Results of Operations: 2009 Compared to 2008

Overview

Airgas, Inc. and its subsidiaries ("Airgas" or the "Company") had net sales for the fiscal year ended March 31, 2009 ("fiscal 2009" or "current year") of $4.3 billion compared to $4.0 billion for the fiscal year ended March 31, 2008 ("fiscal 2008" or "prior year"). The fiscal 2009 net sales reflect a weak sales environment in the fiscal fourth quarter ended March 31, 2009. Fourth quarter sales were $1.0 billion compared to $1.1 billion in the prior year, a decline of 9%. Total same-store sales in the fourth quarter declined 13%, with hardgoods sales down 20% and gas and rent down 8%. Acquisitions contributed 4% sales growth in the quarter. Due to the current year's weak fourth quarter sales environment, management has provided a separate discussion on fourth quarter fiscal 2009 versus fourth quarter fiscal 2008 below.

For fiscal 2009, net sales increased by 8% driven by the impact of current and prior year acquisitions and same-store sales growth. Acquisitions accounted for 7% of the overall sales growth. Same-store sales growth contributed 1% to the increase in total sales, driven by a 4% increase in pricing, offset by a 3% decrease in sales volumes. Price increases were designed to offset rising product, operating and distribution costs. Lower sales volumes reflect the effects of the slowing economy and the decreased demand experienced in the second half of the fiscal year across all customer and geographic segments. The Company's strategic products and related growth initiatives mitigated the impact of the economic slow down.

Operating leverage and the benefit of acquisition synergies resulted in a 30 basis point expansion in the operating income margin to 12.1% in fiscal 2009 compared to 11.8% in the prior year. Net earnings per diluted share grew 17% to $3.12 in fiscal 2009 versus $2.66 in the prior year. The strong performance was driven by good sales growth in the first half of the year and effective management of costs in response to the slowing economy in the second half of the year. Fiscal 2008 included a one-time, non-cash charge of $0.03 per diluted share related to the conversion of National Welders Supply Company, Inc. ("National Welders") from a joint venture to a 100% owned subsidiary, and $0.01 per diluted share tax benefit related to a change in state tax law.

Acquisitions

In fiscal 2009 the Company acquired a total of 14 businesses with aggregate historical annual revenues of more than $205 million. The largest of these acquisitions was Refron, Inc. ("Refron"), a New York-based distributor of refrigerant gases with historical annual sales of $93 million, acquired on July 31, 2008. With the acquisition of Refron, the Company formed Airgas Refrigerants, Inc. and merged the newly acquired operations with its existing refrigerant gas business. Airgas Refrigerants, Inc. is reflected in the All Other Operations business segment. Other significant acquisitions included Oilind Safety, an Arizona-based provider of industrial safety services including rental equipment, safety supplies, and technical support and training, with historical annual sales of $23 million; A&N Plant, a European-based supplier of positioning and welding equipment for sale and rent with historical annual sales of $20 million; and Gordon Woods Welding Supply, an industrial gas and welding supply distributor in the northern Los Angeles area with historical annual sales of $25 million. These acquisitions were merged into the operations of the Distribution business segment. The acquisitions expand the Company's coverage in key geographies, strengthen its national distribution network and broaden its refrigerant gas and safety product offerings. The acquisition of A&N Plant provides for increased international presence and an expansion of the Red-D-Arc rental welder business into Europe.

Financing

On June 5, 2008, the Company issued $400 million of 7.125% senior subordinated notes at par. The notes are due October 1, 2018 and contain a redemption provision that permits the Company, at its option, to call the notes at scheduled dates and prices. The net proceeds from the offering were used to reduce the outstanding balance under the Company's existing revolving credit facility.

As of March 31, 2009, approximately $266 million remained unused under the Company's revolving credit facility, which matures in July 2011. The Company's margins of compliance with the financial covenants of the credit facility result in no restrictions on the Company's ability to borrow on the unused portion of the credit facility.

Stock Repurchase Plan

In November 2005, the Company's Board of Directors approved a stock repurchase plan (the "Repurchase Plan") that provided the Company with the authorization to repurchase up to $150 million of its common stock. During the year ended March 31, 2009 the Company purchased 2.4 million shares for $115.6 million to complete the Repurchase Plan. As of March 31, 2009, the Company has no authorization remaining for any additional treasury share purchases under the plan.

Business Segments

The Company aggregates its operations, based on products and services, into two reportable business segments, Distribution and All Other Operations. During the fourth quarter of fiscal 2009, the Company changed the operating practices and organization of its air separation production facilities and national specialty gas labs. The new operating practices and organization reflect the evolution of these businesses and their role to support the regional distribution companies. The regional distribution companies market to and manage the end customer relationships, coordinating and cross-selling the Company's multiple product and service offerings in a closely coordinated and integrated manner. As a result of these changes, these businesses are now reflected in the Distribution business segment. Also as a result of an organizational realignment, Airgas National Welders is now part of the Distribution business

segment. Segment information and the prior year income statement commentary have been recast to reflect the realignment of the Company's business segments.

Enterprise Information System

The Company signed a license agreement with SAP AG ("SAP") to implement the SAP enterprise information system for many aspects of the Company's operations. The design and configuration phase of the project will be completed in approximately 12 months. The implementation phase, which will follow the design phase, is expected to last 24 to 36 months. Upon completion, the Company believes that the system will provide a platform for highly efficient operations and consistent measurement of performance throughout the Company.

Looking Forward

Prevailing economic conditions offer limited visibility into future sales and earnings, which should be taken into consideration when evaluating the Company's guidance. Looking forward, the Company expects net earnings for the first quarter ending June 30, 2009 to range from $0.62 to $0.67 per diluted share, a decline of 23% to 17% from the strong first quarter results in fiscal 2009. For the full year 2010, the Company expects earnings per diluted share of $2.60 to $2.90, a decline of 17% to 7% from fiscal 2009.

Income Statement Commentary—
Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008

Net Sales

Net sales decreased 9% to $1.0 billion for the three months ended March 31, 2009 ("current quarter") compared to the three months ended March 31, 2008 ("prior year quarter"), driven by acquisition growth of 4% and same-store sales decline of 13%. Gas and rent same-store sales declined 8% and hardgoods declined 20%. Volume declines occurred in both product lines. Strategic products account for about 40% of revenues and include safety products, medical, specialty and bulk gases, as well as carbon dioxide and dry ice. The Company has identified these products as strategic because it believes they have good long-term growth profiles relative to the Company's core industrial gas and welding products due to favorable end customer markets, application development, increasing environmental regulation, strong cross-selling opportunities or a combination thereof. Many of the strategic products are sold to customers whose growth profile tends to outperform GDP, including medical, life sciences, food processing and environmental markets. The Company believes its focus on these strategic products and markets will help to mitigate the impact of the current recessionary environment. In the aggregate, these products declined 6% on a same-store sales basis in the current quarter compared to the prior year quarter. Growth in medical was offset by slight declines in bulk and specialty gas and by more significant slowing in carbon dioxide and safety products.

The Company estimates same-store sales growth based on a comparison of current period sales to prior period sales, adjusted for acquisitions and divestitures. The pro forma adjustments consist of adding acquired sales to, or subtracting sales of divested operations from, sales reported in the prior period. The table below reflects actual sales and does not include the pro forma adjustments used in calculating the same-store sales metric. The intercompany eliminations represent sales from the All Other Operations business segment to the Distribution business segment.

(In thousands) Three Months Ended March 31,	2009	2008	*Increase/ (Decrease)*	
Distribution	$ 893,967	$ 995,125	$ (101,158)	-10%
All Other Operations	103,559	96,201	7,358	8%
Intercompany eliminations	(5,426)	(4,729)	(697)	
	$ 992,100	$ 1,086,597	$ (94,497)	-9%

The Distribution business segment's principal products include industrial, medical and specialty gases, and process chemicals; cylinder and equipment rental; and hardgoods. Industrial, medical and specialty gases are distributed in cylinders and bulk containers. Equipment rental fees are generally charged on cylinders, cryogenic liquid containers, bulk and micro-bulk tanks, tube trailers and welding equipment. Hardgoods consist of welding consumables and equipment, safety products, construction supplies, and maintenance, repair and operating ("MRO") supplies.

Distribution business segment sales declined 10% compared to the prior year quarter with incremental sales of 2% contributed by current and prior year acquisitions partially offsetting a decline in same-store sales of 12%. The Distribution same-store sales results reflect gas and rent same-store sales decline of 6% and a hardgoods same-store sales decline of 20%. The same-store sales decline reflects volume declines in both gases and hardgoods, partially offset by results of pricing actions executed during the second fiscal quarter and prior year. Both gas and rent and hardgoods volumes were negatively impacted by the slowdown in sales activity related to customers' extended plant shutdowns and inventory reductions.

Distribution gas and rent same-store sales declined 6% reflecting volume declines of 10% partially offset by a positive 4% pricing impact. Sales of strategic gas products sold through the Distribution business segment in the current quarter declined 1%. Among strategic products, bulk gas sales were down 2% due to the impact of production slowdowns in the metal fabrication and steel segments, and reduced activity by oil field supply customers. Medical gases were up 2% as hospital, specialty clinics and nursing homes segments continue to grow, while the homecare segment was more of a challenge. Specialty gases were down 1% as plant shutdowns caused general softening in demand. Sales of core industrial gases, which experienced the sharpest volume declines, were down 13% for the quarter. Revenues from the Company's rental welder business were flat for the quarter with acquisition growth of 16%, offset by a 16% decline in same-store sales.

Distribution hardgoods same-store sales declined 20% with volumes down 23%, slightly offset by pricing gains. The most significant volume declines were in equipment and welding consumables. Safety product sales declined 14% in the quarter, attributed to extended plant shutdowns during the quarter and inventory reductions. Our Radnor® private label line was down 9% for the quarter, driven by the overall drop in hardgoods volumes.

The All Other Operations business segment consists of six business units. The primary products manufactured and distributed are carbon dioxide, dry ice, nitrous oxide, ammonia and refrigerant gases.

The All Other Operations business segment sales increased 8% compared to the prior year quarter with a 17% decline in same store sales offset by acquisitions. Overall, price contributed 3%, while volume declined by 20%, driven largely by the delay in normal pre-season buying patterns for refrigerants.

Gross Profits (Excluding Depreciation)

Gross profits (excluding depreciation) do not reflect deductions related to depreciation expense and distribution costs. As disclosed in Note 1 to the Company's Consolidated Financial Statements, the Company reflects distribution costs as an element of selling, distribution and administrative expenses and recognizes depreciation on all its property, plant and equipment in the Consolidated Statement of Earnings line item, "Depreciation." Other companies may report certain or all of these costs as elements of their cost of products sold and, as such, the Company's gross profits (excluding depreciation) discussed below may not be comparable to those of other businesses.

Consolidated gross profits (excluding depreciation) decreased 3% principally due to same-store sales decline offset somewhat by acquisition growth. The consolidated gross profit margin (excluding depreciation) in the current quarter increased 310 basis points to 54.9% compared to 51.8% in the prior year quarter. The increase in the gross profit margin (excluding depreciation) was primarily driven by margin expansion in the Distribution business segment resulting from a favorable product mix shift toward gases, which have a higher gross margin than hardgoods, and price increases.

(In thousands) Three Months Ended March 31,	2009	2008	*Increase/ (Decrease)*	
Distribution	$ 498,358	$ 520,956	$ (22,598)	-4%
All Other Operations	46,013	41,926	4,087	10%
	$ 544,371	$ 562,882	$ (18,511)	-3%

The Distribution business segment's gross profits (excluding depreciation) decreased 4% compared to the prior year quarter. The Distribution business segment's gross profit margin (excluding depreciation) was 55.7% versus 52.4% in the prior year quarter, an increase of 330 basis points. The improvement in the Distribution business segment's gross profit margin (excluding depreciation) largely reflects a shift in sales mix toward gas and rent and from pricing actions implemented in the second quarter of fiscal 2009. As a percentage of the Distribution business segment's sales, gas and rent increased to 59.8% in the current quarter as compared to 55.7% in the prior year quarter.

The All Other Operations business segment's gross profits (excluding depreciation) increased 10% driven primarily by refrigerants, including the addition of Refron and strong growth in ammonia. The All Other Operations business segment's gross profit margin (excluding depreciation) increased 80 basis points to 44.4% in the current quarter from 43.6% in the prior year quarter. The increase in the All Other Operations business segment's gross profit margin (excluding depreciation) is driven primarily by margin improvement on ammonia offset by a sales mix shift towards lower-margin refrigerants (driven by the acquisition of Refron).

Operating Expenses

Selling, distribution and administrative ("SD&A") 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, tax and facility-related expenses.

SD&A expenses declined $11 million, or 3%, in the current quarter as compared to the prior year quarter, primarily driven by an estimated $28 million decline in operating costs offset by an estimated $17 million of incremental operating costs associated with acquired businesses. The $28 million decrease in SD&A expense attributable to factors other than acquisitions was primarily due to a decrease in salaries and wages driven by cost-savings initiatives implemented in response to the weak economic environment and lower variable costs including distribution expenses which declined as a result of lower sales volumes and a decrease in diesel fuel costs. As a percentage of net sales, SD&A expense increased 220 basis points to 37.5% compared to 35.3% in the prior year quarter driven by the overall decline in sales and by the sales mix shift to gas, which carries higher operating expense and higher gross margins. SD&A expense as a percent of gross margin was 68.4% in the current quarter as compared to 68.1% in the prior year quarter.

Depreciation expense of $51 million increased $5 million, or 11%, in the current quarter as compared to the prior year quarter. Acquired businesses contributed approximately $2 million of the increase. The balance of the increase primarily reflects current and prior years' capital investments in revenue generating assets to support customer demand, primarily cylinders, bulk tanks and rental welders, as well as the addition of new fill plants, the New Carlisle, Indiana air separation unit, and branch stores. Amortization expense of $6 million in the current quarter was $4 million higher than the prior year quarter due to additional amortization expense related to the Company's acquired customer lists.

Operating Income

Consolidated operating income decreased 13% in the current quarter driven primarily by the significant slowing in sales partially offset by gross margin expansion, achievement of acquisition synergies, operating efficiencies and the impact of cost-reduction efforts. The operating income margin decreased 60 basis points to 11.5% compared to 12.1% in the prior year quarter and also sequentially from the third quarter of fiscal 2009 due to the significant decline in sales.

(In thousands)

Three Months Ended March 31,	2009	2008	(Decrease)	
Distribution	$ 105,295	$ 120,656	$ (15,361)	-13%
All Other Operations	9,211	10,404	(1,193)	-11%
	$ 114,506	$ 131,060	$ (16,554)	-13%

Operating income in the Distribution business segment decreased 13% in the current quarter. The Distribution business segment's operating income margin decreased 30 basis points to 11.8% compared to 12.1% in the prior year quarter. Operating margin decline was driven by the significant decline in sales partially offset by favorable mix-driven gross profit margin (excluding depreciation) expansion, a continued focus on operating efficiency programs, the attainment of acquisition synergies, and the impact of cost reduction efforts that were implemented in response to slowing sales.

Operating income in the All Other Operations business segment decreased 11% compared to the prior year quarter. The All Other Operations business segment's operating income margin of 8.9% was 190 basis points lower than the operating income margin of 10.8% in the prior year quarter. The decline in operating margin resulted principally from a shift in sales mix towards refrigerants (driven by the acquisition of Refron) and declining refrigerant operating margins due to volume declines related to delays in customers' normal pre-season buying patterns. Increases in production costs related to our carbon dioxide and dry ice businesses also contributed to the overall lower operating margin.

Income Statement Commentary—
Fiscal Year Ended March 31, 2009 Compared to Fiscal Year Ended March 31, 2008

Net Sales

Net sales increased 8% in fiscal 2009 compared to fiscal 2008 driven by acquisition growth of 7% and same-store sales growth of 1%. Pricing contributed 4% to same stores sales growth, which was largely offset by volume declines of 3%. The Company estimates same-store sales based on a comparison of current period sales to prior period sales, adjusted for acquisitions and divestitures. The pro forma adjustments consist of adding acquired sales to, or subtracting sales of divested operations from, sales reported in the prior period. The table below reflects actual sales and does not include the pro forma adjustments used in calculating the same-store sales metric. The intercompany eliminations represent sales from the All Other Operations business segment to the Distribution business segment.

(In thousands)

Year Ended March 31,	2009	2008	Increase	
Distribution	$ 3,918,376	$ 3,688,966	$ 229,410	6%
All Other Operations	457,329	343,246	114,083	33%
Intercompany eliminations	(26,250)	(15,188)	(11,062)	
	$ 4,349,455	$ 4,017,024	$ 332,431	8%

Distribution business segment sales increased 6% compared to the prior year driven by sales contributed by both current and prior year acquisitions of $234 million (6%) and flat same-store sales growth. Flat same-store sales reflects growth in gas and rent same-store sales of $66 million (3%), offset by lower hardgoods sales of $70 million (-4%). Same-store sales growth from gas and rent reflect strong strategic product growth which mitigated same-store sales declines in the Company's industrial gas and welding hardgoods business. The same-store sales declines in the Company's industrial gas and welding hardgoods business reflects the impact of the economic downturn on manufacturing and the steep decline in demand for equipment and welding consumables experienced in the second half of the fiscal year.

The Distribution business segment's gas and rent same-store sales growth of 3% reflects both price increases of 4% and a decline in volume of 1%. Sales of strategic gas products sold through the Distribution business segment increased 8% driven by bulk, medical, and specialty gas sales gains. Bulk gas sales were up 10% reflecting both price and volume increases. Volume growth benefited from new production capabilities and the Company's ability to engineer solutions for customer applications, leading to an increase in new bulk accounts during the year. Medical gas sales grew 7% attributable to continued success with the hospital, physician, and dental care markets. These markets continue to perform well and have good future growth prospects. Strong specialty gas sales growth of 8% was driven by demand from key customers in bio-tech, life sciences, research, and environmental monitoring markets. Sales of core industrial gases were down 1%. Revenues from the Company's rental welder business contributed growth of 21% with acquisition growth of 22%, offset by a 1% decline in same-store sales.

The decline in hardgoods same-store sales of 4% reflects a combination of price gains and volume declines, with pricing adding about 3%, offset by a 7% volume decline. The Company's successful Radnor® private label brand of products generated sales growth of 21% in the current year, reaching a total of $192 million. Sales of safety products increased 1% resulting from the success of the telemarketing operations (telesales) and effective cross-selling of safety products to new and existing customers helping to mitigate the significant decline in fourth quarter sales related to the economic downturn.

Fiscal 2009 sales of the All Other Operations business segment increased $114 million (33%) compared to the prior year resulting from acquisitions and same-store sales growth. Acquisitions contributed 23% to the segment's sales growth, which was primarily

driven by $55 million in sales contributed by Refron now a part of Airgas Refrigerants, which was acquired on July 31, 2008. Same-store sales growth of 10% was driven by sales gains of anhydrous ammonia, and carbon dioxide products.

Gross Profits (Excluding Depreciation)

Gross profits (excluding depreciation) increased 10% principally from acquisitions and gas and rent sales growth. The consolidated gross margin (excluding depreciation) in the current year increased 100 basis points to 53% compared to 52% in the prior year, with the increase driven primarily by a favorable shift in product mix towards higher-margin gas and rent as well as the impact of pricing.

(In thousands)

Year Ended March 31,	2009	2008	*Increase*	
Distribution	$ 2,105,251	$ 1,918,966	$ 186,285	10%
All Other Operations	199,184	168,795	30,389	18%
	$ 2,304,435	$ 2,087,761	$ 216,674	10%

The Distribution business segment's gross profits (excluding depreciation) increased 10% compared to the prior year. The Distribution business segment's gross profit margin (excluding depreciation) was 53.7% versus 52.0% in the prior year. The 170 basis point increase in the gross profit margin (excluding depreciation) reflected the favorable shift in product mix toward gas and rent as well as the impact of price increases. Gas and rent as a percentage of the Distribution business segment's sales was 57.2% in the current year as compared to 55.5% in the prior year.

The All Other Operations business segment's gross profits (excluding depreciation) increased 18% primarily from strong growth of anhydrous ammonia, refrigerant, and carbon dioxide products. The segment's gross margin decreased 560 basis points to 43.6% versus 49.2% in the prior year driven by additional refrigerants, which have lower gross profit margins (excluding depreciation) than the other businesses in the All Other Operations business segment.

Operating Expenses

As a percentage of net sales, SD&A expense increased 40 basis points to 35.8% compared to 35.4% in the prior year reflecting the impact of the deteriorating business climate in the second half of fiscal 2009. SD&A expenses increased $137 million (10%) primarily from operating costs of acquired businesses. Acquisitions contributed estimated incremental SD&A expenses of approximately $105 million in the current year. The increase in SD&A expense attributable to factors other than acquisitions was approximately $32 million, or an increase of 2%, primarily due to salaries and wages and distribution-related expenses primarily related to the higher sales levels in the first half of fiscal 2009.

Depreciation expense of $198 million increased $22 million (13%) compared to the prior year. Acquired businesses added approximately $10 million to depreciation expense. The remainder of the increase primarily reflects the current and prior year's capital investments in revenue generating assets to support customer demand, primarily cylinders, bulk tanks and rental welders, as well as the addition of new fill plants, the New Carlisle, Indiana air separation unit in late fiscal 2009, and branch stores. Amortization expense of $23 million was $9 million (63%) higher than the prior year driven by the amortization of customer lists and non-compete agreements associated with acquisitions.

Operating Income

Operating income increased 10% in the current year driven by higher sales levels and improvement of operating income margins. The operating income margin increased 30 basis points to 12.1% compared to 11.8% in the prior year.

(In thousands)

Year Ended March 31,	2009	2008	*Increase*	
Distribution	$ 469,888	$ 425,922	$ 43,966	10%
All Other Operations	54,980	49,902	5,078	10%
	$ 524,868	$ 475,824	$ 49,044	10%

Operating income in the Distribution business segment increased 10% in the current year. The Distribution business segment's operating income margin increased 50 basis points to 12.0% compared to 11.5% in the prior year. The operating margin improvement reflects lower integration expenses which contributed 20 basis points, gross profit margin (excluding depreciation) expansion resulting from pricing actions during the year and a shift in product mix toward higher margin gas and rent and attainment of acquisition synergies and cost savings from expense reduction and operating efficiency programs.

Operating income in the All Other Operations business segment increased 10% compared to the prior year, principally driven by strong growth in ammonia. The segment's operating income margin of 12.0% was 250 basis points lower than 14.5% in the prior year. The margin decline resulted from margin pressure on ammonia products in the first half of the year and from a shift in sales mix toward refrigerants, which carry a lower margin than other products in the segment. The shift in product mix toward refrigerants was driven by the acquisition of Refron.

Interest Expense and Discount on Securitization of Trade Receivables

Interest expense, net, and the discount on securitization of trade receivables totaled $95 million representing a decrease of 11% compared to the prior year. The decrease primarily resulted from lower weighted-average interest rates related to the Company's variable rate debt instruments, partially offset by higher average debt levels associated with acquisitions and the Company's share repurchases.

The Company participates in a securitization agreement with three commercial banks to sell up to $345 million of qualifying trade receivables ($360 million at March 31, 2008). The amount of outstanding receivables under the agreement was $311 million at March 31, 2009 versus $360 million at March 31, 2008. Net proceeds from the sale of trade receivables were used to reduce borrowings under the Company's revolving credit facilities. The discount on the securitization of trade receivables represents the difference between the carrying value of the receivables and the proceeds from their sale. The amount of the discount varies on a monthly basis depending on the amount of receivables sold and market rates.

As discussed in "Liquidity and Capital Resources," the Company manages its exposure to interest rate risk through participation in interest rate swap agreements. Including the effect of the interest rate swap agreements and the trade receivables securitization, the Company's ratio of fixed to variable rate debt at March 31, 2009 was 58% fixed to 42% variable. A majority of the Company's variable rate debt is based on a spread over the London Interbank Offered Rate ("LIBOR"). Based on the Company's fixed to variable interest rate ratio, for every 25 basis point increase in LIBOR, the Company estimates that its annual interest expense would increase approximately $2.2 million.

Income Tax Expense

The effective income tax rate in fiscal 2009 was 39.2% of pre-tax earnings in the current year compared to 38.9% in the prior year. The prior year period includes a $0.01 per diluted share tax benefit associated with a change in the Texas state income tax law, which reduced the effective tax rate by 0.3%. The prior year tax benefit was based on additional guidance issued by the state of Texas regarding a prior year change in law. These tax benefits reflect the reduction of deferred tax liabilities previously established for temporary differences under the prior state tax law.

Net Earnings

Net earnings were $261 million, or $3.12 per diluted share, compared to $223 million, or $2.66 per diluted share, in the prior year. The prior year included $0.06 of integration expense primarily associated with the June 30, 2007 acquisition of Linde's U.S. packaged gas business, a one-time, non-cash charge of $0.03 per diluted share related to the conversion of National Welders from a joint venture to a 100% owned subsidiary, and $0.01 per diluted share tax benefit related to a change in Texas state income tax law.

Results of Operations: 2008 Compared to 2007

Overview

Airgas had net sales for fiscal 2008 of $4.0 billion compared to $3.2 billion for the fiscal year ended March 31, 2007 ("fiscal 2007"). Net sales increased by 25% in fiscal 2008 driven by the impact of acquisitions and strong same-store sales growth. Acquisitions accounted for 18% of overall sales growth, primarily driven by the two Linde AG acquisitions, described below. Same-store sales growth contributed 7% to the increase in total sales, driven equally by pricing and higher sales volumes. Sales growth related to pricing reflected price increases, which were designed to offset rising product, operating and distribution costs. Higher sales volumes resulted from continued strength in the following: energy and infrastructure construction, medical, food products, environmental, analytical and life sciences customer segments, as well as modest growth of other industrial markets served by the Company. The Company's strategic products and related growth initiatives, described below, also contributed significantly to overall sales growth in fiscal 2008.

Strong operating leverage on sales growth resulted in a 110 basis point expansion in the operating income margin to 11.8% in fiscal 2008 compared to 10.7% in fiscal 2007. Net earnings per diluted share grew 39% to $2.66 in fiscal 2008 versus $1.92 in fiscal 2007. Fiscal 2008 included a one-time, non-cash charge of $0.03 per diluted share related to the conversion of National Welders from a joint venture to a 100% owned subsidiary, and $0.01 per diluted share tax benefit related to a change in state income tax law. Fiscal 2007 included a charge of approximately $0.10 per diluted share from the redemption of the Company's 9.125% senior subordinated notes and a $0.02 per diluted share tax benefit from a change in state income tax law.

Acquisitions

Fiscal 2008 was a landmark acquisition year for the Company with a total of 18 businesses acquired that generate aggregate historical annual revenues of more than $500 million. The largest of these acquisitions was the June 30, 2007 acquisition of the U.S. packaged gas operations of Linde AG ("Linde Packaged Gas") for $310 million in cash. The acquisition of Linde Packaged Gas included 130 locations in 18 states, with more than 1,400 employees. The acquired business is involved in the distribution of packaged gases and related hardgoods. Linde Packaged Gas generated $346 million in annual revenues during calendar year 2006. The Linde Packaged Gas business was merged into the operations of the Distribution business segment. In addition, during fiscal 2008, the Company acquired 17 other businesses and settled acquisition holdback liabilities for cash consideration of $170 million. These other acquired businesses generated aggregate historical annual revenues of more than $160 million.

Fiscal 2008 financial results also reflect the impact of fiscal 2007 acquisitions. The most significant of these was the March 9, 2007 acquisition of the divested U.S. bulk gas assets of Linde AG ("Linde Bulk Gas") for $495 million in cash. The Linde Bulk Gas

acquisition included eight air separation plants and related bulk gas business with about 300 employees. The acquired business produces and distributes oxygen, nitrogen and argon and generated $176 million in annual revenues during calendar year 2006. The acquired business was renamed "Airgas Merchant Gases" and is reflected in the Company's Distribution business segment. Additionally, most of the acquired Linde Bulk Gas customers and related service equipment were transferred to the regional distribution companies.

National Welders Exchange Transaction

On July 3, 2007, the preferred stockholders of National Welders exchanged their preferred shares of National Welders for 2.471 million shares of Airgas common stock (the "National Welders Exchange Transaction"). Upon the exchange, National Welders, formerly a consolidated joint venture, became a 100% owned subsidiary of Airgas and is reflected in the Company's Distribution business segment. As part of the negotiated exchange, in addition to the shares of Airgas common stock the preferred stockholders had the option to acquire, the Company issued an additional 144 thousand Airgas shares (included in the 2.471 million shares) to the preferred stockholders, which resulted in a one-time net after-tax charge of $2.5 million, or $0.03 per diluted share. In connection with the National Welders Exchange Transaction, the Company amended its senior credit facility to increase the size of its U.S. dollar revolving credit line by $100 million to refinance National Welders' debt assumed in the transaction. See Note 13 to the Company's Consolidated Financial Statements for a description of the National Welders Exchange Transaction.

Supply Constraints

During fiscal 2008, the industrial gas industry was working through supply constraints related to certain gases, such as helium, argon and carbon dioxide. Throughout fiscal 2008, there was an industry-wide helium shortage resulting in a significant increase in helium costs and reduced volumes available for sale. Toward the end of fiscal 2008, the Company's helium supply constraints had been mitigated through new supply agreements and relaxed allocations. The Company's position in argon was also constrained, but had improved toward the end of fiscal 2008, as new sources had eased some of the supply issues and gas production capacity is at its highest during the winter months due to lower ambient air temperatures.

In some areas of the country, carbon dioxide had also been under pressure, as old supply sources had been depleted without being replaced. In October 2007, the Company announced an agreement with Shell Oil to build a 450 ton-per-day plant in Deer Park, Texas, to better serve the Houston and South Texas areas. The Deer Park plant began operating in March 2009.

Reinstated Stock Repurchase Plan

In November 2005, the Company's Board of Directors approved a stock repurchase plan (the "Repurchase Plan") that provided the Company with the authorization to repurchase up to $150 million of its common stock. The Repurchase Plan was suspended in July 2006 while the Company consummated its acquisitions of Linde AG's U.S. bulk and packaged gas assets. In March 2008, the Company reinstated its Repurchase Plan and repurchased 496 thousand shares for $21.6 million.

Income Statement Commentary— Fiscal Year Ended March 31, 2008 Compared to Fiscal Year Ended March 31, 2007

Net Sales

Net sales increased 25% in fiscal 2008 compared to fiscal 2007 driven by acquisition growth of 18% and strong same-store sales growth of 7%. Pricing and volume sales gains contributed equally to same-store sales growth. The Company estimates same-store sales based on a comparison of current period sales to prior period sales, adjusted for acquisitions and divestitures. The pro forma adjustments consist of adding acquired sales to, or subtracting sales of divested operations from, sales reported in the prior period. The table below reflects actual sales and does not include the pro forma adjustments used in calculating the same-store sales metric. The intercompany eliminations represent sales from the All Other Operations business segment to the Distribution business segment.

(In thousands)

Year Ended March 31,	**2008**	**2007**	*Increase*	
Distribution	$ 3,688,966	$ 2,939,285	$ 749,681	26%
All Other Operations	343,246	277,729	65,517	24%
Intercompany eliminations	(15,188)	(11,963)	(3,225)	
	$ 4,017,024	$ 3,205,051	$ 811,973	25%

Distribution business segment sales increased 26% in fiscal 2008 compared to fiscal 2007 driven by sales contributed by both fiscal 2008 and fiscal 2007 acquisitions of $516 million (19%) and same-store sales growth of $234 million (7%). Sales growth from acquired businesses was principally attributable to the Linde Bulk Gas and Linde Packaged Gas acquisitions. The increase in Distribution same-store sales resulted from gas and rent same-store sales growth of $147 million (8%) and higher same-store hardgoods sales of $87 million (6%). Strong same-store sales growth in the Company's core gas and welding hardgoods business reflected broad-based demand from industrial markets as well as strong demand in the energy and infrastructure construction sectors, which include projects such as power plants, refineries, pipelines, water treatment plants, bridges and airports. The Distribution business segment's sales were also driven by strong sales growth of strategic products, including medical, bulk and specialty gases, as well as safety products.

The Distribution business segment's gas and rent same-store sales growth of 8% reflects both price increases and volume growth, which contributed equally to sales growth. Sales of strategic gas products increased 12% driven by bulk, medical and specialty gas sales gains. Bulk gas sales volumes were up 14% reflecting volume growth from enhanced production capabilities and expanded geographic market coverage associated with the Linde Bulk Gas acquisition. The Company's strong position as a bulk gas dis-

tributor also helped increase the number of new bulk customer contracts signed during the year. Medical gas sales grew 9% attributable to continued success with the hospital, physician and dental care markets. The Walk-O2-Bout® medical cylinder program tailored for the respiratory therapy market also contributed to medical gas sales. Strong specialty gas sales growth of 12% was driven by demand from key customers in bio-tech, life sciences, research and environmental monitoring markets. Rental revenues benefited from the Company's rental welder business that generated 24% same-store sales growth in fiscal 2008. The Company's rental welder business was helped by its sales concentration in energy and infrastructure construction.

Hardgoods same-store sales growth of 6% reflected both volume and price gains, which contributed about equally to growth. The Company's successful Radnor® private label brand of products generated sales growth of 24% in fiscal 2008, reaching a total of $159 million. Sales of Radnor brand products were helped by the stocking of these products in the branch stores obtained from the Linde Packaged Gas acquisition. Same-store sales of safety products increased 8% resulting from the success of the telemarketing operations (telesales) and effective cross-selling of safety products to new and existing customers.

Fiscal 2008 net sales of the All Other Operations business segment increased $66 million (24%) compared to fiscal 2007 resulting from acquisitions and same-store sales growth. Acquisitions contributed 10% to the segment's sales growth, including refrigerant businesses which contributed $37 million to acquired sales. Same-store sales growth of 14% was driven by sales gains of anhydrous ammonia, refrigerant and carbon dioxide products. Sales volume gains of ammonia resulted from strong demand from customers in the chemical production industry. Sales growth of refrigerants was driven by higher volumes, particularly in the fourth quarter of fiscal 2008, as customers sourced product in advance of the warmer summer months. Sales growth of carbon dioxide and dry ice reflected continued success in the food processing, food and beverage service, pharmaceutical and biotech industries.

Gross Profits (Excluding Depreciation)

Gross profits (excluding depreciation) increased 27% principally from acquisitions and sales growth. The gross profit margin (excluding depreciation) for fiscal 2008 increased 90 basis points to 52.0% compared to 51.1% for fiscal 2007, with the increase driven primarily by a favorable shift in product mix towards higher-margin gas as well as the impact of pricing.

(In thousands)

Year Ended March 31,	2008	2007	*Increase*	
Distribution	$ 1,918,966	$ 1,494,081	$ 424,885	28%
All Other Operations	168,795	143,738	25,057	17%
	$ 2,087,761	$ 1,637,819	$ 449,942	27%

The Distribution business segment's gross profits (excluding depreciation) for fiscal 2008 increased 28% compared to fiscal 2007. The Distribution business segment's gross profit margins (excluding depreciation) was 52.0% for fiscal 2008 versus 50.8% for fiscal 2007. The 120 basis point increase in the gross profit margins (excluding depreciation) reflected the favorable shift in product mix toward gas and rent as well as the impact of price increases. Gas and rent as a percentage of the Distribution business segment's sales was 55.5% in fiscal 2008 as compared to 53.1% in fiscal 2007.

The All Other Operations business segment's gross profits (excluding depreciation) increased 17% for fiscal 2008 as compared to fiscal 2007. The increase in gross profits (excluding depreciation) was primarily driven by acquisitions as well as strong sales growth of anhydrous ammonia, refrigerant and carbon dioxide products. The segment's gross profit margin (excluding depreciation) decreased 260 basis points to 49.2% in fiscal 2008 versus 51.8% in fiscal 2007. The lower gross profit margin (excluding depreciation) was driven by a change in sales mix that included higher refrigerants sales as a result of acquisitions. Refrigerant gases typically sell at lower margins than other products in this business segment.

Operating Expenses

As a percentage of net sales, SD&A expense decreased 40 basis points to 35.4% in fiscal 2008 compared to 35.8% in fiscal 2007 reflecting improved cost leverage and effective cost management. SD&A expenses increased $273 million (24%) primarily from operating costs of acquired businesses and higher variable expenses associated with the growth in sales volumes. Acquisitions contributed estimated incremental SD&A expenses of approximately $186 million in fiscal 2008, including integration expenses of $10 million principally related to the Linde Packaged Gas acquisition. The increase in SD&A expense attributable to factors other than acquisitions was approximately $87 million, or an increase of 8%, primarily due to salaries, wages and distribution-related expenses. The increase in salaries and wages reflected increased operational headcounts, wage inflation, and overtime to fill cylinders, deliver products and operate facilities to meet increased customer demand. The increase in distribution expenses was attributable to higher fuel and vehicle repair and maintenance costs. Higher fuel and vehicle maintenance costs were related to the increase in miles driven to support sales growth. Average diesel fuel prices in fiscal 2008 were also higher versus fiscal 2007.

Depreciation expense of $176 million increased $37 million (27%) for fiscal 2008 compared to fiscal 2007. Acquired businesses added approximately $28 million to depreciation expense. The remainder of the increase primarily reflects capital investments in revenue generating assets during both fiscal 2008 and fiscal 2007 to support customer demand, primarily cylinders, bulk tanks and rental welders, as well as the addition of new fill plants and branch stores. Amortization expense of $14 million in fiscal 2008 was $5 million (64%) higher than fiscal 2007 driven by the amortization

of customer lists and non-compete agreements associated with acquisitions.

Operating Income

Operating income increased 39% for fiscal 2008 driven by higher sales levels and margin improvement. Improved cost leverage on sales growth was the primary contributor to a 110 basis point increase in the operating income margin to 11.8% for fiscal 2008 compared to 10.7% for fiscal 2007. Acquisition integration costs, principally associated with the Linde Packaged Gas acquisition, reduced the operating income margin by approximately 25 basis points.

(In thousands)

Year Ended March 31,	2008	2007	*Increase*	
Distribution	$ 425,922	$ 298,565	$ 127,357	43%
All Other Operations	49,902	42,932	6,970	16%
	$ 475,824	$ 341,497	$ 134,327	39%

Operating income in the Distribution business segment increased 43% for fiscal 2008. The Distribution business segment's operating income margin increased 130 basis points to 11.5% in fiscal 2008 compared to 10.2% in fiscal 2007. The significant margin improvement was driven by continued operating profit leverage on sales growth, effective management of costs and pricing, and the Linde Bulk Gas acquisition. Acquisition integration costs, primarily related to the Linde Packaged Gas acquisition, reduced the Distribution business segment's operating income margin by approximately 25 basis points.

Operating income in the All Other Operations business segment increased 16% for fiscal 2008 compared to fiscal 2007, principally driven by acquisitions. The segment's operating income margin of 14.5% in fiscal 2008 was 100 basis points lower than 15.5% in fiscal 2007. The decline in the operating income margin reflected the lower gross margins attributable to the shift in sale mix to lower-margin refrigerants gases.

Interest Expense and Discount on Securitization of Trade Receivables

Interest expense, net, and the discount on securitization of trade receivables totaled $107 million in fiscal 2008 representing an increase of 44% compared to fiscal 2007. The increase primarily resulted from higher average debt levels associated with acquisitions and a larger securitization program, partially offset by lower weighted-average interest rates related to the Company's variable rate debt instruments and the refinancing of the 9.125% senior subordinated notes in fiscal 2007. See the discussion of the refinancing of the senior subordinated notes under the section *Loss on Debt Extinguishment*, below.

The Company participated in a securitization agreement with three commercial banks to sell up to $360 million at March 31, 2008 and up to $285 million at March 31, 2007 of qualifying trade receivables. The amount of outstanding receivables under the agreement was $360 million at March 31, 2008 versus $264 million at March 31, 2007. Net proceeds from the sale of trade receivables were used to reduce borrowings under the Company's revolving credit facilities. The discount on the securitization of trade receivables represents the difference between the carrying value of the receivables and the proceeds from their sale. The amount of the discount varies on a monthly basis depending on the amount of receivables sold and market rates.

As discussed in "Liquidity and Capital Resources," the Company manages its exposure to interest rate risk through participation in interest rate swap agreements. Including the effect of the interest rate swap agreements and the trade receivables securitization, the Company's ratio of fixed to variable rate debt at March 31, 2008 was 40% fixed to 60% variable. A majority of the Company's variable rate debt was based on a spread over LIBOR.

Loss on Debt Extinguishment

On October 27, 2006, the Company redeemed its $225 million 9.125% senior subordinated notes at a premium of 104.563% with borrowings under the Company's revolving credit facility. In conjunction with the redemption, the Company recognized a charge on the early extinguishment of debt of $12.1 million ($7.9 million after tax), or approximately $0.10 per diluted share. The charge related to the redemption premium and the write-off of unamortized debt issuance costs.

Income Tax Expense

The effective income tax rate was 38.9% of pre-tax earnings in fiscal 2008 compared to 38.8% in fiscal 2007. Both periods include tax benefits associated with a change in the Texas state income tax law, which reduced the effective tax rate by 0.3% and 0.7%, respectively. The tax benefit in fiscal 2007 resulted from the initial change in the law and the fiscal 2008 tax benefit was based on additional guidance issued by the state of Texas. These tax benefits reflect the reduction of deferred tax liabilities previously established for temporary differences under the prior state tax law. The fiscal 2007 tax rate also reflected the absence of state tax benefits associated with the loss on the extinguishment of debt.

Net Earnings

Net earnings were $223 million, or $2.66 per diluted share, for fiscal 2008 compared to $154 million, or $1.92 per diluted share, for fiscal 2007. The net earnings for fiscal 2008 included a one-time, non-cash charge of $0.03 per diluted share related to the conversion of National Welders from a joint venture to a 100% owned subsidiary, and $0.01 per diluted share tax benefit related to a change in Texas state income tax law. Fiscal 2007 net earnings

included a charge of approximately $0.10 per diluted share from the early extinguishment of debt and a $0.02 per diluted share tax benefit from a change in Texas state income tax law.

Liquidity and Capital Resources

Fiscal 2009 Cash Flows

Net cash provided by operating activities was $583 million in fiscal 2009 compared to $550 million in fiscal 2008. The increase in cash provided by operating activities was driven by net earnings and lower working capital requirements reflective of slower sales in the latter half of fiscal 2009. Net earnings adjusted for non-cash and non-operating items provided cash of $605 million versus $508 million in the prior year. Exclusive of the cash used and provided by the trade receivables securitization agreement, lower working capital requirements provided cash of $27 million in the fiscal 2009 versus using cash of $51 million in the prior year. The trade receivables securitization agreement used cash of $49 million in fiscal 2009. The reduction in the amount of receivables sold under the agreement reflects the slower sales environment in the latter half of the year. In the prior year, an amendment expanded the size of the trade receivables securitization program and the Company increased the amount of receivables sold under the program, which provided cash of $96 million. Consolidated cash flows provided by operating activities were used to repay debt incurred through the acquisition of businesses, as well as to fund investing activities such as capital expenditures.

Net cash used in investing activities during fiscal 2009 totaled $610 million and primarily consisted of cash used for capital expenditures and acquisitions. Cash used for capital expenditures was $352 million in fiscal 2009 as compared to $267 million in fiscal 2008. The increase in capital spending principally reflected infrastructure projects, such as two air separation units and two carbon dioxide plants. Construction of the air separation unit in New Carlisle, Indiana and the carbon dioxide plant in Deer Park, Texas was completed in December 2008 and March 2009, respectively. The completion of the air separation unit in Carrollton, Kentucky and the carbon dioxide plant in Camilla, Georgia are expected in fiscal 2010. Capital spending for fiscal 2010 is expected to be about 6% of net sales, inclusive of the cost to complete these projects. Cash of $274 million was paid in the current year to acquire 14 businesses, the largest of which was Refron, Inc., now Airgas Refrigerants, Inc., and to settle acquisition holdback liabilities associated with prior year acquisitions. During fiscal 2008, the Company paid $480 million to acquire 18 businesses, the largest of which was the Linde Packaged Gas acquisition, and to settle acquisition holdback liabilities.

Net cash provided by financing activities totaled $31 million in fiscal 2009 as compared to $207 million in fiscal 2008. On June 5, 2008, the Company issued $400 million of 7.125% senior subordinated notes due in 2018 (the "2008 Notes") and used the net proceeds to pay down approximately $400 million of its floating rate revolving credit line, which matures in 2011. The 2008 Notes increased the Company's ratio of fixed to floating rate debt and extended the Company's debt maturities (see Financial Instruments discussion below). In fiscal 2008, the Company amended its credit facility to increase the size of its U.S. dollar revolving credit line by $100 million to refinance $87.5 million in debt assumed with the National Welders Exchange Transaction. The Company also used cash of $120 million during fiscal 2009 to repurchase common stock under its Repurchase Plan. The purchase of treasury stock included approximately $5 million of stock purchases from the prior year period that were settled in the current period and $116 million of current year stock purchases. A total of 2.4 million shares were repurchased during fiscal 2009. As of March 31, 2009, the Company has no authorization remaining for any additional treasury share purchases under the Repurchase Plan.

Dividends

The Company paid its stockholders quarterly cash dividends of $0.12 per share at the end of each of the first two quarters of fiscal 2009. In the third and fourth quarters of fiscal 2009, the Company paid dividends of $0.16 per share, representing a 33% increase in the quarterly dividend payments. On May 19, 2009, the Company's Board of Directors declared a regular quarterly cash dividend of $0.18 per share, which is payable on June 30, 2009 to stockholders of record as of June 15, 2009. During fiscal 2008, the Company paid its stockholders regular quarterly cash dividends of $0.09 per share at the end of each of the first three quarters and $0.12 per share at the end of the fourth quarter. During fiscal 2007, the Company paid its stockholders regular quarterly cash dividends of $0.07. 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.

Financial Instruments

Senior Credit Facility

The Company maintains a senior credit facility (the "Credit Facility") with a syndicate of lenders. In July 2008, the Company amended its Credit Facility to, among other things, create a multi-currency borrowing facility. Under this multi-currency revolver, the Company and certain of the Company's foreign subsidiaries may borrow any foreign currency that is readily available and freely transferable and convertible into U.S. dollars, including Euros, pounds sterling and Mexican pesos. The Company may borrow up to $75 million (U.S. dollar equivalent) in U.S. dollars or any permitted foreign currency or multiple currencies in the aggregate. To accommodate the size of the multi-currency revolver, the Company's U.S. dollar revolving credit line was reduced by $75 million so the total size of the Company's Credit Facility was not changed.

At March 31, 2009, the Credit Facility permitted the Company to borrow up to $991 million under a U.S. dollar revolving credit line, up to $75 million (U.S. dollar equivalent) under the multi-currency revolving credit line, and up to C$40 million (U.S. $32 million) under a Canadian dollar revolving credit line. The Credit Facility also contains a term loan provision through which the Company borrowed $600 million with scheduled repayment terms. The term loans are repayable in quarterly installments of $22.5 million through June 30, 2010. The quarterly installments then increase to $71.2 million from September 30, 2010 to June 30, 2011. Principal payments due over the next twelve months on the term loans 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. As principal amounts under the term loans are repaid, no additional borrowing capacity is created under the term loan provision. The Credit Facility will mature on July 25, 2011.

As of March 31, 2009, the Company had approximately $1.2 billion of borrowings under the Credit Facility: $751 million under the U.S. dollar revolving credit line, $24 million (in U.S. dollars) under the multi-currency revolver, C$18 million (U.S. $15 million) under the Canadian dollar revolving credit line and $398 million under the term loans. The Company also had outstanding letters of credit of $42 million issued under the Credit Facility. The U.S. dollar borrowings and the term loans bear interest at LIBOR plus 62.5 basis points. The multi-currency revolver bears interest based on a spread of 62.5 basis points over the Euro currency rate applicable to each foreign currency borrowing. The Canadian dollar borrowings bear interest at the Canadian Bankers' Acceptance Rate plus 62.5 basis points. As of March 31, 2009, the average effective interest rates on the U.S. dollar revolver, the term loans, the multi-currency revolver and the Canadian dollar revolver were 1.24%, 1.85%, 2.05% and 1.49%, respectively.

Total Borrowing Capacity

As of March 31, 2009, approximately $266 million remained unused under the Company's Credit Facility. Despite current disruptions to the capital markets, the Company believes that it has sufficient liquidity from cash from operations and under its revolving credit facilities to meet its working capital, capital expenditure and other financial commitments (including the scheduled maturity of the trade receivables securitization agreement in March 2010). The debt covenants under the Company's revolving credit facility require the Company to maintain a leverage ratio not higher than 4.0 times and an interest coverage ratio not lower than 3.5 times. The leverage ratio is a contractually defined amount principally reflecting debt and certain elements of the Company's off-balance sheet financing divided by a contractually defined Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") for the trailing twelve-month period with pro forma adjustments for acquisitions. The interest coverage ratio reflects the same contractually defined EBITDA divided by total interest expense also with pro forma adjustments for acquisitions. Both ratios measure the Company's ability to meet current and future obligations. At March 31, 2009, the Company's leverage ratio was 2.7 times and its interest coverage ratio was 7.6 times. Based on the leverage ratio at March 31, 2009, the Company could incur an additional $1 billion of debt and remain within its covenants. However, the Company's borrowing capacity under the Credit Facility is limited to the size of the facility. Therefore, the financial covenants do not limit the Company's ability to borrow the unused portion of the Credit Facility. The Credit Facility contains customary events of default, including nonpayment and breach covenants. In the event of default, repayment of borrowings under the Credit Facility may be accelerated. The Company's Credit Facility also contains cross default provisions whereby a default under the Credit Facility would likely result in defaults under the senior subordinated notes discussed below.

The Company's domestic subsidiaries, exclusive of the bankruptcy-remote special purpose entity (the "domestic subsidiaries"), guarantee the U.S. dollar revolver, multi-currency revolver, Canadian dollar revolver and term loans. The multi-currency revolver and Canadian dollar revolver are also guaranteed by the Company and the Company's foreign subsidiaries. The guarantees are full and unconditional and are made on a joint and several basis. The Company has pledged 100% of the stock of its domestic subsidiaries and 65% of the stock of its foreign subsidiaries as surety for its obligations under the Credit Facility. The Credit Facility provides for the release of the guarantees and collateral if the Company attains an investment grade credit rating and a similar release on certain other debt.

The Company continues to look for acquisition candidates. The financial covenant calculations of the Credit Facility include the pro forma results of acquired businesses. Therefore, total borrowing capacity is not reduced dollar-for-dollar with acquisition financing.

The Company continually evaluates alternative financing and believes that it can obtain financing on reasonable terms. The terms of any future financing arrangements depend on market conditions and the Company's financial position at that time.

Money Market Loans

The Company has an agreement with a financial institution that provides access to short-term advances not to exceed $30 million for a maximum term of three months. The agreement expires on June 30, 2009, but may be extended subject to renewal provisions contained in the agreement. The amount, term and interest rate of an advance are established through mutual agreement with the financial institution when the Company requests such an advance.

At March 31, 2009, the Company had no outstanding advances under this agreement.

The Company also has an agreement with another financial institution that provides access to short-term advances not to exceed $35 million. The agreement expires on December 1, 2009, but may be extended subject to renewal provisions contained in the agreement. The advances are generally overnight or for up to seven days. The amount, term and interest rate of an advance are established through mutual agreement with the financial institution when the Company requests such an advance. At March 31, 2009, there were no advances outstanding under this agreement.

Senior Subordinated Notes

At March 31, 2009, the Company had $150 million of senior subordinated notes (the "2004 Notes") outstanding 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. The 2004 Notes have a redemption provision, which permits the Company, at its option, to call the 2004 Notes at scheduled dates and prices. The first scheduled optional redemption date is July 15, 2009 at a price of 103.125% of the principal amount.

On June 5, 2008, the Company issued $400 million of 2008 Notes at par with a maturity date of October 1, 2018. The net proceeds from the sale of the 2008 Notes were used to reduce borrowings under the Company's U.S. dollar revolving credit line under the Credit Facility. The 2008 Notes bear interest at a fixed annual rate of 7.125%, payable semi-annually on October 1 and April 1 of each year. The 2008 Notes have a redemption provision, which permits the Company, at its option, to call the 2008 Notes at scheduled dates and prices. The first scheduled optional redemption date is October 1, 2013 at a price of 103.563% of the principal amount.

The 2004 and 2008 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 2008 Notes are fully and unconditionally guaranteed jointly and severally, on a subordinated basis, by each of the 100% owned domestic guarantors under the Credit Facility.

Acquisition Notes and Other

The Company's long-term debt also includes acquisition and other notes, principally consisting of notes issued to sellers of businesses acquired, which are repayable in periodic installments. At March 31, 2009, acquisition and other notes totaled $24 million with an average interest rate of approximately 6% and an average maturity of approximately two years.

Refinancing of National Welders' Debt

Effective July 3, 2007, the Company amended its Credit Facility to increase the size of its U.S. dollar revolving credit line by $100 million. As discussed in Note 13 to the Company's Consolidated Financial Statements, National Welders became a 100% owned subsidiary of the Company on July 3, 2007. Concurrently, National Welders' debt of $87.5 million was refinanced by the Company under the expanded U.S. dollar revolving credit line.

Trade Receivables Securitization

The Company participates in a securitization agreement (the "Agreement") with three commercial banks to which it sells qualifying trade receivables on a revolving basis. The maximum amount of the facility is $345 million ($360 million at March 31, 2008). The size of the facility was reduced in fiscal 2009 due to the elimination of a $15 million subordinated funding tranche, which was previously part of the facility. The Agreement expires in March 2010. The Company expects continued availability under the Agreement until it expires in March 2010 and under similar agreements thereafter. Given the contraction of the securitized asset market in the current credit environment, the Company is evaluating the current arrangement with the banks and will evaluate this and other financing alternatives in fiscal 2010. Based on the characteristics of its receivable pool, the Company believes that trade receivable securitization will continue to be an attractive source of funds. In the event such source of funding was unavailable or reduced, the Company believes that it would be able to secure an alternative source of funds. During the year ended March 31, 2009, the Company sold approximately $4.0 billion of trade receivables and remitted to bank conduits, pursuant to a servicing agreement, approximately $4.0 billion in collections on those receivables. The amount of receivables sold under the Agreement was $311 million at March 31, 2009 and $360 million at March 31, 2008. The Agreement contains customary events of termination, including standard cross default provisions with respect to outstanding debt.

The Company retains a subordinated interest in trade receivables sold under the Agreement. The fair value of the retained interest, which was $148 million at March 31, 2009, is measured based on management's best estimate of the undiscounted expected future cash collections on the receivables sold in which the Company has a retained interest. Changes in the fair value are recognized as bad debt expense. Historically, bad debt expense reflected in the Company's financial results has generally been in the range of 0.3% to 0.5% of sales. As disclosed in Note 12 to the Consolidated Financial Statements, fair values of the retained interest are classified as Level 3 inputs on the fair value hierarchy because of the judgment required by management to determine the ultimate collectibility of receivables. The amounts ultimately collected on past due trade receivables are subject to numerous factors including

general economic conditions, the condition of the receivable portfolio assumed in acquisitions, the financial condition of individual customers, and the terms of reorganization for accounts exiting bankruptcy. The Company monitors the credit risk associated with the aforementioned factors, as well as aging trends and historic collections and records additional bad debt expense when appropriate. The Company is exposed to the risk of loss for any uncollectable amounts associated with the subordinated retained interest in trade receivables sold.

Interest Rate Swap Agreements

The Company manages its exposure to changes in market interest rates. The Company's involvement with derivative instruments is limited to highly effective fixed interest rate swap agreements used to manage well-defined interest rate risk exposures. The Company monitors its positions and credit ratings of its counterparties and does not anticipate non-performance by the counterparties. Interest rate swap agreements are not entered into for trading purposes.

During fiscal 2009, the Company entered into three fixed interest rate swap agreements for a notional amount of $125 million, and four fixed interest rate swap agreements with a notional amount of $100 million matured. At March 31, 2009, the Company had 18 fixed interest rate swap agreements outstanding with a notional amount of $627 million. These swaps effectively convert $627 million of variable interest rate debt associated with the Company's Credit Facility to fixed rate debt. At March 31, 2009, these swap agreements required the Company to make fixed interest payments based on a weighted average effective rate of 4.21% and receive variable interest payments from the counterparties based on a weighted average variable rate of 1.70%. The remaining terms of these swap agreements range from 1 to 21 months. For the year ended March 31, 2009, the fair value of the liability for the fixed interest rate swap agreements decreased and the Company recorded a corresponding adjustment to "Accumulated Other Comprehensive Loss" of $8.3 million, or $5.4 million after tax. For the year ended March 31, 2008, the fair value of the liability for the fixed interest rate swap agreements increased and the Company recorded a corresponding adjustment to "Accumulated Other Comprehensive Loss" of $21.0 million, or $13.6 million after tax. For the year ended March 31, 2007, the fair value of the net asset for the fixed interest rate swap agreements decreased and the Company recorded a corresponding adjustment to "Accumulated Other Comprehensive Income" of $0.9 million, or $0.6 million after tax.

The Company measures the fair value of its interest rate swaps using observable market rates to calculate the forward yield curves used to determine expected cash flows for each interest rate swap agreement. The discounted present values of the expected cash flows are calculated using the same forward yield curve. The discount rate assumed in the fair value calculations is adjusted for non-performance risk, dependent on the classification of the interest rate swap as an asset or liability. If an interest rate swap is a liability, the Company assesses the credit and non-performance risk of Airgas by determining an appropriate credit spread for entities with similar credit characteristics as the Company. If, however, an interest rate swap is in an asset position, a credit analysis of counterparties is performed assessing the credit and non-performance risk based upon the pricing history of counterparty specific credit default swaps or credit spreads for entities with similar credit ratings to the counterparties. The Company does not believe it is at risk for non-performance by its counterparties. However, if an interest rate swap is in an asset position, the failure of one or more of its counterparties would result in an increase in interest expense and a reduction of earnings. The Company compares its fair value calculations to the fair values calculated by the counterparties for each swap agreement for reasonableness.

As disclosed in Note 12 to the Consolidated Financial Statements, the fair value of the Company's interest rate swaps is classified as a Level 2 input on the fair value hierarchy because it is calculated using observable interest rates and yield curves adjusted for non-performance risk. The Company's interest rate swaps are highly effective at offsetting changes in cash flows on its revolving credit facility. Accordingly, additional cash payments or cash receipts under an interest rate swap offset lower or higher interest rate payments under the Company's revolving credit facility. Changes in the fair value of an interest rate swap agreement are reported on the Consolidated Balance Sheet, net of deferred tax benefits, in "Accumulated Other Comprehensive Loss."

Other

Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires management to make judgments, assumptions and estimates that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Note 1 to the Consolidated Financial Statements describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. Estimates are used for, but not limited to, determining the net carrying value of trade receivables, inventories, goodwill, other intangible assets and business insurance reserves. Uncertainties about future events make these estimates susceptible to change. Management evaluates these estimates regularly and believes they are the best estimates, appropriately made, given the known facts and circumstances. For the three years ended March 31, 2009, there were no material changes in the valuation methods or assumptions used by management. However, actual results could differ from these estimates under different assumptions and circumstances. The Company believes the following accounting estimates are critical due to the subjectivity and judgment necessary to account for these matters, their susceptibility to change and the potential impact that different assumptions could have on operating performance.

Trade Receivables/Subordinated Retained Interest

The Company maintains an allowance for doubtful accounts, which includes sales returns, sales allowances, and bad debts. The allowance adjusts the carrying value of trade receivables and the subordinated retained interest in trade receivables sold under the trade receivables securitization agreement (collectively referred to as trade receivables) to fair value based on estimates of accounts that will not ultimately be collected. An allowance for doubtful accounts is generally established as trade receivables age beyond their due date. As past due balances age, higher valuation allowances are established lowering the net carrying value of receivables. The amount of valuation allowance established for each past due period reflects the Company's historical collections experience and current economic conditions and trends. The Company also establishes valuation allowances for specific problem accounts and bankruptcies. The amounts ultimately collected on past due trade receivables are subject to numerous factors including general economic conditions, the condition of the receivable portfolio assumed in acquisitions, the financial condition of individual customers, and the terms of reorganization for accounts emerging from bankruptcy. Changes in these conditions impact the Company's collection experience and may result in the recognition of higher or lower valuation allowances. Management evaluates the allowance for doubtful accounts monthly. The Company has a low concentration of credit risk due to its broad and diversified customer base across multiple industries and geographic locations, and its relatively low average order size. The Company's largest customer accounts for approximately 0.5% of total net sales.

Inventories

The Company's inventories are stated at the lower of cost or market. The majority of the products the Company carries in inventory have long shelf lives and are not subject to technological obsolescence. The Company writes its inventory down to its estimated market value when it believes the market value is below cost. The Company estimates its ability to recover the costs of items in inventory by product type based on its age, the rate at which that product line is turning in inventory, its physical condition as well as assumptions about future demand and market conditions. The ability of the Company to recover its cost for products in inventory can be affected by factors such as future customer demand, general market conditions and the relationship with significant suppliers. Management evaluates the recoverability of its inventory at least quarterly. In aggregate, inventory turns at four-to-five times per year.

Goodwill and Other Intangible Assets

The Company accounts for goodwill and other intangible assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). Under SFAS 142, goodwill and other intangible assets with indefinite useful lives are not amortized, but are instead tested for impairment at least annually and whenever events or circumstances indicate that it is more likely than not that goodwill may be impaired. The Company has elected to perform its annual tests for indications of goodwill impairment as of October 31 of each year or whenever indicators of impairment exist.

The goodwill impairment analysis is a two-step process. The first step used to identify potential impairment involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. The Company uses a discounted cash flow approach to develop the estimated fair value of its reporting units. Management judgment is required in developing the assumptions for the discounted cash flow model. These assumptions include revenue growth rates, profit margins, future capital expenditures, working capital needs, discount rates, perpetual growth rates, etc. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is not impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment.

The second step of the process involves the calculation of an implied fair value of goodwill for each reporting unit for which step one indicated potential impairment. The implied fair value

of goodwill is determined in a manner similar to how goodwill is calculated in a business combination. That is, the estimated fair value of the reporting unit, as calculated in step one, is allocated to the individual assets and liabilities as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded to write down the carrying value. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit and the loss establishes a new basis in the goodwill. Subsequent reversal of an impairment loss is not permitted.

The discount rate, sales growth and profitability assumptions and perpetual growth rate are the material assumptions utilized in the discounted cash flow model used to estimate the fair value of each reporting unit. The Company's discount rate reflects a weighted average cost of capital ("WACC") for a peer group of companies in the chemical manufacturing industry with an equity size premium added, as applicable, for each reporting unit. The WACC is calculated based on observable market data. Some of this data (such as the risk free or treasury rate and the pretax cost of debt) are based on the market data at a point in time. Other data (such as beta and the equity risk premium) are based upon market data over time.

The discounted cash flow analysis requires estimates, assumptions and judgments about future events. The Company's analysis uses internally generated budgets and long-range forecasts. The Company's discounted cash flow analysis uses the assumptions in these budgets and forecasts about sales trends, inflation, working capital needs, and forecasted capital expenditures along with an estimate of the reporting unit's terminal value (the value of the reporting unit at the end of the forecast period) to determine the implied fair value of each reporting unit. The Company's assumptions about working capital needs and capital expenditures are based on historical experience. The perpetual growth rate assumed in the discounted cash flow model was consistent with the long-term rate of growth as measured by the U.S. Gross Domestic Product.

The Company believes the assumptions used in its discounted cash flow analysis are appropriate and result in reasonable estimates of the implied fair value of each reporting unit. However, the Company may not meet its sales growth and profitability targets, working capital needs and capital expenditures may be higher than forecast, changes in credit markets may result in changes to the Company's discount rate and general business conditions may result in changes to the Company's terminal value assumptions for its reporting units. In order to evaluate the sensitivity of the fair value calculations on the goodwill impairment test, the Company applied a hypothetical 10% decrease to the fair value of each reporting unit. In most cases, the estimated fair value of the reporting units exceeded the carrying value of the reporting units by a substantial amount. However, this hypothetical 10% decrease in fair value would have triggered the need to perform additional step 2 analyses for three of the Company's reporting units. The amount of goodwill associated with these reporting units was $253 million at October 31, 2008.

Business Insurance Reserves

The Company has established insurance programs to cover workers' compensation, business automobile and general liability claims. During fiscal 2009, 2008 and 2007, these programs had self-insured retention of $1 million per occurrence. For fiscal 2010, the self-insured retention will remain $1 million per occurrence with no additional aggregate retention. The Company reserves for its self-insured retention based on individual claim evaluations establishing loss estimates for known claims based on the current facts and circumstances. These known claims are then "developed" through actuarial computations, to reflect the expected ultimate loss for the known claims, as well as incurred but not reported claims. Actuarial computations use the Company's specific loss history, payment patterns and insurance coverage, plus industry trends and other factors to estimate the required reserve for all open claims by policy year and loss type. Reserves for the Company's self-insurance retention are evaluated monthly. Semi-annually, the Company obtains a third-party actuarial report to validate that the computations and assumptions used are consistent with actuarial standards. Certain assumptions used in the actuarial computations are susceptible to change. Loss development factors are influenced by items such as medical inflation, changes in workers' compensation laws, and changes in the Company's loss payment patterns, all of which can have a significant influence on the estimated ultimate loss related to the Company's self-insured retention. Accordingly, the ultimate resolution of open claims may be for amounts more or less than the reserve balances. The Company's operations are spread across a significant number of locations, which helps to mitigate the potential impact of any given event that could give rise to an insurance-related loss. Over the last three years, business insurance expense has generally been in the range of 0.6% to 0.8% of sales.

Contractual Obligations

The following table presents the Company's contractual obligations as of March 31, 2009:

(In thousands)		Payments Due by Period			
Contractual Obligations:	**Total**	**Less than 1 Year[(a)]**	**1 to 3 Years[(a)]**	**3 to 5 Years[(a)]**	**More than 5 Years[(a)]**
Long-term debt [(1)]	$ 1,761,366	$ 11,058	$ 1,198,338	$ 1,229	$ 550,741
Estimated interest payments on long-term debt [(2)]	359,942	56,438	96,538	75,912	131,054
Estimated payments on interest rate swap agreements [(3)]	12,524	10,056	2,468	—	—
Non-compete agreements [(4)]	21,607	4,744	7,364	5,257	4,242
Letters of credit [(5)]	41,782	41,782	—	—	—
Operating leases [(6)]	295,034	83,948	128,051	57,535	25,500
Purchase obligations:					
Liquid bulk gas supply agreements [(7)]	885,842	125,577	215,526	201,596	343,143
Liquid carbon dioxide supply agreements [(8)]	201,193	18,324	28,238	26,062	128,569
Ammonia supply agreements [(9)]	2,017	2,017	—	—	—
Other purchase commitments [(10)]	6,917	6,917	—	—	—
Construction commitments [(11)]	9,867	9,867	—	—	—
Total Contractual Obligations	$ 3,598,091	$ 370,728	$ 1,676,523	$ 367,591	$ 1,183,249

(a) The "Less than one Year" column relates to obligations due in fiscal 2010. The "1 to 3 Years" column relates to obligations due in fiscal years ending March 31, 2011 and 2012. The "3 to 5 Years" column relates to obligations due in fiscal years ending March 31, 2013 and 2014. The "More than 5 Years" column relates to obligations due in fiscal years ending March 31, 2015 and beyond.

(1) Aggregate long-term debt instruments are reflected in the Consolidated Balance Sheet as of March 31, 2009. Long-term debt includes capital lease obligations, which were not material and, therefore, did not warrant separate disclosure. Principal payments on the term loan under the Credit Facility are not reflected in the "Less than 1 Year" column above due to the Company's ability and intention to refinance the payments with borrowings under its long-term revolving credit line. See Note 10 to the Consolidated Financial Statements for more information regarding long-term debt instruments.

(2) The future interest payments on the Company's long-term debt obligations were estimated based on the current outstanding principal reduced by scheduled maturities in each period presented and interest rates as of March 31, 2009. The actual interest payments may differ materially from those presented above based on actual amounts of long-term debt outstanding and actual interest rates in future periods. A majority of the Company's variable rate debt is based on a spread over LIBOR. Based on the Company's fixed to variable interest rate ratio at March 31, 2009, for every 25 basis point increase in LIBOR, the Company estimates that its annual interest expense would increase by approximately $2.2 million.

(3) Payments or receipts under interest rate swap agreements result from changes in market interest rates compared to contractual rates and payments to be exchanged between the parties to the agreements. The estimated payments in future periods were determined based on forward LIBOR rates as of March 31, 2009. Actual payments or receipts may differ materially from those presented above based on actual interest rates in future periods.

(4) Non-compete agreements are obligations of the Company to make scheduled future payments, generally to former owners of acquired businesses, contingent upon their compliance with the covenants of the non-compete agreement.

(5) Letters of credit are guarantees of payment to third parties. The Company's letters of credit principally back obligations associated with the Company's self-insured retention on workers' compensation, business automobile and general liability claims. The letters of credit are supported by the Company's Credit Facility.

(6) The Company's operating leases at March 31, 2009 include approximately $179 million in fleet vehicles under long-term operating leases. The Company guarantees a residual value of $29 million related to its leased vehicles.

(7) In addition to the gas volumes supplied by Airgas Merchant Gases, the Company purchases industrial, medical and specialty gases pursuant to requirements contracts from national and regional producers of industrial gases. The Company has a long-term take-or-pay supply agreement, in effect through August 31, 2017, with Air Products to supply the Company with bulk liquid nitrogen, oxygen and argon. Additionally, the Company purchases helium and hydrogen gases from Air Products under long-term supply agreements. Based on the volume of fiscal 2009 purchases, the Air Products supply agreements represent approximately $55 million annually in liquid bulk gas purchases.

The Company also has long-term take-or-pay supply agreements with Linde AG to purchase oxygen, nitrogen, argon, helium and acetylene. The agreements expire at various dates through July 2019 and represent almost $50 million in annual bulk gas purchases. Additionally, the Company has long-term take-or-pay supply agreements to purchase oxygen, nitrogen, argon, and helium from other major producers. Annual purchases under these contracts are approximately $20 million and they expire at various dates through 2024.

The purchase commitments for future periods contained in the table above reflect estimates based on fiscal 2009 purchases. The supply agreements noted above contain periodic adjustments based on certain economic indices and market analysis. The Company believes the minimum product purchases under the agreements are within the Company's normal product purchases. Actual purchases in future periods under the supply agreements could differ materially from those presented in the table due to fluctuations in demand requirements related to varying sales levels as well as changes in economic conditions.

(8) The Company is a party to long-term take-or-pay supply agreements for the purchase of liquid carbon dioxide with approximately 15 suppliers that expire at various dates through 2044. The purchase commitments for future periods contained in the table above reflect estimates based on fiscal 2009 purchases. The Company believes the minimum product purchases under the agreements are within the Company's normal product purchases. Actual purchases in future periods under the carbon dioxide supply agreements could differ materially from those presented in the table due to fluctuations in demand requirements related to varying sales levels as well as changes in economic conditions. Certain of the liquid carbon dioxide supply agreements contain market pricing subject to certain economic indices.

In June 2008, the Company signed a 15-year take-or-pay supply agreement with First United Ethanol LLC, ("FUEL") to supply the Company with feed stock of raw carbon dioxide. The agreement is expected to commence in November 2009 after the Company completes its 450 tons per day liquification plant at FUEL's new complex in Camilla, GA. Annual purchases under this contract will be approximately $1.3 million annually.

(9) The Company purchases ammonia from a variety of sources and is obligated to purchase approximately $2 million annually under these contracts.

(10) Other purchase commitments primarily include property, plant and equipment expenditures.

(11) Construction commitments represent outstanding commitments to customers primarily to construct a raw liquid carbon dioxide plant in Camilla, GA.

Off-Balance Sheet Arrangements

As disclosed in Note 4 to the Company's consolidated financial statements, the Company participates in a securitization agreement with three commercial banks to sell, on a revolving basis, up to $345 million of qualifying trade receivables. The agreement expires in March 2010, but may be renewed subject to provisions contained in the agreement. Under the securitization agreement, trade receivables are sold on a monthly basis to three commercial banks through a bankruptcy-remote special purpose entity. The Company retains a subordinated interest in the receivables sold, which is included in trade receivables on the accompanying Consolidated Balance Sheet. At March 31, 2009, the amount of retained interest in the receivables sold was approximately $148 million.

The securitization agreement is a form of off-balance sheet financing. The discount taken by the commercial banks reduces the proceeds from the sale of trade receivables and is generally at a lower cost than the Company can borrow under its Credit Facility. The table below reflects the amount of trade receivables sold at March 31, 2009 and the amount of the anticipated discount to be taken, based on market rates at March 31, 2009, on the sale of that quantity of receivables each month through the expiration date of the securitization agreement. The trade receivables securitization agreement expires in March 2010. The Company expects continued availability under the Agreement until it expires in March 2010 and under similar agreements thereafter. Given the contraction of the securitized asset market in the current credit environment, the Company is evaluating the current arrangement with the banks and will evaluate this and other financing alternatives in fiscal 2010. Based on the characteristics of its receivable pool, the Company believes that trade receivable securitization will continue to be an attractive source of funds. In the event such source of funding was unavailable or reduced, the Company believes that it would be able to secure an alternative source of funds.

(In thousands)	*Payments Due by Period*				
Off-balance sheet obligations as of March 31, 2009:	**Total**	**Less than 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**More than 5 Years**
Trade receivables securitization	$ 311,400	$ 311,400	$ —	$ —	$ —
Estimated discount on securitization	3,800	3,800	—	—	—
Total off-balance sheet obligations	$ 315,200	$ 315,200	$ —	$ —	$ —

Accounting Pronouncements Issued But Not Yet Adopted

Business Combinations

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141R, *Business Combinations* ("SFAS 141R"), which replaces SFAS No. 141 of the same title ("SFAS 141"). This statement is effective for fiscal years beginning after December 15, 2008 and prohibits early adoption. SFAS 141R will significantly change the way the Company accounts for business combinations. The Company has historically pursued new business opportunities through acquisitions and intends to maintain this strategy for the foreseeable future. Accordingly, the Company expects the adoption of SFAS 141R to impact its operating results when significant acquisitions are completed and during the subsequent acquisition measurement periods when the fair values for the individual assets and liabilities acquired are determined. The principles contained in SFAS 141R are, in a number of ways, very different from those previously applied to business combinations. Upon adoption, the impact of SFAS 141R on the consolidated financial statements for future acquisitions may be driven by, among other things, recognizing the direct costs of acquisitions as period costs when incurred and recasting previously issued consolidated financial statements as the provisional values assigned to the assets and liabilities acquired are trued-up to their acquisition date fair values. The Company will adopt SFAS 141R for its fiscal year beginning April 1, 2009.

In April 2009, the FASB issued FASB Staff Position ("FSP") No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* ("FSP 141R-1"), which amends SFAS 141R regarding the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FSP 141R-1 carries forward the general requirements of SFAS 141 for acquired contingencies in a business combination, yet encourages greater use of fair value as defined in SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), when determinable. FSP 141R-1 is effective for fiscal years, beginning on or after December 15, 2008 with early adoption prohibited. The Company will adopt FSP 141R-1 in conjunction with SFAS 141R, and does not expect the adoption to have a material impact on the consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP 142-3"), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. FSP 142-3 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 with early adoption prohibited. The Company will adopt FSP 142-3 in conjunction with SFAS 141R to improve consistency between the useful life of intangible assets under SFAS 142 and the period of expected cash flows used to measure fair value at acquisition under SFAS 141R. The Company does not expect the adoption of FSP 142-3 to have a material impact on the consolidated financial statements.

In November 2008, the FASB ratified the consensus reached in Emerging Issues Task Force ("EITF") Issue No. 08-7, *Accounting for Defensive Intangible Assets* ("EITF 08-7"). EITF 08-7 clarifies how to account for acquired defensive intangible assets subsequent to initial measurement under SFAS 141R that an entity does not intend to actively use but does intend to hold to prevent others

from obtaining access to the assets. EITF 08-7 is effective for fiscal years beginning after December 15, 2008, along with SFAS 141R. The Company will adopt EITF 08-7 for fiscal 2010 and does not expect the adoption of EITF 08-7 to have a material impact on its consolidated results of operations, financial position or cash flows.

Fair Value Measurements

In September 2006, the FASB issued SFAS 157 effective for financial statements issued for fiscal years beginning after November 15, 2007. SFAS 157 did not require any new fair value measurements, but rather replaces multiple existing definitions of fair value with a single definition, establishes a consistent framework for measuring fair value and expands financial statement disclosures regarding fair value measurements. In February 2008, the FASB issued FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS 157 until fiscal years beginning after November 15, 2008 for non-financial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The Company adopted SFAS 157 for financial assets and liabilities on April 1, 2008 (see Note 12 to the Company's Consolidated Financial Statements). The adoption of SFAS 157 for financial assets and liabilities did not have a material impact on the Company's financial position or results of operations. Additionally, the Company will adopt SFAS 157 for non-financial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis on April 1, 2009. The adoption of the deferred portion of SFAS 157 is not expected to have a material impact on the consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ("FSP 107-1"), which requires disclosures about the fair value of financial instruments for interim reporting periods as well as in annual financial statements. Currently, these disclosures are only required in the Company's consolidated annual financial statements. FSP 107-1 is effective for interim reporting periods ending after June 15, 2009 with early adoption permitted under specified circumstances. The Company will adopt FSP 107-1 for the interim reporting period ending June 30, 2009, and does not expect the adoption to have a material impact on the consolidated financial statements.

Non-controlling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ("SFAS 160"), which amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*. SFAS 160 establishes accounting and reporting standards that require (1) non-controlling interests held by non-parent parties be clearly identified and presented in the consolidated statement of financial position within equity, separate from the parent's equity, and (2) the amount of consolidated net income attributable to the parent and to the non-controlling interests be clearly presented on the face of the consolidated statement of income. SFAS 160 also requires consistent reporting of any changes to the parent's ownership interest while retaining a controlling financial interest, as well as specific guidelines over how to treat the deconsolidation of controlling interests and any applicable gains or losses. SFAS 160 is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008 and is to be applied prospectively, except for the presentation and disclosure requirements of SFAS 160 which are to be applied retrospectively for all periods presented. The Company is currently assessing the impact of SFAS 160 on the consolidated financial statements. Although all of the Company's subsidiaries are currently 100% owned subsidiaries, the retrospective presentation and disclosure requirements will require previous non-controlling interests to be presented and disclosed for prior periods in the consolidated financial statements under the requirements of SFAS 160.

Forward-Looking Statements

This report contains statements that are forward looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to, statements regarding: the Company's expected net earnings for the first quarter ending June 30, 2009 to range from $0.62 to $0.67 per diluted share, and expected net earnings for the fiscal year ending March 31, 2010 to range from $2.60 to $2.90 per diluted share; the Company's expectation of slight to moderate revenue declines in fiscal 2010; the Company's continued efforts to reduce expenses and costs; the Company's belief that the stimulus spending plan focus on infrastructure build will support demand for its industrial gases, welding goods and safety supplies and that stimulus funds for research and healthcare should drive demand for the Company's specialty and medical gases; the Company's commitment to its long-term growth strategy; the Company's plan to continue to aggressively seek to identify businesses that bolster its core gas business, strengthen its adjacent offerings and give it entry into new markets; the Company's belief that strategic products have good long-term growth profiles; the Company's belief that its focus on marketing and selling strategic products will help to mitigate the impact of the current recessionary environment; the Company's belief regarding the future growth prospects of the medical care markets; the Company's belief regarding supplying its customers and the availability of alternative supplies in the event of a termination of a major supply agreement; the Company's expectation that the multi-year implementation process of the SAP system will minimize business disruption and conversion risks, make it easier for customers to do business with the Company and that the implementation will be completed within four years; the Company's continued progress selling specialty gases to the EPA Protocol market and sales of specialty gas equipment; the Company's estimate that for every 25 basis point increase in LIBOR, annual interest expense will increase approximately $2.2 million; the future declaration and payment of dividends; the

Company's ability and intention to refinance principal payments under the term loan with borrowings under its long-term revolving credit line; the Company's expectation that the air separation unit in Carrollton, Kentucky and the carbon dioxide plant in Camilla, Georgia are expected to be completed in fiscal 2010 and that a carbon dioxide supply agreement will commence in November 2009 upon completion of its liquification plan in Camilla, Georgia; the Company's expectation that capital spending for fiscal 2010 will be about 6% of net sales; the Company's belief that it could obtain future financing at reasonable terms if required; the Company's belief that the trade receivable securitization will continue to be an attractive source of funds; the ability of the Company to manage its exposure to interest rate risk through participation in interest rate swap agreements; the performance of counterparties under interest rate swap agreements; the Company's estimate that $6.5 million of existing losses recorded in Accumulated Other Comprehensive Loss at March 31, 2009, net of tax benefits of $3.5 million, will be reclassified into earnings within the next twelve months; the Company's belief that self-insured retention will remain $1.0 million per occurrence for fiscal 2010; and the Company's estimates of purchase commitments associated with product supply agreements and the belief that the minimum product purchases under the agreements are within the Company's normal product purchases.

These forward-looking statements involve risks and uncertainties. Factors that could cause actual results to differ materially from those predicted in any forward-looking statement include, but are not limited to: the Company's inability to diversify against economic cyclicality; higher than expected implementation costs of the SAP system; conversion problems related to the SAP system that disrupt the Company's business and negatively impact customer relationships; the Company's inability to complete the SAP implementation in the expected timeframe, which could negatively impact the Company's operations and abilities to operate efficiently and measure performance; continued weakening of the economy resulting in weakening demand for the Company's products; weakening operating and financial performance of the Company's customers, which can negatively impact the Company's sales and the Company's ability to collect its accounts receivables; construction delays with regard to the Carrollton, Kentucky air separation unit and the Camilla, Georgia carbon dioxide plant; the inability to successfully identify, consummate and integrate acquisitions and to achieve anticipated acquisition synergies; a downturn in the hospital, physician and dental care markets and its effect on the Company's sales growth; the inability of the Company to raise prices to keep pace with cost increases; higher than estimated interest expense resulting from increases in LIBOR and/or changes in the Company's credit rating; the loss of customers, acquisition integration problems and higher than expected expenses; continued economic downturn (including adverse changes in the specific markets for the Company's products, including strategic products); adverse customer response to the Company's products and/or the inability to identify products that will grow at a faster rate than the overall economy; the inability to obtain alternate supply sources of hardgoods products; the inability to obtain alternative supply sources to adequately meet customer demand and the effect on sales and customer relationships; the Company's inability to control operating expenses and the potential impact of higher operating expenses in future periods; adverse changes in customer buying patterns; a lack of available cash flow and financing necessary to pay future dividends and/or refinance term loan principal payments; changes in the Company's debt levels, which prevent the Company from arranging additional financing; the inability to manage interest rate exposure; defaults by counterparties under interest rate swap agreements; potential liabilities arising from withdrawals from the Company's assumed multi-employer pension plans; the effects of competition from independent distributors and vertically integrated gas producers on products, pricing and sales growth; future goodwill impairment due to changes in assumptions used in the annual impairment analysis; changes in actuarial assumptions and their impact on the ultimate loss related to the Company's self-insured retention; changes in customer demand and the impact on the Company's ability to meet minimum purchases under take-or-pay supply agreements; uncertainties regarding accidents or litigation which may arise in the ordinary course of business; and the effects of, and changes in, the economy, monetary and fiscal policies, laws and regulations, inflation and monetary fluctuations and fluctuations in interest rates, both on a national and international basis. The Company does not undertake to update any forward-looking statement made herein or that may be made from time to time by or on behalf of the Company.