In connection with the Praxair litigation (see Note 22), the Company reimbursed National Welders for legal fees of \$482 thousand in fiscal 2002.

The Company paid \$9.8 million, \$9 million and \$7.7 million to AC Industries (see Note 16), an unconsolidated equity affiliate, for the purchase of liquid carbon dioxide during the years ended March 31, 2004, 2003 and 2002, respectively. In addition, the Company had a net payable balance to AC Industries totaling \$1.0 million and \$1.4 million at March 31, 2004 and 2003, 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. The amounts of the transactions were not material to the Company.

Note 21**Leases**

The Company leases certain distribution facilities, fleet vehicles 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, 2004, 2003, and 2002, amounted to \$56 million, \$54.7 million, and \$45.4 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, 2004 and 2003. Associated with the fleet vehicle operating leases, the Company guarantees a residual value of \$13.8 million, representing approximately 25% of the original cost.

At March 31, 2004, future minimum lease payments under non-cancelable operating leases are as follows:

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

2005	\$ 39,329
2006	31,767
2007	24,107
2008	17,815
2009	10,378
Thereafter	10,992
	<u>\$ 134,388</u>

Note 22**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 16). 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.

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 product liability claims. 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. 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.

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Airgas, Inc. and Subsidiaries

(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 will supply at least 35% of the Company's bulk liquid nitrogen, oxygen and argon requirements, exclusive of the volumes purchased under the new BOC supply agreement noted below. Additionally, the Company will purchase helium from Air Products under the terms of the supply agreement. Based on the volume of fiscal 2004 purchases, the Air Products supply agreement represents approximately \$42 million in annual liquid bulk gas purchases. Effective December 2002, the Company entered into a 3-year take-or-pay supply agreement with BOC to purchase liquid nitrogen, oxygen and argon. Under the BOC supply agreement, BOC reserves specified production volumes at certain plants and the Company has agreed to purchase at least 75% of those volumes. Purchases under the BOC supply agreement are anticipated to be approximately \$10 million annually. The BOC supply agreement will be replaced with a new BOC supply agreement upon closing of the acquisition of the BOC packaged gas business. In addition, the Company is a party to other long-term take-or-pay supply agreements primarily for the purchase of liquid carbon dioxide, representing approximately \$14 million, or 20% of the Company's annual carbon dioxide requirements. The Air Products, BOC and certain liquid carbon dioxide supply agreements contain market pricing subject to certain economic indices and market analysis. The Company believes the minimum product purchases under the agreements are well within the Company's normal product purchases.

(d) Commitments and Contingencies of National Welders

National Welders is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of National Welders' management, the ultimate disposition of these matters will not have a material or adverse effect on the entity's financial position, results of operations, or liquidity.

National Welders is self-insured for medical and workers' compensation claims in North Carolina and South Carolina. Medical claims are self-insured up to a \$100 thousand limit per person annually with an aggregate liability of \$4 million. Workers' compensation claims are self-insured up to \$250 thousand per person annually with an aggregate liability of \$575 thousand. Provisions for expected future payments for medical and workers' compensation are accrued based on estimates of the aggregate liability for claims incurred plus an estimate for incurred but not reported claims using historical experience.

Note 23**Supplemental Cash Flow Information**

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

(In thousands)

Years Ended March 31,	2004	2003	2002
Interest	\$ 46,115	\$ 55,853	\$ 42,165
Income taxes (net of refunds)	18,897	5,344	21,004

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

(In thousands)

Years Ended March 31,	2004	2003	2002
Acquisition liabilities assumed	\$ 7,620	\$ 2,606	\$ 9,917

Cash flows, in excess of a management fee, associated with the Company's consolidated affiliate, National Welders (see Note 16), are not available for the general use of the Company. Rather these cash flows are used by National Welders for operations, capital expenditures, and acquisitions and to satisfy financial obligations, which are non-recourse to the Company. As a result of the consolidation of National Welders effective December 31, 2003, the Consolidated Statement of Cash Flows at March 31, 2004 reflects the following fourth quarter sources and uses of cash associated with National Welders:

	2004
Net cash provided by operating activities	\$ 9,831
Net cash used by investing activities	(1,783)
Net cash used by financing activities	(8,048)
Management fee paid to the Company, which is eliminated in consolidation	249

Note 24**Summary by Business Segment**

The Company aggregates its operations, based on products and services, into two reportable segments, Distribution and All Other Operations. The Distribution 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. During fiscal year 2004, the Distribution segment accounted for approximately 90% of consolidated sales.

In the fourth quarter of fiscal 2004, the Company renamed its Gas Operations segment as "All Other Operations" and disclosed the operating results of National Welders with the results of business units previously reported under the Gas Operations segment. These business units produce and distribute dry ice, carbon dioxide, nitrous oxide and specialty gases. The operating results of the Company's air separation plants and its six national specialty gas labs are also reported under this segment. The National Welders joint venture structure, which limits the Company's control over the National Welders operations and cash flows, is the primary factor that led the Company to conclude that National Welders is most appropriately reflected in the All Other Operations segment. The business units reflected in the All Other Operations segment individually are not material enough to meet the thresholds to be reported as separate business segments. The elimination entries represent intercompany sales from the Company's All Other Operations segment to its Distribution 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.

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 based on sales dollars. However, sales associated with National Welders are excluded from the Corporate operating expense allocation to All Other Operations as National Welders maintains its own corporate functions. Corporate assets have been allocated to the Distribution segment, intercompany sales are recorded on the same basis as sales to third parties, and intercompany transactions are eliminated in consolidation. See Note 3 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.

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Airgas, Inc. and Subsidiaries

<i>(In thousands)</i>	Distribution	All Other Operations	Eliminations	Combined
Fiscal 2004				
Gas and rent	\$ 882,585	\$ 216,166	\$ (39,944)	\$ 1,058,807
Hardgoods	819,886	19,760	(2,985)	836,661
Total net sales	1,702,471	235,926	(42,929)	1,895,468
Cost of products sold, excluding depreciation expense	845,440	106,170	(42,929)	908,681
Selling, distribution, and administrative expenses	648,919	82,908	—	731,827
Depreciation expense	67,407	15,160	—	82,567
Amortization expense	5,032	357	—	5,389
Special charges (recoveries)	(776)	—	—	(776)
Operating income	136,449	31,331	—	167,780
Equity in earnings of unconsolidated affiliates	4,383	830	—	5,213
Assets	1,522,126	408,953	—	1,931,079
Investment in unconsolidated affiliates	1,178	5,114	—	6,292
Capital expenditures	81,247	12,502	—	93,749

<i>(In thousands)</i>	Distribution	All Other Operations	Eliminations	Combined
Fiscal 2003				
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	All Other Operations	Eliminations	Combined
Fiscal 2002				
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

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Note 25

Supplementary Information (Unaudited)

This table summarizes the unaudited results of operations for each quarter of fiscal 2004 and 2003:

(In thousands, except per share amounts)

	First	Second	Third	Fourth
2004				
Net sales (b)	\$ 461,056	\$ 460,452	\$ 451,869	\$ 522,091
Operating income (b)	40,660	40,761	40,287	46,072
Net earnings (b),(c)	18,528	19,113	20,891	21,660
Basic earnings per share (a),(b),(c)	\$.26	\$.26	\$.29	\$.29
Diluted earnings per share (a),(b),(c)	\$.25	\$.26	\$.28	\$.29
2003				
Net sales	\$ 457,668	\$ 451,053	\$ 435,339	\$ 442,904
Operating income (d)	36,210	42,424	38,090	39,158
Net earnings (d)	14,044	19,200	16,696	18,165
Basic earnings per share (a),(d)	\$.20	\$.27	\$.24	\$.26
Diluted earnings per share (a),(d)	\$.20	\$.27	\$.23	\$.25

- (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 2004 include a fourth quarter special charge recovery of \$776 thousand (\$480 thousand after tax) reflecting lower estimates of the ultimate cost of prior years' restructuring activities and a second quarter insurance-related loss of \$2.8 million (\$1.7 million after tax), representing the Company's self-insurance retention associated with fire-related losses. Fiscal 2004 results also include the fourth quarter consolidation of the National Welders joint venture in accordance with FIN 46R. National Welders contributed \$39.2 million of sales and \$3.4 million of operating income in fiscal 2004.
- (c) As discussed in the Notes to the Company's consolidated financial statements, net earnings for fiscal 2004 also include a third quarter \$1.7 million non-recurring insurance gain recognized by National Welders.
- (d) As discussed in the Notes to the Company's consolidated financial statements, operating income and net earnings for fiscal 2003 include a first quarter special charge 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 fiscal 2002, and costs related to the consolidation of certain of the Company's hard-goods procurement functions.

Note 26

Subsequent Event

On April 2, 2004, the Company announced that it signed a definitive asset purchase agreement to acquire most of the U.S. packaged gas business of BOC in a transaction valued up to \$200 million. The transaction is expected to close July 30, 2004 and includes about 120 locations in 21 states involved in the distribution of packaged industrial, medical and specialty gases, as well as welding hardgoods. In fiscal 2003, the packaged gas business of BOC, subject to the acquisition, generated approximately \$240 million in sales of which approximately 65% was gas and rent. The acquired operations will be integrated with the existing business units of the Company's Distribution segment.

Note 27

Condensed Consolidating Financial Information of Subsidiary Guarantors

The obligations of the Company under its senior subordinated notes ("the Notes") are guaranteed by the Company's domestic subsidiaries (the "Guarantors"). The guarantees are made on a joint and several basis. The Company's joint venture operations, foreign holdings and bankruptcy remote special purpose entity (the "Non-guarantors") are not guarantors of the Notes. Effective December 31, 2003, the Company adopted FIN 46R with respect to its National Welders joint venture (see Notes 2 and 16). As permitted by FIN 46R, the Company applied the interpretation prospectively (prior periods not restated). Accordingly, the Company's investment and equity in earnings of unconsolidated affiliates associated with the National Welders joint venture will no longer be reported under the Parent in the accompanying condensed consolidating financial statements. At December 31, 2003, the Parent company's "Investment in Unconsolidated Affiliates" associated with National Welders was reclassified to "Investment in Subsidiaries" and the assets, liabilities, and minority interest of the joint venture were reflected in the Condensed Consolidating Balance Sheet with the Non-guarantors. For the quarter ended March 31, 2004, the operating results of the joint venture and corresponding minority interest expense were reflected in the Condensed Consolidating Statement of Earnings with the Non-guarantors. 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 supplementary condensed consolidating financial information for the Company, the Guarantors and the Non-guarantors as of March 31, 2004 and March 31, 2003 and for the years ended March 31, 2004, 2003 and 2002.

Condensed Consolidating Balance Sheet

Airgas, Inc. and Subsidiaries

<i>(In thousands)</i>					
March 31, 2004	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Assets					
Current Assets:					
Trade receivables, net	\$ —	\$ 5,263	\$ 101,750	\$ —	\$ 107,013
Intercompany receivable/(payable)	—	(7,471)	7,471	—	—
Inventories, net	—	157,991	12,309	—	170,300
Deferred income tax asset, net	9,391	10,679	984	—	21,054
Prepaid expenses and other current assets	4,839	18,422	5,202	—	28,463
Total current assets	14,230	184,884	127,716	—	326,830
Plant and equipment, net	26,906	868,400	138,620	—	1,033,926
Goodwill	—	436,505	67,702	—	504,207
Other intangible assets, net	304	19,187	242	—	19,733
Investments in unconsolidated affiliates	1,117	5,175	—	—	6,292
Investments in subsidiaries	1,481,948	—	—	(1,481,948)	—
Intercompany receivable/(payable)	(198,326)	168,423	29,903	—	—
Other non-current assets	30,634	6,619	2,838	—	40,091
Total assets	\$ 1,356,813	\$ 1,689,193	\$ 367,021	\$(1,481,948)	\$ 1,931,079
Liabilities and Stockholders' Equity					
Current Liabilities:					
Accounts payable, trade	\$ 4,298	\$ 100,239	\$ 9,766	\$ —	\$ 114,303
Accrued expenses and other current liabilities	49,870	60,604	11,552	—	122,026
Current portion of long-term debt	—	467	5,673	—	6,140
Total current liabilities	54,168	161,310	26,991	—	242,469
Long-term debt, excluding current portion	607,832	6,185	68,681	—	682,698
Deferred income tax liability, net	(4,115)	223,409	37,737	—	257,031
Other non-current liabilities	5,687	10,933	4,169	—	20,789
Minority interest in subsidiaries	—	—	36,191	—	36,191
Commitments and contingencies					
Stockholders' Equity:					
Preferred stock, no par value	—	—	—	—	—
Common stock, par value \$.01 per share	772	—	—	—	772
Capital in excess of par value	233,574	786,534	71,956	(858,490)	233,574
Retained earnings	481,677	500,822	122,636	(623,458)	481,677
Accumulated other comprehensive loss	(1,596)	—	(970)	—	(2,566)
Treasury stock	(4,288)	—	(370)	—	(4,658)
Employee benefits trust	(16,898)	—	—	—	(16,898)
Total stockholders' equity	693,241	1,287,356	193,252	(1,481,948)	691,901
Total liabilities and stockholders' equity	\$ 1,356,813	\$ 1,689,193	\$ 367,021	\$(1,481,948)	\$ 1,931,079

Condensed Consolidating Balance Sheet

Airgas, Inc. and Subsidiaries

(In thousands)

March 31, 2003	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Assets					
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
Liabilities and Stockholders' Equity					
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 Statement of Earnings

Airgas, Inc. and Subsidiaries

(In thousands)

Year Ended March 31, 2004	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Net sales	\$ —	\$ 1,831,006	\$ 64,462	\$ —	\$ 1,895,468
Costs and Expenses:					
Costs of products sold (excluding depreciation)	—	885,137	23,544	—	908,681
Selling, distribution and administrative expenses	53,345	643,051	35,431	—	731,827
Depreciation	6,513	71,122	4,932	—	82,567
Amortization	113	5,261	15	—	5,389
Special charges (recoveries)	—	(776)	—	—	(776)
Operating Income (Loss)	(59,971)	227,211	540	—	167,780
Interest (expense) income, net (Discount) gain on securitization of trade receivables	(58,414)	17,932	(1,875)	—	(42,357)
Other income (expense), net	50,180	(50,646)	1,091	—	625
Equity in earnings of unconsolidated affiliates	4,365	848	—	—	5,213
Minority interest (expense)	—	—	(291)	—	(291)
Earnings (loss) before taxes	(63,840)	122,323	69,223	—	127,706
Income tax benefit (expense)	22,344	(44,991)	(24,867)	—	(47,514)
Equity in earnings of subsidiaries	121,688	—	—	(121,688)	—
Net Earnings	\$ 80,192	\$ 77,332	\$ 44,356	\$ (121,688)	\$ 80,192

Condensed Consolidating Statement of Earnings

Airgas, Inc. and Subsidiaries

(In thousands)

Year Ended March 31, 2003	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Net sales	\$ —	\$ 1,767,274	\$ 19,690	\$ —	\$ 1,786,964
Costs and Expenses:					
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
Operating Income (Loss)	(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	50,106	(51,834)	1,083	—	(645)
Equity in earnings of unconsolidated affiliates	2,668	1,100	—	—	3,768
Earnings (loss) before taxes	(52,609)	103,841	58,072	—	109,304
Income tax benefit (expense)	18,413	(39,783)	(19,829)	—	(41,199)
Equity in earnings of subsidiaries	102,301	—	—	(102,301)	—
Net Earnings	\$ 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
Net sales	\$ —	\$ 1,616,178	\$ 19,869	\$ —	\$ 1,636,047
Costs and Expenses:					
Costs of products sold (excluding depreciation)	—	813,485	5,268	—	818,753
Selling, distribution and administrative expenses	57,631	541,201	20,484	—	619,316
Depreciation	3,419	59,317	2,049	—	64,785
Amortization	161	7,999	—	—	8,160
Operating Income (Loss)	(61,211)	194,176	(7,932)	—	125,033
Interest (expense) income, net (Discount) gain on securitization of trade receivables	(53,788)	6,656	119	—	(47,013)
Other income (expense), net	54,099	(54,621)	1,904	—	1,382
Equity in earnings of unconsolidated affiliates	2,861	974	—	—	3,835
Earnings (loss) before taxes and a cumulative effect of a change in accounting principle	(58,039)	87,345	49,085	—	78,391
Income tax benefit (expense)	20,313	(32,363)	(17,756)	—	(29,806)
Equity in earnings of subsidiaries	27,311	—	—	(27,311)	—
Cumulative effect of a change in accounting principle	—	(59,000)	—	—	(59,000)
Net Earnings (Loss)	\$ (10,415)	\$ (4,018)	\$ 31,329	\$ (27,311)	\$ (10,415)

Condensed Consolidating Statement of Cash Flows

Airgas, Inc. and Subsidiaries

(In thousands)

Year Ended March 31, 2004	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Net cash provided by (used in) operating activities	\$ (29,023)	\$ 198,083	\$ 40,035	\$ —	\$ 209,095
Cash Flows From Investing Activities					
Capital expenditures	(15,087)	(71,793)	(6,869)	—	(93,749)
Proceeds from sale of plant and equipment	1,519	3,436	392	—	5,347
Business acquisitions, holdbacks and other settlements of acquisition related liabilities	—	(34,907)	—	—	(34,907)
Dividends and fees from unconsolidated affiliates	756	1,391	—	—	2,147
Other, net	(1,461)	—	92	—	(1,369)
Net cash used in investing activities	(14,273)	(101,873)	(6,385)	—	(122,531)
Cash Flows From Financing Activities					
Proceeds from borrowings	411,970	—	2,327	—	414,297
Repayment of debt	(471,785)	(2,469)	(10,750)	—	(485,004)
Financing costs	(2,737)	—	—	—	(2,737)
Minority interest	—	—	(291)	—	(291)
Exercise of stock options	13,130	—	—	—	13,130
Dividends paid to stockholders	(11,801)	—	—	—	(11,801)
Cash overdraft	(14,149)	—	(9)	—	(14,158)
Inter-company	118,668	(93,741)	(24,927)	—	—
Net cash provided by (used in) financing activities	43,296	(96,210)	(33,650)	—	(86,564)
Change In Cash	\$ —	\$ —	\$ —	\$ —	\$ —
Cash – Beginning of year	—	—	—	—	—
Cash – End of year	\$ —	\$ —	\$ —	\$ —	\$ —

Condensed Consolidating Statement of Cash Flows

Airgas, Inc. and Subsidiaries

(In thousands)

Year Ended March 31, 2003	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Net cash provided by (used in) operating activities	\$ (21,608)	\$ 181,070	\$ 34,937	\$ —	\$ 194,399
Cash Flows From Investing Activities					
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, holdbacks and other settlements of acquisition related liabilities	—	(27,216)	—	—	(27,216)
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)
Cash Flows From Financing Activities					
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)
Change In Cash	\$ —	\$ —	\$ —	\$ —	\$ —
Cash – Beginning of year	—	—	—	—	—
Cash – End of year	\$ —	\$ —	\$ —	\$ —	\$ —

(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
Cash Flows From Investing Activities					
Capital expenditures	(9,901)	(46,554)	(1,842)	—	(58,297)
Proceeds from sale of plant and equipment	—	3,216	—	—	3,216
Proceeds from divestiture	—	10,200	—	—	10,200
Business acquisitions, holdbacks and other settlements of acquisition related liabilities	—	(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)
Cash Flows From Financing Activities					
Proceeds from borrowings	677,605	—	2,539	—	680,144
Repayment of debt	(580,527)	(26,619)	(5,633)	—	(612,779)
Financing costs	(12,461)	—	—	—	(12,461)
Exercise of stock options	7,442	—	—	—	7,442
Cash overdraft	—	(17,026)	—	—	(17,026)
Inter-company	(54,611)	61,293	(6,682)	—	—
Net cash provided by (used in) financing activities	37,448	17,648	(9,776)	—	45,320
Change In Cash	\$ —	\$ —	\$ —	\$ —	\$ —
Cash – Beginning of year	—	—	—	—	—
Cash – End of year	\$ —	\$ —	\$ —	\$ —	\$ —

Reconciliation of Non-GAAP Financial Measures (Unaudited)

Airgas, Inc. and Subsidiaries

Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow

(In thousands)

Years Ended March 31,	2000	2001	2002	2003	2004
Net cash provided by operating activities	\$ 100,092	\$ 199,005	\$ 249,381	\$ 194,399	\$ 209,095
Less: Net cash provided by operating activities of National Welders (1)	—	—	—	—	(9,831)
Plus: Dividends from equity affiliates	3,973	3,668	2,583	2,507	2,147
Management fees paid by National Welders to the Company (1)	—	—	—	—	249
Less: Cash provided by the securitization of trade receivables	—	(73,200)	(60,800)	(24,900)	(3,700)
Capital expenditures	(65,211)	(65,910)	(58,297)	(67,969)	(93,749)
Plus: Capital expenditures of National Welders (1)	—	—	—	—	2,265
Free Cash Flow	\$ 38,854	\$ 63,563	\$ 132,867	\$ 104,037	\$ 106,476

(1) National Welders Supply Co. ("National Welders") is a joint venture which met the definition of a Variable Interest Entity ("VIE") under FIN 46R. National Welders was consolidated when the Company adopted FIN 46R effective December 31, 2003. Prior to December 31, 2003 the Company used the equity method to account for National Welders. The liabilities of National Welders are non-recourse to the Company. In addition, the cash flows of National Welders, in excess of a management fee, are not available to the Company. Accordingly, the cash flows of National Welders have been excluded from the Company's non-GAAP liquidity measures.

The Company believes Free Cash Flow provides investors meaningful insight into the ability of the Company to generate cash from continuing operations, which can be used to make acquisitions, repay debt or support other investing and financing activities.

Reconciliation of Diluted Earnings Per Share as Reported to Diluted Earnings Per Share, Excluding Certain Gains and Charges

Years Ended March 31,	2000	2001	2002	2003	2004
Diluted Earnings Per Share As Reported	\$ 0.54	\$ 0.42	\$ (0.15)	\$ 0.94	\$ 1.07
Change in accounting principle	0.01	—	0.84	—	—
Goodwill amortization, prior to the adoption of SFAS 142	0.19	0.20	—	—	—
Litigation settlements/charges	0.07	0.06	0.08	—	—
Restructuring/special charges (recoveries), net	(0.02)	0.03	—	0.03	(0.01)
Non-recurring (gains) losses from divestitures	(0.11)	—	0.01	—	—
Other	0.04	0.01	—	—	—
Diluted Earnings Per Share, excluding certain gains and charges	\$ 0.72	\$ 0.72	\$ 0.78	\$ 0.97	\$ 1.06

The Company believes that diluted earnings per share, excluding certain gains and charges noted above, are more indicative of the Company's on-going operations and provide investors meaningful trend information.

Reconciliation of Non-GAAP Financial Measures (Unaudited)

Airgas, Inc. and Subsidiaries

Reconciliation and Computation of Return on Capital

(In thousands)

Years Ended March 31,	2000	2001	2002	2003	2004
Operating income	\$ 106,731	\$ 107,949	\$ 125,033	\$ 155,882	\$ 167,780
Plus (Less):					
Restructuring/special charges (recoveries) , net	(2,829)	3,643	—	2,694	(776)
Litigation settlements/charges	7,500	5,791	8,501	—	—
Other	3,800	—	—	—	—
Depreciation and amortization	89,308	86,754	72,945	79,844	87,956
Dividends and fees from unconsolidated affiliates	3,973	3,668	2,583	2,507	2,147
Eighty percent of depreciation expense	(50,908)	(50,350)	(51,828)	(58,786)	(66,054)
Current income tax (expense) benefit	(18,428)	(15,566)	4,772	(32,544)	(24,342)
Current taxes related to divestitures	7,680	5,069	—	—	—
Deferred income tax reclassification	—	—	(18,986)	18,986	—
Tax benefit from interest expense and discount on securitization of trade receivables	(23,873)	(25,219)	(19,706)	(18,886)	(17,334)
Total return	122,954	121,739	123,314	149,697	149,377
Five-quarter average capital employed (1)	1,507,761	1,522,763	1,457,613	1,647,381	1,736,058
Return on Capital	8.2%	8.0%	8.5%	9.1%	8.6%

(1) Average capital employed represents total assets plus trade receivables under the securitization program, less accounts payable, accrued expenses and other current liabilities.

The Company believes this return on capital computation provides investors a measure to reflect the relationship between operating results and average capital employed. This measure helps investors assess how effectively the Company uses the capital invested in its operations.