

Notes to Consolidated Financial Statements

Airgas, Inc. and Subsidiaries

Note 1**Summary of Significant Accounting Policies****Description of the Business**

Airgas, Inc. and subsidiaries (“Airgas” or the “Company”) became a publicly traded company on the New York Stock Exchange in 1986. Since its inception, the Company has made nearly 400 acquisitions to become the largest U.S. distributor of industrial, medical, and specialty gases (delivered in “packaged” or cylinder form), and hardgoods, such as welding equipment and supplies. Airgas is also one of the largest U.S. distributors of safety products, the largest U.S. producer of nitrous oxide and dry ice, the largest liquid carbon dioxide producer in the Southeast, the fifth largest producer of atmospheric merchant gases in North America, and a leading distributor of process chemicals, refrigerants, and ammonia products. The Company markets its products to its diversified customer base through multiple sales channels including branch-based sales representatives, retail stores, strategic customer account programs, telesales, catalogs, eBusiness and independent distributors. More than 14,000 employees work in over 1,100 locations including branches, retail stores, packaged gas fill plants, cylinder testing facilities, specialty gas labs, production facilities, and distribution centers.

Basis of Presentation

The consolidated financial statements include the accounts of Airgas, Inc. and its subsidiaries. Intercompany accounts and transactions are eliminated in consolidation.

The Company has made estimates and assumptions relating to the reporting of assets and liabilities and disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”). Estimates are used for, but not limited to, determining the net carrying value of trade receivables, inventories, plant and equipment, goodwill, other intangible assets, asset retirement obligations, business and health insurance reserves, loss contingencies and deferred tax assets. Actual results could differ from those estimates.

Reclassifications and Prior Period Adjustments

The Consolidated Balance Sheet as of March 31, 2008 reflects adjustments that increased insurance receivables, reflected in the line item “Prepaid expenses and other current assets,” by \$8 million and also increased business insurance reserves, reflected in the line item “Accrued expenses and other current liabilities,” by a corresponding \$8 million. The insurance receivable and corresponding increase in the business insurance reserves at March 31, 2008 represent probable claim losses in excess of the Company’s self-insured retention for which the Company is fully insured. The adjustments to the March 31, 2008 balances were also reflected in Note 9 — Accrued Expenses and Other Current Liabilities. The Company does not consider these adjustments to be material to its

financial position and the adjustments did not affect its results of operations or liquidity.

Additionally, certain reclassifications were made to the Consolidated Statements of Earnings for the years ended March 31, 2008 and 2007, as well as the related notes, to conform to the current period presentation. These reclassifications principally resulted in increasing cost of products sold (excluding depreciation) and reducing selling, distribution and administrative expenses. Additionally, some revenue was reclassified between Gas and Rent and Hardgoods. These reclassifications were the result of conforming the accounting policies of National Welders (see Note 13) to the Company’s accounting policies and were not material. Consolidated net sales and net earnings for prior periods were not impacted by the reclassifications.

As a result of an organizational realignment during the fourth quarter of fiscal 2009, the March 31, 2008 and 2007 segment information as disclosed in Note 23 was restated to reflect the new segment structure. The change in business segments had no effect on the Company’s consolidated financial position, results of operations or liquidity.

Cash and Cash Overdraft

On a daily basis, all available funds are swept from depository accounts into a concentration account and used to repay debt under the Company’s revolving credit facilities. Cash principally represents the balance of customer checks that have not yet cleared through the banking system and become available to be swept into the concentration account, and deposits made subsequent to the daily cash sweep. The Company does not fund its disbursement accounts for checks it has written until the checks are presented to the bank for payment. Cash overdrafts represent the balance of outstanding checks and are classified with other current liabilities. There are no compensating balance requirements or other restrictions on the transfer of cash associated with the Company’s depository accounts.

Allowance for Doubtful Accounts

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 receivable securitization agreement for the estimate of accounts that will ultimately not 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

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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. Changes in these conditions impact the Company's collection experience and may result in the recognition of higher or lower valuation allowances.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method, average-cost method and last-in, first-out (LIFO) method for approximately 72%, 17% and 11%, respectively, of the inventories at March 31, 2009. Cost is determined using the FIFO method, average-cost method and LIFO method for approximately 66%, 20% and 14%, respectively, of the inventories at March 31, 2008.

Plant and Equipment

Plant and equipment are initially stated at cost. Depreciation is computed using the straight line method based on the estimated useful lives of the related assets. The carrying values of long-lived assets, including plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the recorded value cannot be recovered from the undiscounted future cash flows. When the book value of an asset exceeds the associated undiscounted expected future cash flows, it is considered to be potentially impaired and is written down to fair value, which is determined based on either discounted future cash flows or appraised values. The Company also leases property, plant and equipment, principally under operating leases. Rent expense for operating leases, which may have escalating rentals or rent holidays over the term of the lease, is recorded on a straight-line basis over the lease term.

Goodwill, Other Intangible Assets and Deferred Financing Costs

Goodwill represents the excess of the purchase price of an acquired entity over the amounts assigned to the assets acquired and liabilities assumed. Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually. The Company has elected to perform its annual tests for indications of goodwill and other indefinite lived intangibles impairment as of October 31 of each year.

Other intangible assets primarily include non-competition agreements and customer lists resulting from business acquisitions. Both non-competition agreements and customer lists are recorded based on their acquisition date fair value. Non-competition agreements are amortized using the straight-line method over the term of the agreement. Customer lists are amortized using the straight-line method over their estimated useful lives, which range from 7 to 17 years. The Company assesses the recoverability of other intangible assets by determining whether the carrying value of the intangible

asset can be recovered through projected undiscounted future cash flows of the related business unit.

Financing costs related to the issuance of long term debt and for the trade receivables securitization agreement (see Note 4) are deferred and included in other long-term assets. Deferred financing costs are amortized as interest expense over the term of the related debt instrument for long-term debt, and are amortized as interest expense over the term of the agreement for the trade receivables securitization.

Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation is recognized in the period when the asset is placed in service. The fair value of the liability is estimated using projected discounted cash flows. In subsequent periods, the retirement obligation is accreted to its future value, which is the estimate of the obligation at the asset retirement date. When the asset is placed in service, a corresponding retirement asset equal to the fair value of the retirement obligation is also recorded as part of the carrying amount of the related long-lived asset and depreciated over the asset's useful life. The majority of the Company's asset retirement obligations are related to the restoration costs associated with returning bulk tanks sites to their original condition upon termination of long-term leases or supply agreements. The Company's asset retirement obligations totaled \$10.2 million and \$9.3 million at March 31, 2009 and 2008, respectively.

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation and other sources are recorded when it is probable that a liability has been incurred and the amount of the claim, assessment or damages can be reasonably estimated.

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

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

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Income Taxes

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

The Company recognizes the benefit of an income tax position only if it is more likely than not (greater than 50%) that the tax position will be sustained upon tax examination, based solely on the technical merits of the tax position. Otherwise, no benefit is recognized. The tax benefits recognized are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Additionally, the Company accrues interest and related penalties, if applicable, on all tax exposures for which reserves have been established consistent with jurisdictional tax laws. Interest and penalties are classified as income tax expense in the Consolidated Statements of Earnings.

Foreign Currency Translation

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

Concentrations of Credit Risk

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

Financial Instruments

In managing interest rate risk exposure, the Company enters into interest rate swap agreements. An interest rate swap is a contractual exchange of interest payments between two parties. A standard interest rate swap involves the payment of a fixed rate times a

notional amount by one party in exchange for a floating rate times the same notional amount from the other party. As interest rates change, the difference to be paid or received is accrued and recognized as interest expense or income over the life of the agreement. These instruments are not entered into for trading purposes. Counterparties to the Company's interest rate swap agreements are major financial institutions. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended ("SFAS 133"), the Company recognizes interest rate swap agreements on the balance sheet at fair value. The interest rate swap agreements are marked to market with changes in fair value recognized in either accumulated other comprehensive income (loss) or in the carrying value of the hedged portions of fixed rate debt, as applicable.

The carrying value of cash, trade receivables exclusive of the subordinated retained interest, other current receivables, trade payables and other current liabilities (e.g., deposit liabilities, cash overdrafts, etc.) approximate fair value based on the short-term maturity of these financial instruments.

Revenue Recognition

Revenue from sales of gases and hardgoods products is recognized when the product is shipped, a sales price is fixed or determinable and collectability is reasonably assured. Rental fees on cylinders, cryogenic liquid containers, bulk gas storage tanks and other equipment are recognized when earned. For contracts that contain multiple deliverables, principally product supply agreements for gases and container rental, revenue is recognized for each deliverable based on its objectively determinable fair value. For cylinder lease agreements in which rental fees are collected in advance, revenues are deferred and recognized over the term of the lease agreement. Amounts billed for sales tax, value added tax or other transactional taxes imposed on revenue producing transactions are presented on a net basis and are not recognized as revenue.

Cost of Products Sold (Excluding Depreciation)

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

Cost of products sold (excluding depreciation) for the All Other Operations business segment principally consists of direct material costs, direct labor and freight-in for bulk gas purchases.

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Selling, Distribution and Administrative Expenses

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

Depreciation

The Company determines depreciation expense using the straight-line method based on the estimated useful lives of the assets. The Company uses accelerated depreciation methods for tax purposes where appropriate. Depreciation expense is recognized on the Company's property, plant and equipment in the Consolidated Statement of Earnings line item "Depreciation."

Shipping and Handling Fees and Distribution Costs

The Company recognizes delivery and freight charges to customers as elements of net sales. Costs of third-party freight are recognized as cost of products sold (excluding depreciation). The majority of the costs associated with the distribution of the Company's products, which include labor and overhead associated with filling, warehousing and delivery by Company vehicles, are reflected in selling, distribution and administrative expenses and were \$712 million, \$643 million and \$497 million for the fiscal years ended March 31, 2009, 2008 and 2007, respectively. The Company conducts multiple operations out of the same facilities and does not allocate facility-related expenses to each operational function. Accordingly, there is no facility-related expense in the distribution costs disclosed above. Depreciation expense associated with the Company's delivery fleet of \$18 million, \$15 million and \$11 million was recognized in depreciation for the fiscal years ended March 31, 2009, 2008 and 2007, respectively.

Note 2**Accounting and Disclosure Changes****Recently adopted accounting pronouncements****SFAS 157**

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *Fair Value Measurements* ("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 FASB Staff Position ("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). 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.

SFAS 159

Effective April 1, 2008, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which provides companies with an option to report selected financial assets and liabilities at fair value in an attempt to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The Company did not elect to re-measure any existing financial assets or liabilities under the provisions of this statement.

SFAS 161

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"), which enhances the requirements under SFAS 133. SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities and how they affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company adopted SFAS 161 on January 1, 2009 — see Note 11 for required disclosures. The adoption of SFAS 161 did not have an impact on the Company's financial position, results of operations or liquidity.

SFAS 162

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. The Company adopted SFAS 162 on November 15, 2008. The adoption of SFAS 162 did not have an impact on the Company's financial position, results of operations or liquidity.

SAB 108

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. Prior to SAB 108, either a balance sheet approach ("iron curtain") or an income statement

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approach (“rollover”) was utilized to quantify the materiality of misstatements. Although either approach could result in a different conclusion about materiality, both approaches were acceptable. Under SAB 108, both the balance sheet and the income statement approach must be considered when evaluating the materiality of misstatements. The Company adopted SAB 108 as of March 31, 2007, as required. The cumulative effect adjustment, net of tax, related to the adoption of SAB 108 was \$5.2 million, and was recorded to retained earnings as of April 1, 2006.

Accounting pronouncements issued but not yet adopted**SFAS 141R**

In December 2007, the 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 true-up to their acquisition date fair values. The Company will adopt SFAS 141R for its fiscal year beginning April 1, 2009.

SFAS 160

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.

FSP 142-3

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 No. 142, *Goodwill and Other Intangible Assets* (“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.

FSP 141R-1

In April 2009, the FASB issued 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 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.

FSP 107-1 and APB 28-1

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.

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EITF 08-7

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 in conjunction with SFAS 141R 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.

Note 3 Acquisitions

Acquisitions have been recorded using the purchase method of accounting and, accordingly, results of the acquired companies’ operations have been included in the Company’s consolidated financial statements since the effective date of each respective acquisition.

Fiscal 2009

During fiscal 2009, the Company purchased 14 businesses. The largest of these businesses, acquired on July 31, 2008, was Refron, Inc., a New York-based distributor of refrigerant gases with historical annual sales of \$93 million. With the acquisition of Refron, Inc., 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 offering a full array of 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 Industrial Welding Supply, an industrial gas and welding supply distributor with ten locations 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 14 business acquired in fiscal 2009 had aggregate historical annual revenues of approximately \$205 million. A total of \$274 million in cash was paid for these businesses, including the settlement of acquisition-related holdbacks. The Company acquired the businesses to expand its geographic coverage and strengthen its national network of branch-store locations, as well as strengthen its refrigerant gas, safety product offerings, and international presence.

In connection with certain acquisitions, the Company is required to make future payments to sellers based on future earnings of the

acquired business in excess of predetermined amounts. Amounts payable under contingent payment terms continue through 2019 and are limited to \$9.9 million, the majority of which, if required, will be capitalized as additional costs of the acquisitions.

Purchase Price Allocation

The Company negotiated the respective purchase prices of the businesses based on the expected cash flows to be derived from their operations after integration into the Company’s existing distribution network. The purchase price of each acquired business was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the date of each respective acquisition. Certain purchase price allocations continue to be based on preliminary estimates of fair value and are subject to revision as the Company finalizes appraisals and other analyses.

The table below summarizes the allocation of the purchase price of all fiscal 2009 acquisitions by business segment, as well as adjustments related to prior year acquisitions. The credit of \$46 thousand in the All Other Operations business segment is attributable to a reduction of \$1.43 million related to plant and equipment adjustments to fiscal 2008 acquisitions, net of \$1.39 million of plant and equipment acquired in fiscal 2009 acquisitions. Of the total goodwill in the table below, \$84 million is deductible for income tax purposes. Additionally, approximately \$85 million of the \$91 million allocated to other intangible assets represents value assigned to customer relationships, with the remaining \$6 million representing non-competition agreements.

<i>(In thousands)</i>	Distribution Business Segment	All Other Operations Business Segment	Total
Current assets, net	\$ 22,611	\$ 72,460	\$ 95,071
Property and equipment	32,380	(46)	32,334
Goodwill	34,138	65,228	99,366
Other intangible assets	65,344	25,662	91,006
Current liabilities	(15,984)	(7,660)	(23,644)
Long-term liabilities	(17,159)	(3,224)	(20,383)
Total cash consideration	<u>\$ 121,330</u>	<u>\$ 152,420</u>	<u>\$ 273,750</u>

Pro Forma Operating Results

The pro forma results are prepared from financial information obtained from the sellers of the businesses as well as information obtained during the due diligence process associated with the acquisitions. Pro forma adjustments to the historic financial information of the businesses acquired are limited to those related to the Company’s stepped-up basis in acquired assets and adjustments to reflect the Company’s borrowing and tax rates. The pro forma operating results do not include benefits associated with anticipated synergies related to combining the businesses or integration costs.

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The following represents unaudited pro forma operating results as if the fiscal 2009 and 2008 acquisitions had occurred on April 1, 2007. The pro forma operating results were prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisitions been made as of April 1, 2007 or of results that may occur in the future.

<i>(In thousands, except per share amounts)</i>	Unaudited Years Ended March 31,	
	2009	2008
Net sales	\$ 4,433,158	\$ 4,406,837
Net earnings	261,725	222,442
Diluted earnings per share	\$ 3.12	\$ 2.65

Fiscal 2008

During fiscal 2008, the Company purchased 18 businesses, including 15 associated with the distribution of packaged gases and related hardgoods products. The largest of these acquisitions was the June 30, 2007 acquisition of most of the U.S. packaged gas operations ("Linde Packaged Gas") of Linde AG ("Linde") for \$310 million in cash. The operations acquired included 130 locations in 18 states, with more than 1,400 employees, and generated approximately \$346 million in revenues for the year ended December 31, 2006. The Linde Packaged Gas business was merged into the operations of the Distribution business segment. A total of \$162 million in cash was paid for the 14 other acquired packaged gas distributors and the settlement of holdback liabilities related to prior year acquisitions. These packaged gas distributors had aggregate historical annual revenues of approximately \$150 million. The remaining three acquisitions were purchased for \$8 million in cash and had combined historical annual revenues of approximately \$13 million. These acquisitions are included in the All Other Operations business segment. The Company acquired the 18 businesses to expand its geographic coverage and strengthen its national network of branch store locations.

Purchase Price Allocation

The aggregate cash paid for the fiscal 2008 acquisitions and the settlement of holdback liabilities associated with certain prior year acquisitions was \$480 million. The Company negotiated the respective purchase prices of the businesses based on the expected cash flows to be derived from their operations after integration into the Company's existing distribution network. The purchase price of each acquired business was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the date of each respective acquisition.

The table below summarizes the allocation of the purchase price of all fiscal 2008 acquisitions by business segment as well as adjustments related to prior year acquisitions. Of the total goodwill in the table below, \$93 million is deductible for income tax purposes.

<i>(In thousands)</i>	Linde Acquisitions	Remaining Acquisitions		Total
	Distribution Business Segment	Distribution Business Segment	All Other Operations Business Segment	
Current assets, net	\$ 85,227	\$ 31,171	\$ 1,341	\$ 117,739
Property and equipment	153,756	68,272	4,583	226,611
Goodwill	54,714	77,909	1,584	134,207
Other intangible assets	73,609	23,426	3,465	100,500
Current liabilities	(47,313)	(15,490)	(2,306)	(65,109)
Long-term liabilities	(10,003)	(22,903)	(946)	(33,852)
Total cash consideration	\$ 309,990	\$ 162,385	\$ 7,721	\$ 480,096

Pursuant to the Company's plan to integrate the Linde Packaged Gas business into its regional company structure, the Company recorded accruals primarily associated with one-time severance benefits to acquired employees who were involuntarily terminated, facility exit related costs associated with exiting certain acquired facilities that overlap with the Company's existing operations and a multi-employer pension plan withdrawal liability associated with exiting certain union contracts. Payments related to these severance accruals will continue into early fiscal 2010. Of the \$3.6 million remaining facility exit accrual, \$2.9 million relates to the former Linde corporate headquarters. Other integration accruals of \$4.6 million consist primarily of the multi-employer pension accrual, which is expected to be paid during fiscal 2010 and 2011.

The table below summarizes the liabilities established through acquisition accounting, adjustments to these liabilities based on revisions to the Company's integration plan and the related payments made during fiscal 2008 and 2009.

<i>(In thousands)</i>	Severance Accruals	Facility Exit Accruals	Other Integration Accruals	Total Integration Accruals
Amounts originally included				
in acquisition accounting	\$ 5,265	\$ 5,700	\$ —	\$ 10,965
Payments	(2,781)	(873)	(962)	(4,616)
Adjustments	892	369	6,213	7,474
Balance at March 31, 2008	3,376	5,196	5,251	13,823
Payments	(2,577)	(1,637)	(839)	(5,053)
Adjustments	(640)	19	221	(400)
Balance at March 31, 2009	\$ 159	\$ 3,578	\$ 4,633	\$ 8,370

Pro Forma Operating Results

The following represents unaudited pro forma operating results as if the fiscal 2008 and 2007 acquisitions had occurred on April 1, 2006. The pro forma operating results were prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisitions been made as of April 1, 2006 or of results that may occur in the future.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

(In thousands, except per share amounts)	Unaudited Years Ended March 31,	
	2008	2007
Net sales	\$ 4,205,464	\$ 3,950,425
Net earnings	224,303	160,283
Diluted earnings per share	\$ 2.67	\$ 1.99

Fiscal 2007

During fiscal 2007, the Company purchased 13 businesses. The largest of the acquisitions was the U.S. bulk gas business of Linde (“Linde Bulk Gas”), purchased March 9, 2007. The acquisition included eight air separation units and related bulk gas business with about 300 employees and approximate historical annual revenues of \$176 million, net of sales to the Company. The acquired business was renamed “Airgas Merchant Gases” and now manages production, distribution and administrative functions for the air separation plants. In connection with the transaction, most of the acquired bulk gas customers and related service equipment were transferred to existing Distribution business units. Airgas Merchant Gases is reported in the Distribution business segment and operates principally as an internal supplier to the other business units within the Distribution business segment. Included in the All Other Operations business segment is the refrigerant products and services business acquired from CFC Refimax, LLC, with historical annual revenues of approximately \$25 million. The acquisition was integrated into the operations of Airgas Specialty Products and later transferred to the newly formed Airgas Refrigerants. The remaining fiscal 2007 acquisitions, with historical annual revenues of approximately \$142 million, were assumed by regional operating companies in the Distribution business segment. The Company acquired the businesses to expand its geographic coverage and strengthen its national network of branch store locations.

Purchase Price Allocation

The aggregate cash paid for the fiscal 2007 acquisitions and the settlement of holdback liabilities associated with certain prior year acquisitions was \$688 million. The Company negotiated the respective purchase prices of the businesses based on the expected cash flows to be derived from their operations after integration into the Company. The purchase price of each acquired business was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the dates of each respective acquisition. The purchase price allocations were based on preliminary estimates of fair value and were subject to revision as the Company finalized appraisals and other analyses. Goodwill associated with the fiscal 2007 acquisitions is deductible for income tax purposes. The table below summarizes the allocation of purchase price of all fiscal 2007 acquisitions as well as adjustments related to prior year acquisitions. Transaction costs of approximately \$5 million associated with the Linde Bulk Gas acquisition are reflected in current liabilities below.

(In thousands)	Linde Acquisition	Remaining Acquisitions		Total
	Distribution Business Segment	Distribution Business Segment	All Other Operations Business Segment	
Current assets, net	\$ 26,924	\$ 25,839	\$ 10,600	\$ 63,363
Property and equipment	302,388	66,248	1,977	370,613
Goodwill	166,920	73,784	19,890	260,594
Other intangible assets	16,700	21,842	6,000	44,542
Current liabilities	(16,254)	(19,484)	(3,555)	(39,293)
Long-term liabilities	(1,868)	(7,978)	(2,081)	(11,927)
Total cash consideration	\$ 494,810	\$ 160,251	\$ 32,831	\$ 687,892

Note 4**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 from \$360 million to \$345 million in March 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 transaction has been accounted for as a sale under the provisions of SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Under the Agreement, trade receivables are sold to bank conduits through a bankruptcy-remote special purpose entity, which is consolidated for financial reporting purposes. The difference between the proceeds from the sale and the carrying value of the receivables is recognized as “Discount on securitization of trade receivables” in the accompanying Consolidated Statements of Earnings and varies

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

on a monthly basis depending on the amount of receivables sold and market rates. The Company retains a subordinated interest in the receivables sold, which is recorded at the receivables' previous carrying value. Accordingly, the Company is exposed to credit risk associated with its retained interest in the receivables. The Company is not exposed to interest rate risk due to the short-term nature of the receivables and their general collectibility.

Subordinated retained interests of approximately \$148 million, net of an allowance for doubtful accounts of \$26.4 million, and \$164 million, net of an allowance for doubtful accounts of \$21.9 million, are included in trade receivables in the accompanying Consolidated Balance Sheets at March 31, 2009 and 2008, respectively. At March 31, 2009 and 2008, approximately 6.4% and 9.2%, respectively, of the accounts included in the retained interest were delinquent, as defined under the Agreement. Credit losses for the years ended March 31, 2009 and 2008 were \$22 million and \$14 million, respectively. On a monthly basis, management calculates the fair value of the retained interest based on management's best estimate of the undiscounted expected future cash collections on the receivables. Changes in the fair value are recognized as bad debt expense. Actual cash collections may differ from these estimates and would directly affect the fair value of the retained interest. In accordance with the servicing agreement, the Company continues to service, administer and collect the trade receivables on behalf of the bank conduits. The servicing fees charged to the bank conduits approximate the costs of collections. Accordingly, the net servicing asset is immaterial. The Company does not provide any financial guarantees of the bank conduits' obligations.

Note 5 Inventories, Net

Inventories, net, consist of:

<i>(In thousands)</i>		
March 31,	2009	2008
Hardgoods	\$ 249,125	\$ 275,611
Gases	141,320	55,121
	<u>\$ 390,445</u>	<u>\$ 330,732</u>

Hardgoods inventories determined using the LIFO inventory method totaled \$46 million at March 31, 2009 and \$50 million at March 31, 2008. The balance of the hardgoods inventories is valued using the FIFO and average-cost inventory methods. If the hardgoods inventories valued under the LIFO method had been valued using the FIFO method, the carrying value of hardgoods inventories would have been \$10.4 million higher at March 31, 2009 and \$8.5 million higher at March 31, 2008. Substantially all of the inventories are finished goods. The increase in gas inventories was primarily due to the acquisition of Refron, Inc. (see Note 3).

Note 6 Income Taxes

Earnings before income taxes and minority interest were derived from the following sources:

<i>(In thousands)</i>			
Years Ended March 31,	2009	2008	2007
United States	\$ 419,377	\$ 358,381	\$ 246,699
Foreign	9,976	12,381	10,445
	<u>\$ 429,353</u>	<u>\$ 370,762</u>	<u>\$ 257,144</u>

Income tax expense consists of:

<i>(In thousands)</i>			
Years Ended March 31,	2009	2008	2007
Current:			
Federal	\$ 52,562	\$ 60,221	\$ 41,760
Foreign	2,658	3,718	2,725
State	9,765	5,520	3,487
	<u>64,985</u>	<u>69,459</u>	<u>47,972</u>
Deferred:			
Federal	87,751	62,351	46,440
Foreign	562	484	491
State	14,967	11,890	4,980
	<u>103,280</u>	<u>74,725</u>	<u>51,911</u>
	<u>\$ 168,265</u>	<u>\$ 144,184</u>	<u>\$ 99,883</u>

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

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

Years Ended March 31,	2009	2008	2007
Taxes at U.S. federal statutory rate	35.0%	35.0%	35.0%
Increase (decrease) in income taxes resulting from:			
State income taxes, net of federal benefit	3.6%	3.3%	2.9%
Stock-based compensation expense	0.3%	0.3%	0.5%
Change in state tax law	0.1%	(0.3%)	(0.8%)
Other, net	0.2%	0.6%	1.2%
	39.2%	38.9%	38.8%

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

(In thousands) March 31,	2009	2008
Deferred Tax Assets:		
Inventories	\$ 17,190	\$ 10,881
Accounts receivable	368	(1,379)
Deferred rental income	17,198	14,480
Insurance reserves	14,087	9,864
Litigation settlement and other reserves	1,721	1,634
Asset retirement obligations	3,766	3,513
Stock-based compensation	13,555	8,801
Other	15,707	16,011
Net operating loss carryforwards	20,240	20,424
Valuation allowance	(6,211)	(5,098)
	97,621	79,131
Deferred Tax Liabilities:		
Plant and equipment	(517,225)	(414,961)
Intangible assets	(94,123)	(66,211)
Other	(17,296)	(15,483)
	(628,644)	(496,655)
Net deferred tax liability	\$ (531,023)	\$ (417,524)

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

(In thousands) March 31,	2009	2008
Current deferred tax asset, net	\$ 34,760	\$ 22,258
Non-current deferred tax liability, net	(565,783)	(439,782)
Net deferred tax liability	\$ (531,023)	\$ (417,524)

The Company has recorded tax benefits amounting to \$11.8 million, \$13.3 million and \$9.0 million in the years ended March 31, 2009, 2008 and 2007 respectively, resulting from the exercise of stock options. This benefit has been recorded in capital in excess of par value.

The Company has recorded deferred tax assets related to the expected future tax benefits of net operating losses of \$20.2 million and \$20.4 million as of March 31, 2009 and 2008, respectively. All federal loss carryforwards recorded in fiscal 2005 and 2006 were utilized in fiscal 2007. State loss carryforwards expire at various times through 2029.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences and carryforward deferred tax assets become deductible or utilized. Management considers the reversal of deferred tax liabilities and projected future taxable income in making this assessment.

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets reverse, at March 31, 2009, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances. Valuation allowances primarily relate to certain state net operating loss carryforwards. In fiscal 2009, the Company revised its estimates of the realizability of certain tax benefits associated with state net operating loss carryforwards. Those revisions, along with changes due to the realization and expiration of net operating loss carryforwards, resulted in a \$1.1 million increase in the related valuation allowance at March 31, 2009.

U.S. income taxes have not been provided on approximately \$57 million of undistributed earnings of non-U.S. subsidiaries because it is the Company's intention to continue to reinvest these earnings in those subsidiaries to support their growth. Due to the timing and circumstances of repatriation of such earnings, if any, it is not practicable to determine the unrecognized deferred tax liability relating to such amounts.

Effective April 1, 2007, the Company adopted FASB Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), which provides guidance on how a company should recognize, measure and disclose in its financial statements uncertain income tax positions that a company has taken or expects to take on a tax return. Unrecognized tax benefits represent income tax positions taken on income tax returns that have not been recognized in the consolidated financial statements. The adoption of FIN 48 in fiscal 2008 resulted in the Company recording a \$290 thousand incremental liability for unrecognized tax benefits and a corresponding reduction in retained earnings.

As of March 31, 2009, the Company has unrecognized tax benefits of approximately \$12 million, which have been recorded as a non-current liability, and a related \$4 million tax asset recorded in other non-current assets. If recognized, all of the unrecognized tax benefits and related interest and penalties would reduce tax expense. The Company does not anticipate significant changes in the amount of unrecognized income tax benefits over the next year.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

A reconciliation of the beginning and ending amount of unrecognized income tax benefits, excluding potential interest and penalties associated with uncertain tax positions, is as follows:

(In thousands)	
Unrecognized income tax benefits as of April 1, 2008	\$ 6,963
Additions for tax positions of prior years	518
Additions for current year tax positions	1,196
Reductions for settlements with taxing authorities	(175)
Reductions as a result of expiration of applicable statutes of limitations	(93)
Unrecognized income tax benefits as of March 31, 2009	<u>\$ 8,409</u>

Interest and penalties of \$800 thousand were recognized for the year ended March 31, 2009 and were classified as income tax expense in the consolidated financial statements. Consistent with past practice, the Company will continue to record interest and penalties associated with uncertain tax positions in income tax expense.

The Company files income tax returns in the United States and various foreign jurisdictions. The Company also files income tax returns in every state which imposes a corporate income tax. The Company is not under examination by the IRS or in any significant foreign, state and local tax jurisdictions. With limited exceptions, the Company is no longer subject to U.S. federal, state and local or foreign income tax examinations by tax authorities for years before fiscal 2006.

Note 7 Plant and Equipment

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

(In thousands)		Depreciable	
March 31,	Lives (Yrs)	2009	2008
Land and land improvements	—	\$ 145,412	\$ 118,019
Buildings and leasehold improvements	25	344,360	306,308
Cylinders	30	1,251,919	1,218,959
Bulk tank stations	10 to 30 (Average 19)	448,764	402,352
Rental equipment	3 to 10	222,302	199,794
Machinery and equipment	7 to 10	665,966	593,758
Computers, furniture and fixtures	3 to 10	152,059	146,387
Transportation equipment	3 to 15	230,435	200,892
Construction in progress	—	97,513	46,204
		<u>\$ 3,558,730</u>	<u>\$ 3,232,673</u>

Note 8 Goodwill and Other Intangible Assets

Goodwill is the excess of cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed in a purchase business combination. The valuations of goodwill and other intangible assets from recent acquisitions are based on preliminary estimates of fair value and are subject to revision as the Company finalizes appraisals and other analyses. As discussed in Note 1 and Note 23, in the fourth quarter of fiscal 2009, the Company realigned its business segments. The fiscal 2008 and 2007 disclosures by business segment below were restated to reflect the realignment. Changes in the carrying amount of goodwill for fiscal 2009 and 2008 were as follows:

(In thousands)	Distribution Business Segment	All Other Operations Business Segment	Total
Balance at March 31, 2007	\$ 714,600	\$ 117,562	\$ 832,162
Acquisitions	132,623	1,584	134,207
Other adjustments	2,539	151	2,690
Balance at March 31, 2008	849,762	119,297	969,059
Acquisitions	34,138	65,228	99,366
Other adjustments	(4,818)	(237)	(5,055)
Balance at March 31, 2009	<u>\$ 879,082</u>	<u>\$ 184,288</u>	<u>\$ 1,063,370</u>

Test for Goodwill Impairment

SFAS 142 requires the Company to perform an assessment of the carrying value of goodwill associated with each of its reporting units 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 assessment of the carrying value of goodwill as of October 31 of each year. As of October 31, 2008, the Company had 17 reporting units in the Distribution business segment and six reporting units in the All Other Operations business segment. The Company determined the estimated fair value of each of its reporting units as of October 31, 2008 using a discounted cash flow model and compared those values to the carrying value of each of the respective reporting units. Significant assumptions used in the cash flow model include revenue growth rates, profit margins, future capital expenditures, working capital needs, discount rates and perpetual growth rates. At October 31, 2008, the discount rates used in the model were 10% for the Distribution reporting units and 12% for the smaller reporting units in the All Other Operations business segment. 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 annual assessment of the carrying value of goodwill at October 31, 2008 indicated that the Company's carrying value of goodwill was not impaired.

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.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

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.

Other Intangible Assets

Other intangible assets that are not fully amortized amounted to \$216 million and \$149 million, net of accumulated amortization of \$39 million and \$28 million at March 31, 2009 and 2008, respectively. These intangible assets primarily consist of customer relationships, which are amortized over the estimated benefit periods which range from 7 to 17 years, and non-competition agreements, which are amortized over the term of the agreements. The determination of the estimated benefit period associated with customer relationships is based on the analysis of historical customer sales attrition information and other customer-related factors at the date of acquisition. There are no expected residual values related to these intangible assets. The Company evaluates the estimated benefit periods and recoverability of its intangible assets that are subject to amortization when facts and circumstances indicate that the lives may not be appropriate and/or the carrying value of the asset may not be recoverable. If the carrying value is not recoverable, impairment is measured as the amount by which the carrying value exceeds its estimated fair value. Fair value is generally estimated based on either appraised value or other valuation techniques. Intangible assets also include trade names with indefinite useful lives valued at \$1.3 million. Estimated future amortization expense by fiscal year is as follows: 2010 – \$24.0 million; 2011 – \$23.4 million; 2012 – \$22.1 million; 2013 – \$21.3 million; 2014 – \$19.0 million; and \$105.0 million thereafter.

Note 9**Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities include:

<i>(In thousands)</i>		2009	2008
March 31,			
Accrued payroll and employee benefits	\$	80,630	\$ 86,490
Business insurance reserves		44,986	37,433
Taxes other than income taxes		17,098	22,628
Cash overdraft		42,933	56,739
Deferred rental revenue		25,611	22,641
Other accrued expenses and current liabilities		53,306	62,952
	\$	<u>264,564</u>	<u>\$ 288,883</u>

With respect to the business insurance reserves above, the Company had corresponding insurance receivables of \$9.7 million at March 31, 2009 and \$8.0 million at March 31, 2008. The insurance receivables represent the balance of probable claim losses in excess of the Company's self-insured retention for which the Company is fully insured.

Note 10**Indebtedness**

Long-term debt consists of:

<i>(In thousands)</i>		2009	2008
March 31,			
Revolving credit borrowings — U.S.	\$	751,200	\$ 859,500
Revolving credit borrowings — Multi-currency		23,712	—
Revolving credit borrowings — Canadian		14,660	23,791
Term loans		397,500	487,500
Money market loan		—	30,000
Senior subordinated notes		550,000	150,000
Acquisition notes and other		24,294	29,257
Total long-term debt		<u>1,761,366</u>	<u>1,580,048</u>
Less current portion of long-term debt		<u>(11,058)</u>	<u>(40,400)</u>
Long-term debt, excluding current portion	\$	<u>1,750,308</u>	<u>\$ 1,539,648</u>

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 that the total size of the Company's Credit Facility was not changed.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

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 revolver, \$24 million (in U.S. dollars) under the multi-currency revolver, C\$18 million (U.S. \$15 million) under the Canadian dollar revolver 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 the London Interbank Offered Rate (“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.

As of March 31, 2009, approximately \$266 million remained unused under the Company’s Credit Facility. 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. 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 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.

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 the 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 the 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 senior subordinated notes (the “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 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, commencing October 1, 2008. 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.

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Airgas, Inc. and Subsidiaries

Acquisition Notes and Other

The Company's long-term debt also included 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.

Loss on Debt Extinguishment

On October 27, 2006, the Company redeemed its \$225 million 9.125% senior subordinated notes in full at a premium of 104.563% of the principal amount with proceeds from the Company's Credit Facility. In conjunction with the redemption of the notes, the Company recognized a charge on the early extinguishment of debt of approximately \$12.1 million (\$7.9 million after tax) in October 2006. The charge relates to the redemption premium and the write-off of unamortized debt issuance costs.

Aggregate Long-term Debt Maturities

The aggregate maturities of long-term debt at March 31, 2009 are as follows:

<i>(In thousands)</i> Years Ending March 31, ⁽¹⁾	Debt Maturities
2010	\$ 11,058
2011	244,212
2012	954,126
2013	719
2014	511
Thereafter	550,740
	<u>\$ 1,761,366</u>

(1) The Company has the ability and intention of refinancing current maturities related to the term loans under its Credit Facility with its long-term revolving credit line. Therefore, principal payments due in fiscal 2010 on the term loans have been reflected as long-term in the aggregate maturity schedule.

Note 11**Derivative Instruments and Hedging Activities**

The Company manages its exposure to changes in market interest rates. The Company's involvement with derivative instruments is limited to highly effective fixed 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.

SFAS 133 requires companies to recognize certain derivative instruments as either assets or liabilities at fair value in the statement of financial position. In accordance with SFAS 133, the Company designates fixed interest rate swap agreements as cash flow hedges of interest payments on variable-rate debt associated with the Company's Credit Facility. For derivative instruments designated as cash flow hedges, the effective portion of the gain or

loss on the derivative is reported as a component of accumulated other comprehensive income (AOCI) and reclassified into earnings in the same period or periods during which the hedge transaction affects earnings. Gains and losses on the derivative representing hedge ineffectiveness are recognized in current earnings.

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.

As denoted in the tables below, the Company's interest rate swap agreements were reflected in the Consolidated Balance Sheets at March 31, 2009 and March 31, 2008 as liabilities at their fair values of \$12.5 million and \$20.8 million, respectively, with corresponding deferred tax assets of \$4.4 million and \$7.3 million and accumulated other comprehensive losses after tax of \$8.1 million and \$13.5 million, respectively. The estimated net amount of existing losses recorded in Accumulated Other Comprehensive Loss at March 31, 2009 that is expected to be reclassified into earnings within the next twelve months is \$6.5 million, net of estimated tax benefits of \$3.5 million.

Fair Value of Derivatives Designated as Hedging Instruments

<i>(In thousands)</i>	March 31, 2009		March 31, 2008	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swaps	Other non-current liabilities	\$ 12,525	Other non-current liabilities	\$ 20,849

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Effect of Derivative Instruments on the Consolidated Statements of Earnings*(In thousands)*

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives		
	Years Ended March 31,		
	2009	2008	2007
Interest rate swaps	\$ 8,325	\$ (20,956)	\$ (850)
Tax (expense) benefit	(2,914)	7,322	280
Net effect	\$ 5,411	\$ (13,634)	\$ (570)

Location of Gain (Loss) Reclassified from AOCI into Income for Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Reclassified from AOCI into Income		
	Years Ended March 31,		
	2009	2008	2007
Interest expense, net	\$ (13,130)	\$ 63	\$ 1,375
Income taxes	4,596	(22)	(481)
Net effect	\$ (8,534)	\$ 41	\$ 894

The amount of gain or loss recognized in current earnings as a result of hedge ineffectiveness is immaterial for the years ended March 31, 2009, 2008 and 2007.

Note 12**Fair Value of Financial Instruments**

Effective April 1, 2008, the Company adopted SFAS 157. SFAS 157 does 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.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities recorded at fair value in accordance with SFAS 157 are classified based upon the level of judgment associated with the inputs used to measure their fair value. The hierarchical levels related to the subjectivity of the valuation inputs are defined by SFAS 157 as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable, directly or indirectly through corroboration with observable market data at the measurement date.
- Level 3 inputs are unobservable inputs that reflect management's best estimate of the assumptions (including assumptions about risk) that market participants would use in pricing the asset or liability at the measurement date.

The carrying value of cash, trade receivables exclusive of the subordinated retained interest, other current receivables, trade payables and other current liabilities (e.g., deposit liabilities, cash overdrafts, etc.) approximate fair value and such items have not been impacted by the adoption of SFAS 157.

Assets and liabilities measured at fair value on a recurring basis at March 31, 2009 are categorized in the table below based on the lowest level of significant input to the valuation.

<i>(In thousands)</i>	Carrying value at March 31, 2009	Quoted prices in active markets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets:				
Subordinated retained interest in trade receivables sold under the Company's trade receivable securitization	\$ 147,853	\$ —	\$ —	\$ 147,853
Deferred compensation plan assets	4,598	4,598	—	—
Total assets measured at fair value on a recurring basis	\$ 152,451	\$ 4,598	\$ —	\$ 147,853
Liabilities:				
Deferred compensation plan liabilities	\$ 4,598	\$ 4,598	\$ —	\$ —
Derivative liabilities — interest rate swap agreements	12,525	—	12,525	—
Total liabilities measured at fair value on a recurring basis	\$ 17,123	\$ 4,598	\$ 12,525	\$ —

The following is a general description of the valuation methodologies used for financial assets and liabilities measured at fair value:

Subordinated retained interest

The Company's subordinated retained interest in trade receivables sold under its trade receivable securitization agreement is classified as "Trade receivables" on the Consolidated Balance Sheets. The Company maintains an allowance for doubtful accounts of \$26.4 million and \$21.9 million at March 31, 2009 and 2008, respectively, related to the subordinated retained interests to adjust the carrying value to fair value. The fair value of the subordinated retained interest reflects management's best estimate of the undiscounted expected future cash flows adjusted for unobservable inputs (Level 3), which management believes a market participant would use to assess the risk of credit losses. Those inputs reflect the diversified customer base, the short-term nature of the securitized asset, aging trends and historical collections experience. Adjustments to the fair value of the Company's retained interest are recorded through the Consolidated Statement of Earnings as bad debt expense. The Company believes that the fair value of the subordinated retained interest in trade receivables reflects the amount expected to be realized when the receivables are ultimately settled.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Deferred compensation plan assets and corresponding liabilities

The Company's deferred compensation plan assets consist of exchange traded open-ended mutual funds with quoted prices in active markets (Level 1). The Company's deferred compensation plan liabilities are equal to the plan's assets. Gains or losses on the deferred compensation plan assets are recognized as other income (expense), net, while gains or losses on the deferred compensation plan liabilities are recognized as compensation expense in the Consolidated Statement of Earnings.

Derivative liabilities—interest rate swap agreements

The Company's interest rate swap agreements are with highly rated counterparties and effectively convert variable rate debt to fixed rate debt. The swap agreements are valued using pricing models that rely on observable market inputs such as interest rate yield curves and treasury spreads (Level 2). Changes to the fair value measurement of the Company's interest rate swap agreements are reported on the Consolidated Balance Sheet through "Accumulated Other Comprehensive Loss."

The following table presents the changes in financial assets for which Level 3 inputs were significant to their valuation for the year ended March 31, 2009:

<i>(In thousands)</i>	Subordinated retained interest
Balance at April 1, 2008	\$ 163,561
Net realized losses included in earnings (bad debt expense)	(22,026)
Additional retained interest, net	6,318
Balance at March 31, 2009	<u>\$ 147,853</u>

The carrying value of debt generally reflects the cash proceeds received upon its issuance, net of subsequent repayments. The fair value of the Company's variable interest rate revolving credit borrowings and term loans disclosed in the table below were estimated based on observable forward yield curves and unobservable credit spreads management believes a market participant would assume for these facilities under market conditions as of the balance sheet date. The fair value of the fixed rate notes disclosed below were determined based on quoted prices from the broker/dealer market, observable market inputs for similarly termed treasury notes adjusted for the Company's credit spread and unobservable inputs management believes a market participant would use in determining imputed interest for obligations without a stated interest rate.

<i>(In thousands)</i>	Carrying Value at March 31, 2009	Fair Value at March 31, 2009	Carrying Value at March 31, 2008	Fair Value at March 31, 2008
Revolving credit				
borrowings	\$ 789,572	\$ 757,989	\$ 883,291	\$ 883,291
Term loans	397,500	381,600	487,500	487,500
Money market loans	—	—	30,000	30,000
2004 Notes	150,000	139,500	150,000	148,125
2008 Notes	400,000	378,000	—	—
Acquisition and				
other notes	24,294	24,294	29,257	29,662
Total debt	<u>\$ 1,761,366</u>	<u>\$ 1,681,383</u>	<u>\$ 1,580,048</u>	<u>\$ 1,578,578</u>

Note 13**National Welders Exchange Transaction**

Since the December 2003 adoption of FIN 46R, *Consolidation of Variable Interest Entities*, the Company's National Welders joint venture was consolidated with the operations of the Company. As a consolidated entity, the assets and liabilities of the joint venture were included with the Company's assets and liabilities and the preferred stockholders' interest in those assets and liabilities was reflected as "Minority interest in affiliate" on the Company's Consolidated Balance Sheet. Likewise, the operating results of the joint venture were reflected broadly across the Consolidated Statement of Earnings with the preferred stockholders' proportionate share of the joint venture's operating results reflected, net of tax, as "Minority interest in earnings of consolidated affiliate."

On July 3, 2007, the preferred stockholders of the National Welders joint venture exchanged their preferred stock for common stock of Airgas (the "NWS Exchange Transaction"). The Company issued 2.471 million shares of Airgas common stock to the preferred stockholders in exchange for all 3.2 million preferred shares of National Welders. As part of the negotiated exchange, the Company issued an additional 144 thousand shares (included in the 2.471 million shares) of Airgas common stock to the preferred shareholders, which resulted in a one-time net after-tax charge of \$2.5 million, or \$0.03 per diluted share. The net after-tax charge was reflected in the Consolidated Statement of Earnings as "Minority interest in earnings of consolidated affiliate" and consisted of \$7 million related to the additional shares issued net of the reversal of a deferred tax liability related to the undistributed earnings of the National Welders joint venture of \$4.5 million. Upon the exchange, National Welders became a 100% owned subsidiary of Airgas.

Note 14

Stockholders' Equity

Common Stock

The Company is authorized to issue up to 200 million shares of common stock with a par value of \$0.01 per share. At March 31, 2009, the number of shares of common stock outstanding was 81.4 million, excluding 4.1 million shares of common stock held as treasury stock. At March 31, 2008, the number of shares of common stock outstanding was 82.3 million, excluding 1.8 million shares of common stock held as treasury stock.

Preferred Stock and Redeemable Preferred Stock

The Company is authorized to issue up to 20 million shares of preferred stock. Of the 20 million shares authorized, 200 thousand shares have been designated as Series A Junior Participating Preferred Stock, 200 thousand shares have been designated as Series B Junior Participating Preferred Stock and 200 thousand shares have been designated as Series C Junior Participating Preferred Stock (see *Stockholder Rights Plan* below). At March 31, 2009 and 2008, no shares of the preferred stock were issued or outstanding. The preferred stock may be issued from time to time by the Company's Board of Directors in one or more series. The Board of Directors is authorized to fix the dividend rights and terms, conversion rights, voting rights, rights and terms of redemption, liquidation preferences, and any other rights, preferences, privileges and restrictions of any series of preferred stock, and the number of shares constituting such series and designation thereof.

Additionally, the Company is authorized to issue 30 thousand shares of redeemable preferred stock. At March 31, 2009 and 2008, no shares of redeemable preferred stock were issued or outstanding.

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. 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.

Stockholder Rights Plan

Effective May 8, 2007, the Company's Board of Directors adopted a stockholder rights plan (the "2007 Rights Plan"). Pursuant to the 2007 Rights Plan, the Board of Directors declared a dividend distribution of one right for each share of common stock. Each right entitles the holder to purchase from the Company one ten-thou-

sandth of a share of Series C Junior Participating Preferred Stock at an initial exercise price of \$230 per share. The 2007 Rights Plan is intended to assure that all of the Company's stockholders receive fair and equal treatment in the event of any proposed takeover of the Company and to protect stockholders' interests in the event the Company is confronted with partial tender offers or other coercive or unfair takeover tactics.

Rights become exercisable after ten days following the acquisition by a person or group of 15% (or 20% in the case of Peter McCausland and certain of his affiliates) or more of the Company's outstanding common stock, or ten business days (or later if determined by the Board of Directors in accordance with the plan) after the announcement of a tender offer or exchange offer to acquire 15% (or 20% in the case of Peter McCausland and certain of his affiliates) or more of the outstanding common stock. If such a person or group acquires 15% or more (or 20% or more, as the case may be) of the common stock, each right (other than such person's or group's rights, which will become void) will entitle the holder to purchase, at the exercise price, common stock having a market value equal to twice the exercise price. In certain circumstances, the rights may be redeemed by the Company at an initial redemption price of \$0.0001 per right. If not redeemed, the rights will expire on May 8, 2017.

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 announced the reinstatement of its Repurchase Plan. During fiscal 2009 and 2008, 2.4 million and 496 thousand shares were repurchased for \$115.6 million and \$21.6 million, respectively. Since inception, a total of 4.1 million shares have been repurchased under the plan for \$150 million satisfying the original \$150 million authorized for common stock repurchase.

Comprehensive Income

The Company's comprehensive income was \$255 million, \$214 million and \$154 million for the years ended March 31, 2009, 2008 and 2007, respectively. Comprehensive income consists of net earnings, foreign currency translation adjustments, the net change in the fair value of interest rate swaps and the net tax expense or benefit of other comprehensive income items. Net tax expense or benefit of comprehensive income items pertains to the Company's interest rate swap agreements only, as foreign currency translation adjustments relate to permanent investments in foreign subsidiaries. The net change in the fair value of interest rate swaps reflects valuation adjustments for changes in interest rates, as well as cash settlements with the counterparties.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Note 15

Stock-Based Compensation

The Company adopted SFAS No. 123R, *Share-Based Payment* (“SFAS 123R”), effective April 1, 2006 using the modified prospective method. Under the modified prospective method, stock-based compensation recognized since the date of adoption includes: (a) any share-based payments granted subsequent to the date of adoption, and (b) any portion of share-based payments granted prior to the date of adoption that vests subsequent to the date of adoption.

(In thousands)

Years Ended March 31,	2009	2008	2007
Stock-based compensation expense related to:			
Stock option plans	\$ 14,863	\$ 12,660	\$ 12,164
Employee Stock Purchase Plan — options to purchase stock	5,772	3,969	3,281
	20,635	16,629	15,445
Tax benefit	(6,544)	(5,282)	(4,589)
Stock-based compensation expense, net of tax	\$ 14,091	\$ 11,347	\$ 10,856

2006 Equity Incentive Plan

The 2006 Equity Incentive Plan (the “2006 Equity Plan”) was approved by the Company’s stockholders in August 2006. At March 31, 2009, a total of 11.8 million shares were authorized under the 2006 Equity Plan for grants of stock options and restricted stock to employees and directors of the Company, of which 2.4 million shares of common stock were available for issuance.

Stock options granted prior to fiscal 2007 vest 25% annually and have a maximum term of ten years. Stock options granted subsequent to April 1, 2006 also vest 25% annually and have a maximum term of eight years.

Fair Value

The Company utilizes the Black-Scholes option pricing model to determine the fair value of stock options under SFAS 123R. The weighted-average grant date fair value of stock options granted during the fiscal years ended March 31, 2009, 2008 and 2007 was \$18.17, \$15.27 and \$13.75, respectively. The following assumptions were used by the Company in valuing the stock option grants issued in each fiscal year:

	Fiscal 2009	Fiscal 2008	Fiscal 2007
Stock Option Grant Assumptions:			
Expected volatility	29.6%	30.8%	36.2%
Expected dividend yield	0.90%	0.82%	0.80%
Expected term	5.6 years	5.6 years	5.4 years
Risk-free interest rate	3.2%	4.7%	5.0%

The expected volatility assumption used in valuing stock options was determined based on anticipated changes in the underlying stock price over the expected term using historical daily changes of the Company’s closing stock price. The expected dividend yield was based on the Company’s history and expectation of future

dividend payouts. The expected term represents the period of time that the options are expected to be outstanding prior to exercise or forfeiture. The expected term was determined based on historical exercise patterns. The risk-free interest rate was based on U.S. Treasury rates in effect at the time of grant commensurate with the expected term.

Summary of Stock Option Activity

The following table summarizes the stock option activity during the three years ended March 31, 2009:

	Number of Stock Options	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value (In thousands)
Outstanding at March 31, 2006	6,993,818	\$ 16.37	
Granted	991,440	\$ 36.19	
Exercised	(967,590) ⁽¹⁾	\$ 15.91	
Forfeited	(134,694)	\$ 26.09	
Outstanding at March 31, 2007	6,882,974	\$ 19.12	\$ 158,515
Granted	1,082,550	\$ 43.94	
Exercised	(1,238,457)	\$ 16.46	
Forfeited	(94,364)	\$ 32.18	
Outstanding at March 31, 2008	6,632,703	\$ 23.52	\$ 145,588
Granted	1,120,273	\$ 59.67	
Exercised	(1,027,129)	\$ 15.76	
Forfeited	(85,478)	\$ 31.63	
Outstanding at March 31, 2009	<u>6,640,369</u>	\$ 30.71	\$ 60,142
Vested or expected to vest as of March 31, 2009	<u>6,109,139</u>	\$ 30.71	\$ 59,988
Exercisable as of March 31, 2009	<u>3,458,387</u>	\$ 21.21	\$ 58,217

(1) Actual shares issued associated with stock option exercises was 960 thousand due to a net share issue exercise.

The aggregate intrinsic value represents the difference between the Company’s closing stock price on the last trading day of each fiscal year and the exercise price of in the money stock options multiplied by the number of stock options outstanding or exercisable as of that date. The total intrinsic value of stock options exercised during the years ended March 31, 2009, 2008 and 2007 was \$33.1 million, \$37.0 million and \$22.7 million, respectively. The weighted-average remaining contractual term of stock options outstanding as of March 31, 2009 was 4.94 years. Common stock to be issued in conjunction with future stock option exercises will be obtained from either new shares or shares from treasury stock.

As of March 31, 2009, \$25.2 million of unrecognized compensation expense related to non-vested stock options is expected to be recognized over a weighted-average vesting period of 1.7 years.

Employee Stock Purchase Plan

The Company’s Employee Stock Purchase Plan (the “ESPP”) encourages and assists employees in acquiring an equity interest in the Company. The ESPP is authorized to issue up to 3.5 million shares of Company common stock, of which 967 thousand shares were available for issuance at March 31, 2009.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Under the terms of the ESPP, eligible employees may elect to have up to 15% of their annual gross earnings withheld to purchase common stock at 85% of the market value. Employee purchases are limited in any calendar year to an aggregate market value of \$25,000. Market value under the ESPP is defined as either the closing share price on the New York Stock Exchange as of an employee's enrollment date or the closing price on the first business day of a fiscal quarter when the shares are purchased, whichever is lower. An employee may lock-in a purchase price for up to 12 months. The ESPP effectively resets at the beginning of each fiscal year at which time employees are re-enrolled in the plan and a new 12-month purchase price is established. The ESPP is designed to comply with the requirements of Sections 421 and 423 of the Internal Revenue Code.

Compensation expense under SFAS 123R is measured based on the fair value of the employees' option to purchase shares of common stock at the grant date and is recognized over the future periods in which the related employee service is rendered. The fair value per share of employee options to purchase shares under the ESPP was \$12.46, \$9.61 and \$8.30 for the years ended March 31, 2009, 2008 and 2007, respectively. The fair value of the employees' option to purchase shares of common stock was estimated using the Black-Scholes model. The following assumptions were used by the Company in valuing the employees' option to purchase shares of common stock under the ESPP:

	Fiscal 2009	Fiscal 2008	Fiscal 2007
Expected volatility	61.3%	23.6%	30.8%
Expected dividend yield	1.07%	0.86%	0.73%
Expected term	3 to 6 months	3 to 12 months	2 to 8 months
Risk-free interest rate	1.7%	5.0%	5.0%

The following table summarizes the activity of the ESPP during the three years ended March 31, 2009:

	Number of Purchase Options	Weighted- Average Exercise Price Per Share	Aggregate Intrinsic Value <i>(In thousands)</i>
Outstanding at March 31, 2006	137,687	\$ 20.50	
Granted	395,587	\$ 31.10	
Exercised	(430,519)	\$ 27.76	
Outstanding at March 31, 2007	102,755	\$ 30.86	\$ 1,160
Granted	412,917	\$ 36.00	
Exercised	(407,038)	\$ 34.62	
Outstanding at March 31, 2008	108,634	\$ 36.21	\$ 1,006
Granted	463,443	\$ 35.52	
Exercised	(439,325)	\$ 37.57	
Outstanding at March 31, 2009	132,752	\$ 29.30	\$ 599

Note 16 Interest Expense, Net

Interest expense, net, consists of:

<i>(In thousands)</i>			
Years Ended March 31,	2009	2008	2007
Interest expense	\$ 87,142	\$ 92,210	\$ 62,095
Interest and finance charge (income)	(2,747)	(2,725)	(1,915)
	\$ 84,395	\$ 89,485	\$ 60,180

Note 17 Earnings Per Share

Basic earnings per share is calculated by dividing net earnings by the weighted average number of shares of the Company's common stock outstanding during the period. Outstanding shares consist of issued shares less treasury stock. Diluted earnings per share is calculated by dividing net earnings by the weighted average common shares outstanding adjusted for the dilutive effect of common stock equivalents related to stock options and the Company's ESPP. For periods prior to the July 3, 2007 NWS Exchange Transaction, the calculation of diluted earnings per share also assumed the conversion of National Welders' preferred stock to Airgas common stock (see Note 1 to the table below).

Outstanding stock options that are anti-dilutive are excluded from the Company's diluted earnings per share computation. There were approximately 1.9 million, 1.3 million, and 780 thousand outstanding stock options that were not dilutive for the years ended March 31, 2009, 2008, and 2007, respectively.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

The table below presents the computation of basic and diluted earnings per share for the years ended March 31, 2009, 2008 and 2007:

(In thousands, except per share amounts)

Years Ended March 31,	2009	2008	2007
Basic Earnings per Share Computation			
Numerator:			
Net earnings	\$ 261,088	\$ 223,348	\$ 154,416
Denominator:			
Basic shares outstanding	81,926	81,402	78,025
Basic net earnings per share	\$ 3.19	\$ 2.74	\$ 1.98

Years Ended March 31,	2009	2008 ⁽²⁾	2007 ⁽¹⁾
Diluted Earnings per Share Computation			
Numerator:			
Net earnings	\$ 261,088	\$ 223,348	\$ 154,416
Plus: Preferred stock dividends	—	711	2,845
Plus: Income taxes on earnings of National Welders	—	245	1,166
Net earnings assuming preferred stock conversion	\$ 261,088	\$ 224,304	\$ 158,427
Denominator:			
Basic shares outstanding	81,926	81,402	78,025
Incremental shares from assumed exercises and conversions:			
Stock options and options under the Employee Stock Purchase Plan	1,890	2,242	2,214
Preferred stock of National Welders	—	591	2,327
Diluted shares outstanding	83,816	84,235	82,566
Diluted net earnings per share	\$ 3.12	\$ 2.66	\$ 1.92

(1) On July 3, 2007, the preferred stockholders of the National Welders joint venture exchanged their preferred stock for common stock of Airgas (see Note 13). Prior to July 3, 2007, the preferred stockholders of National Welders had the option to exchange their 3.2 million preferred shares of National Welders either for cash at a price of \$17.78 per share or for approximately 2.3 million shares of Airgas common stock. If Airgas common stock had a market value of \$24.45 per share or greater, exchange of the preferred stock for Airgas common stock was assumed because it provided greater value to the preferred stockholders. Based on the assumed exchange of the preferred stock for Airgas common stock, the 2.3 million shares were included in the diluted shares outstanding.

The National Welders preferred stockholders earned a 5% dividend, recognized as "Minority interest in earnings of consolidated affiliate" in the Consolidated Statement of Earnings. Upon the exchange of the preferred stock for Airgas common stock, the dividend was no longer paid to the preferred stockholders, resulting in additional net earnings for Airgas. For the periods in which the exchange was assumed, the 5% preferred stock dividend was added back to net earnings in the diluted earnings per share computation.

For periods prior to the NWS Exchange Transaction, the earnings of National Welders for tax purposes were treated as a deemed dividend to Airgas, net of an 80% dividend exclusion. Upon the exchange of National Welders preferred stock for Airgas common stock, National Welders became a 100% owned subsidiary of Airgas. As a 100% owned subsidiary, the net earnings of National Welders are not subject to additional tax at the Airgas level. For the period in which the exchange was assumed, the additional tax was added back to net earnings in the diluted earnings per share computation.

(2) The diluted earnings per share computation for the year ended March 31, 2008 includes the effect of the items described in (1) above, weighted to reflect the impact of the NWS Exchange Transaction.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Note 18
Leases

The Company leases certain distribution facilities, fleet vehicles and equipment under long term operating leases with varying terms. Most leases contain renewal options and in some instances, purchase options. Rentals under these operating leases for the years ended March 31, 2009, 2008, and 2007, totaled approximately \$99 million, \$96 million, and \$79 million, respectively. Certain operating facilities are leased at market rates from employees of the Company who were previous owners of businesses acquired. Outstanding capital lease obligations and the related capital assets are not material to the consolidated balance sheets at March 31, 2009 and 2008. In connection with the fleet vehicle operating leases, the Company guarantees a residual value of \$29 million, representing approximately 16% of the original cost.

At March 31, 2009, future minimum lease payments under non-cancelable operating leases were as follows:

(In thousands)

<u>Years Ending March 31,</u>	
2010	\$ 83,948
2011	71,307
2012	56,744
2013	37,407
2014	20,128
Thereafter	25,500
	<u>\$ 295,034</u>

Note 19
Commitments and Contingencies**Legal**

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

Insurance Coverage

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. The Company believes its insurance reserves are adequate. The Company accrues estimated losses using actuarial models and assumptions based on historical loss experience. The nature of the Company's business may subject it to product and general liability lawsuits. To the extent that the Company is subject to claims that exceed its liability insurance coverage, such suits could have a material adverse effect on the Company's financial position, results of operations or liquidity.

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

Supply Agreements

The Company purchases bulk quantities of industrial gases under long-term take-or-pay supply agreements. The Company is a party to a long-term take-or-pay supply agreement, in effect through August 2017, under which Air Products and Chemicals, Inc. ("Air Products") will supply the Company with bulk nitrogen, oxygen and argon. Additionally, the Company has commitments to purchase helium and hydrogen from Air Products under the terms of the take-or-pay supply agreement. The Company is committed to purchase approximately \$55 million annually in bulk gases under the Air Products supply agreement. 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 annual purchase commitments above reflect estimates based on fiscal 2009 purchases.

The Company also purchases liquid carbon dioxide and ammonia under take-or-pay supply agreements. 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 and represent approximately \$18 million in annual purchases. The Company purchases ammonia from a variety of sources and is obligated to purchase approximately \$2 million annually under these contracts. The annual purchase commitments reflect estimates based on fiscal 2009 purchases.

The supply agreements noted above contain periodic pricing adjustments based on certain economic indices and market analyses. 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 above due to fluctuations in demand requirements related to varying sales levels as well as changes in economic conditions. The Company believes that if a long-term supply agreement with a major supplier of gases or other raw materials was terminated, it would look to utilize excess internal production capacity and to locate alternative sources of supply to meet customer requirements. The Company

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

purchases hardgoods from major manufacturers and suppliers. For certain products, the Company has negotiated national purchasing arrangements. The Company believes that if an arrangement with any supplier of hardgoods was terminated, it would be able to negotiate comparable alternative supply arrangements.

Construction Commitments

At March 31, 2009, the Company's remaining construction commitments totaled approximately \$10 million. Construction commitments represent outstanding commitments to customers primarily to construct a raw liquid carbon dioxide plant in Camilla, GA. The Camilla, GA plant is expected to be completed in mid-fiscal 2010.

Letters of Credit

At March 31, 2009, the Company had outstanding letters of credit of approximately \$42 million. 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.

Note 20
Benefit Plans

The Company has a defined contribution 401(k) plan (the "401(k) plan") covering substantially all full time employees. Under the terms of the 401(k) plan, the Company makes matching contributions of up to two percent of participant's wages. Amounts expensed under the 401(k) plan for fiscal 2009, 2008 and 2007 were \$8.6 million, \$6.9 million and \$5.8 million, respectively.

The Company participates in several multi-employer pension plans providing defined benefits to union employees under the provisions of collective bargaining agreements. Contributions are made to the plans in accordance with negotiated collective bargaining agreements. The plans generally provide retirement benefits to participants based on their service to contributing employers. The Company contributed \$753 thousand, \$893 thousand and \$1.2 million to these plans in fiscal 2009, 2008 and 2007, respectively.

During fiscal 2009 and 2008, in connection with negotiated changes in collective bargaining agreements, the Company is no longer required to make contributions to certain pension funds. The Company believes that it has triggered a partial withdrawal liability for certain plans and has recorded estimated accruals totaling \$6.2 million. If the Company elected to withdraw from all of its multi-employer pension plans, the additional withdrawal liability at March 31, 2009 is estimated to be \$6 million. Though the latest information available to the Company from the plans was used in computing this estimate, it is not current and does not reflect the market conditions that impacted calendar 2008 and is calculated with numerous assumptions, including investment returns, benefit levels and continued participation by other companies that are in the plans.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Note 21
Related Parties

The Company purchases and sells goods and services in the ordinary course of business with certain corporations in which some of its directors are officers or directors. The Company also leases certain operating facilities from employees who were previous owners of businesses acquired. Payments made to related parties for fiscal 2009, 2008, and 2007 were \$3.5 million, \$1.1 million and \$843 thousand, respectively. Amounts paid to related parties represented values considered fair and reasonable and reflective of arm's length transactions.

Note 22
Supplemental Cash Flow Information**Cash Paid for Interest and Taxes**

Cash paid for interest and income taxes was as follows:

<i>(In thousands)</i>			
Years Ended March 31,	2009	2008	2007
Interest paid	\$ 75,630	\$ 93,076	\$ 71,965
Discount on securitization	10,738	17,031	13,630
Income taxes (net of refunds)	64,616	52,254	50,021

Significant Non-cash Investing and Financing Transactions

During the years ended March 31, 2009, 2008 and 2007, the Company purchased \$7.3 million, \$13.7 million and \$5.3 million, respectively, of rental welders, which were financed directly by a vendor. The vendor financing was reflected as long-term debt on the respective Consolidated Balance Sheets. Future cash payments in settlement of the debt will be reflected in the Consolidated Statement of Cash Flows when paid.

During the years ended March 31, 2009, 2008 and 2007, the Company recorded capitalized interest for construction in progress of \$3.4 million, \$1.6 million and \$502 thousand, respectively.

In connection with the NWS Exchange Transaction (see Note 13), the Company issued 2.471 million shares of common stock valued at approximately \$64 million in a non-cash transaction in exchange for the preferred stock of National Welders.

In an acquisition consummated during fiscal 2008, a seller of a business provided direct financing in the form of a \$5 million note payable by the Company. Approximately \$3 million was outstanding on the note at March 31, 2009. Payment of the note will be reflected in the Consolidated Statement of Cash Flows when the cash is paid. In addition, the Company assumed capital lease obligations of \$1.8 million in connection with an acquisition.

In March 2008, the Company executed a \$4.6 million purchase transaction of its common stock under its Repurchase Plan (see Note 14) that settled in April 2008. The purchase was a non-cash financing transaction that was recognized in treasury stock and as an accrued liability on the March 31, 2008 Consolidated Balance Sheet.

Note 23
Summary by Business Segment

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 from fiscal 2008 and 2007 was restated to reflect these changes.

The Distribution business segment's principal products include industrial, medical and specialty gases sold in packaged and bulk quantities, as well as hardgoods. The Company's air separation production facilities and national specialty gas labs primarily produce these gases for sale through the regional distribution companies. Business units in the Distribution business segment also recognize rental revenue and distribute hardgoods. Gas sales include nitrogen, oxygen, argon, helium, hydrogen, propylene, propane welding and fuel gases such as acetylene, carbon dioxide, nitrous oxide, ultra high purity grades, special application blends and process chemicals. Rent is derived from gas cylinders, cryogenic liquid containers, bulk storage tanks, tube trailers and through the rental of welding and welding related equipment. Gas and rent represented 57%, 56% and 53% of the Distribution business segment's sales in each of fiscal 2009, 2008 and 2007, respectively. Hardgoods consist of welding consumables and equipment, safety products, construction supplies and MRO supplies. In fiscal 2009, 2008 and 2007, hardgoods sales represented 43%, 44% and 47%, respectively, of the Distribution business segment's sales. During fiscal 2009, 2008 and 2007, the Distribution business segment accounted for approximately 90% of consolidated sales.

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 business units reflected in the All Other Operations business segment individually do not meet the thresholds to be reported as separate business segments. Elimination entries represent intercompany sales from the Company's All Other Operations business segment to its Distribution business segment.

The Company's operations are predominantly in the United States. However, the Company does conduct operations outside of the United States, principally in Canada and to a lesser extent Mexico,

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Russia, Dubai and Europe. Revenues derived from foreign countries are based on the point of sale and were \$86 million, \$63 million and \$51 million in the fiscal years ended March 31, 2009, 2008 and 2007, respectively. Long-lived assets attributable to the Company's foreign operations represent less than 3.5% of the consolidated total long-lived assets and were \$116 million, \$74 million and \$56 million at March 31, 2009, 2008 and 2007, respectively. The Company's customer base is diverse with its largest customer accounting for approximately 0.5% of total net sales.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies (Note 1). Additionally, corporate operating expenses are allocated to each segment based on sales dollars. Corporate assets have been allocated to the Distribution business segment, intercompany sales are recorded on the same basis as sales to third parties, and intercompany transactions are eliminated in consolidation. See Note 3 for the impact of acquisitions and divestitures on the operating results of each business segment.

Management utilizes more than one measurement and multiple views of data to measure segment performance and to allocate resources to the segments. However, the dominant measurements are consistent with the Company's consolidated financial statements and, accordingly, are reported on the same basis below.

<i>(In thousands)</i>	Distribution	All Other Operations	Eliminations	Combined
Fiscal 2009				
Gas and rent	\$ 2,239,724	\$ 452,037	\$ (26,236)	\$ 2,665,525
Hardgoods	1,678,652	5,292	(14)	1,683,930
Total net sales	3,918,376	457,329	(26,250)	4,349,455
Cost of products sold, excluding deprec. expense	1,813,125	258,145	(26,250)	2,045,020
Selling, distribution and administrative expenses	1,432,105	126,667	—	1,558,772
Depreciation	184,991	13,042	—	198,033
Amortization	18,267	4,495	—	22,762
Operating income	\$ 469,888	\$ 54,980	\$ —	\$ 524,868
Assets	\$ 3,921,339	\$ 478,198		\$ 4,399,537
Capital expenditures	\$ 319,256	\$ 32,656		\$ 351,912

<i>(In thousands)</i>	Distribution	All Other Operations	Eliminations	Combined
Fiscal 2008				
Gas and rent	\$ 2,048,070	\$ 339,455	\$ (15,003)	\$ 2,372,522
Hardgoods	1,640,896	3,791	(185)	1,644,502
Total net sales	3,688,966	343,246	(15,188)	4,017,024
Cost of products sold, excluding deprec. expense	1,770,000	174,451	(15,188)	1,929,263
Selling, distribution and administrative expenses	1,317,717	104,445	—	1,422,162
Depreciation	163,470	12,332	—	175,802
Amortization	11,857	2,116	—	13,973
Operating income	\$ 425,922	\$ 49,902	\$ —	\$ 475,824
Assets	\$ 3,694,717	\$ 292,547		\$ 3,987,264
Capital expenditures	\$ 251,130	\$ 16,248		\$ 267,378

<i>(In thousands)</i>	Distribution	All Other Operations	Eliminations	Combined
Fiscal 2007				
Gas and rent	\$ 1,560,846	\$ 274,683	\$ (11,942)	\$ 1,823,587
Hardgoods	1,378,439	3,046	(21)	1,381,464
Total net sales	2,939,285	277,729	(11,963)	3,205,051
Cost of products sold, excluding deprec. expense	1,445,204	133,991	(11,963)	1,567,232
Selling, distribution and administrative expenses	1,059,329	89,650	—	1,148,979
Depreciation	129,112	9,706	—	138,818
Amortization	7,075	1,450	—	8,525
Operating income	\$ 298,565	\$ 42,932	\$ —	\$ 341,497
Assets	\$ 3,077,467	\$ 255,990		\$ 3,333,457
Capital expenditures	\$ 216,609	\$ 21,665		\$ 238,274

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Note 24
Supplementary Information (Unaudited)

This table summarizes the unaudited results of operations for each quarter of fiscal 2009 and 2008:

(In thousands,
except per share
amounts)

	First	Second	Third	Fourth
2009				
Net sales	\$ 1,116,714	\$ 1,161,908	\$ 1,078,733	\$ 992,100
Operating income	134,852	144,988	130,522	114,506
Net earnings	68,883	72,821	62,903	56,481
Basic earnings per share ^(a)	\$ 0.83	\$ 0.88	\$ 0.77	\$ 0.69
Diluted earnings per share ^(a)	\$ 0.81	\$ 0.86	\$ 0.76	\$ 0.68
2008				
Net sales	\$ 915,099	\$ 1,007,283	\$ 1,008,045	\$ 1,086,597
Operating income	111,038	115,396	118,330	131,060
Net earnings ^(b)	51,720	50,609	56,806	64,213
Basic earnings per share ^{(a)(b)}	\$ 0.65	\$ 0.62	\$ 0.69	\$ 0.78
Diluted earnings per share ^{(a)(b)}	\$ 0.63	\$ 0.60	\$ 0.67	\$ 0.76

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

(b) The quarterly results for fiscal 2008 include a one-time, non-cash expense in the second fiscal quarter of \$2.5 million, or \$0.03 per diluted share, related to the NWS Exchange Transaction through which the joint venture became a 100% owned subsidiary and a tax benefit in the third fiscal quarter of \$1.3 million, or \$0.01 per diluted share, related to a change in Texas state income tax law.

Note 25
Subsequent Event

On May 19, 2009 the Company announced that its Board of Directors declared a regular quarterly cash dividend of \$0.18 per share. The dividend is payable June 30, 2009 to stockholders of record as of June 15, 2009.

Note 26
Condensed Consolidating Financial Information of Subsidiary Guarantors

The obligations of the Company under its registered securities, the 2004 Notes, are guaranteed by the Company's domestic subsidiaries (the "Guarantors"). The guarantees are made fully and unconditionally on a joint and several basis. The Company's foreign holdings and bankruptcy remote special purpose entity (the "Non-guarantors") are not guarantors of the 2004 Notes. The claims of creditors of Non-guarantor subsidiaries have priority over the rights of the Company to receive dividends or distributions from such subsidiaries.

Presented below is supplementary condensed consolidating financial information for the Company, the Guarantors and the Non-guarantors as of March 31, 2009 and March 31, 2008 and for each of the years ended March 31, 2009, 2008 and 2007. The accounting policies of the subsidiary guarantors are the same as those described in the Summary of Significant Accounting Policies (see Note 1).

Notes to Consolidated Financial Statements continued
Condensed Consolidating Balance Sheet

Airgas, Inc. and Subsidiaries

<i>(In thousands)</i>					
March 31, 2009	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Assets					
Current Assets					
Cash	\$ —	\$ 40,492	\$ 6,696	\$ —	\$ 47,188
Trade receivables, net	—	30,157	154,582	—	184,739
Intercompany receivable (payable)	—	(4,115)	4,115	—	—
Inventories, net	—	379,448	10,997	—	390,445
Deferred income tax asset, net	23,901	12,995	(2,136)	—	34,760
Prepaid expenses and other current assets	25,639	33,572	1,627	—	60,838
Total current assets	49,540	492,549	175,881	—	717,970
Plant and equipment, net	30,649	2,287,603	48,274	—	2,366,526
Goodwill	—	1,045,691	17,679	—	1,063,370
Other intangible assets, net	—	207,083	8,987	—	216,070
Investments in subsidiaries	3,244,303	—	—	(3,244,303)	—
Other non-current assets	21,250	9,183	5,168	—	35,601
Total assets	\$ 3,345,742	\$ 4,042,109	\$ 255,989	\$ (3,244,303)	\$ 4,399,537
Liabilities and Stockholders' Equity					
Current Liabilities					
Accounts payable, trade	\$ 1,797	\$ 147,167	\$ 7,874	\$ —	\$ 156,838
Accrued expenses and other current liabilities	85,534	176,338	2,692	—	264,564
Current portion of long-term debt	—	9,612	1,446	—	11,058
Total current liabilities	87,331	333,117	12,012	—	432,460
Long-term debt, excluding current portion	1,698,700	11,465	40,143	—	1,750,308
Deferred income tax liability, net	(41,992)	595,431	12,344	—	565,783
Intercompany (receivable) payable	—	177,216	(177,216)	—	—
Other non-current liabilities	29,948	44,071	5,212	—	79,231
Commitments and contingencies					
Stockholders' Equity					
Preferred stock	—	—	—	—	—
Common stock, par value \$0.01 per share	856	—	—	—	856
Capital in excess of par value	533,030	1,442,400	8,223	(1,450,623)	533,030
Retained earnings	1,198,985	1,440,884	355,696	(1,796,580)	1,198,985
Accumulated other comprehensive loss	(10,753)	(2,105)	(425)	2,530	(10,753)
Treasury stock	(150,363)	(370)	—	370	(150,363)
Total stockholders' equity	1,571,755	2,880,809	363,494	(3,244,303)	1,571,755
Total liabilities and stockholders' equity	\$ 3,345,742	\$ 4,042,109	\$ 255,989	\$ (3,244,303)	\$ 4,399,537

Notes to Consolidated Financial Statements continued
Condensed Consolidating Balance Sheet

Airgas, Inc. and Subsidiaries

<i>(In thousands)</i>					
March 31, 2008	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Assets					
Current Assets					
Cash	\$ —	\$ 40,397	\$ 2,651	\$ —	\$ 43,048
Trade receivables, net	—	11,405	172,164	—	183,569
Intercompany receivable (payable)	—	(2,385)	2,385	—	—
Inventories, net	—	322,090	8,642	—	330,732
Deferred income tax asset, net	11,399	12,995	(2,136)	—	22,258
Prepaid expenses and other current assets	25,095	40,408	1,607	—	67,110
Total current assets	36,494	424,910	185,313	—	646,717
Plant and equipment, net	15,213	2,135,949	43,708	—	2,194,870
Goodwill	—	951,650	17,409	—	969,059
Other intangible assets, net	—	148,105	893	—	148,998
Investments in subsidiaries	2,992,576	—	—	(2,992,576)	—
Other non-current assets	16,121	9,181	2,318	—	27,620
Total assets	\$ 3,060,404	\$ 3,669,795	\$ 249,641	\$ (2,992,576)	\$ 3,987,264
Liabilities and Stockholders' Equity					
Current Liabilities					
Accounts payable, trade	\$ 5,740	\$ 174,498	\$ 4,873	\$ —	\$ 185,111
Accrued expenses and other current liabilities	111,536	174,813	2,534	—	288,883
Current portion of long-term debt	30,000	9,162	1,238	—	40,400
Total current liabilities	147,276	358,473	8,645	—	514,394
Long-term debt, excluding current portion	1,497,000	16,953	25,695	—	1,539,648
Deferred income tax liability, net	(33,481)	462,857	10,406	—	439,782
Intercompany (receivable) payable	450	106,971	(107,421)	—	—
Other non-current liabilities	35,823	39,400	4,881	—	80,104
Commitments and contingencies					
Stockholders' Equity					
Preferred stock	—	—	—	—	—
Common stock, par value \$0.01 per share	841	—	—	—	841
Capital in excess of par value	468,302	1,502,919	8,224	(1,511,143)	468,302
Retained earnings	983,663	1,180,816	292,065	(1,472,881)	983,663
Accumulated other comprehensive income (loss)	(4,713)	1,776	7,146	(8,922)	(4,713)
Treasury stock	(34,757)	(370)	—	370	(34,757)
Total stockholders' equity	1,413,336	2,685,141	307,435	(2,992,576)	1,413,336
Total liabilities and stockholders' equity	\$ 3,060,404	\$ 3,669,795	\$ 249,641	\$ (2,992,576)	\$ 3,987,264

Notes to Consolidated Financial Statements continued
Condensed Consolidating Statement of Earnings

Airgas, Inc. and Subsidiaries

(In thousands)

Year Ended March 31, 2009	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Net Sales	\$ —	\$ 4,284,869	\$ 64,586	\$ —	\$ 4,349,455
Costs and Expenses:					
Cost of products sold					
(excluding depreciation expense)	—	2,022,575	22,445	—	2,045,020
Selling, distribution and administrative expenses	4,824	1,509,012	44,936	—	1,558,772
Depreciation	4,050	189,050	4,933	—	198,033
Amortization	—	21,720	1,042	—	22,762
Operating Income (Loss)	(8,874)	542,512	(8,770)	—	524,868
Interest (expense) income, net	(85,207)	2,824	(2,012)	—	(84,395)
(Discount) gain on securitization of trade receivables	—	(118,235)	107,497	—	(10,738)
Other income (expense), net	(1,041)	(360)	1,019	—	(382)
Earnings (loss) before income taxes	(95,122)	426,741	97,734	—	429,353
Income tax benefit (expense)	32,511	(166,674)	(34,102)	—	(168,265)
Equity in earnings of subsidiaries	323,699	—	—	(323,699)	—
Net Earnings	\$ 261,088	\$ 260,067	\$ 63,632	\$ (323,699)	\$ 261,088

(In thousands)

Year Ended March 31, 2008	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Net Sales	\$ —	\$ 3,972,305	\$ 44,719	\$ —	\$ 4,017,024
Costs and Expenses:					
Cost of products sold					
(excluding depreciation expense)	—	1,917,251	12,012	—	1,929,263
Selling, distribution and administrative expenses	271	1,389,079	32,812	—	1,422,162
Depreciation	4,685	167,196	3,921	—	175,802
Amortization	16	13,927	30	—	13,973
Operating Income (Loss)	(4,972)	484,852	(4,056)	—	475,824
Interest (expense) income, net	(88,363)	43	(1,165)	—	(89,485)
(Discount) gain on securitization of trade receivables	—	(104,174)	87,143	—	(17,031)
Other income (expense), net	(380)	(173)	2,007	—	1,454
Earnings (loss) before income taxes and minority interest	(93,715)	380,548	83,929	—	370,762
Income tax benefit (expense)	35,195	(150,051)	(29,328)	—	(144,184)
Minority interest in earnings of consolidated affiliate	(2,519)	(711)	—	—	(3,230)
Equity in earnings of subsidiaries	284,387	—	—	(284,387)	—
Net Earnings	\$ 223,348	\$ 229,786	\$ 54,601	\$ (284,387)	\$ 223,348

Notes to Consolidated Financial Statements continued
Condensed Consolidating Statement of Earnings

Airgas, Inc. and Subsidiaries

<i>(In thousands)</i>					
Year Ended March 31, 2007	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Net Sales	\$ —	\$ 3,168,232	\$ 36,819	\$ —	\$ 3,205,051
Costs and Expenses:					
Cost of products sold					
(excluding depreciation expense)	—	1,556,252	10,980	—	1,567,232
Selling, distribution and administrative expenses	6,593	1,117,741	24,645	—	1,148,979
Depreciation	6,074	129,656	3,088	—	138,818
Amortization	—	8,525	—	—	8,525
Operating Income (Loss)	(12,667)	356,058	(1,894)	—	341,497
Interest (expense) income, net	(74,369)	15,315	(1,126)	—	(60,180)
(Discount) gain on securitization of trade receivables	—	(81,487)	67,857	—	(13,630)
Loss on the extinguishment of debt	(12,099)	—	—	—	(12,099)
Other income (expense), net	(82)	(733)	2,371	—	1,556
Earnings (loss) before income taxes and minority interest	(99,217)	289,153	67,208	—	257,144
Income tax benefit (expense)	34,555	(110,978)	(23,460)	—	(99,883)
Minority interest in earnings of consolidated affiliate	—	(2,845)	—	—	(2,845)
Equity in earnings of subsidiaries	219,078	—	—	(219,078)	—
Net Earnings	\$ 154,416	\$ 175,330	\$ 43,748	\$ (219,078)	\$ 154,416

Notes to Consolidated Financial Statements continued
Condensed Consolidating Statement of Cash Flows

Airgas, Inc. and Subsidiaries

(In thousands)

Year Ended March 31, 2009

	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Net cash provided by (used in)					
operating activities	\$ (107,739)	\$ 602,221	\$ 88,285	\$ —	\$ 582,767
Cash Flows from Investing Activities					
Capital expenditures	(19,780)	(323,959)	(8,173)	—	(351,912)
Proceeds from sales of plant and equipment	303	4,711	9,346	—	14,360
Business acquisitions and holdback settlements	—	(252,070)	(21,680)	—	(273,750)
Other, net	(10)	9,980	(8,592)	—	1,378
Receipts from subsidiaries, net	82,368	—	—	(82,368)	—
Net cash provided by (used in)					
investing activities	62,881	(561,338)	(29,099)	(82,368)	(609,924)
Cash Flows from Financing Activities					
Proceeds from borrowings	1,309,188	26,981	28,254	—	1,364,423
Repayment of debt	(1,119,879)	(55,197)	(13,599)	—	(1,188,675)
Financing costs	(9,201)	—	—	—	(9,201)
Purchase of treasury stock	(120,219)	—	—	—	(120,219)
Proceeds from exercise of stock options	16,188	—	—	—	16,188
Stock issued for the employee stock purchase plan	16,507	—	—	—	16,507
Tax benefit realized from the exercise of stock options	11,846	—	—	—	11,846
Dividends paid to stockholders	(45,766)	—	—	—	(45,766)
Change in cash overdraft	(13,806)	—	—	—	(13,806)
Changes in due to/from parent	—	(12,572)	(69,796)	82,368	—
Net cash provided by (used in)					
financing activities	44,858	(40,788)	(55,141)	82,368	31,297
Change in Cash	\$ —	\$ 95	\$ 4,045	\$ —	\$ 4,140
Cash—Beginning of period	—	40,397	2,651	—	43,048
Cash—End of period	\$ —	\$ 40,492	\$ 6,696	\$ —	\$ 47,188

Notes to Consolidated Financial Statements continued
Condensed Consolidating Statement of Cash Flows

Airgas, Inc. and Subsidiaries

(In thousands)

Year Ended March 31, 2008

	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Net cash provided by (used in) operating activities	\$ (33,482)	\$ 547,867	\$ 35,541	\$ —	\$ 549,926
Cash Flows from Investing Activities					
Capital expenditures	(3,910)	(255,264)	(8,204)	—	(267,378)
Proceeds from sales of plant and equipment	6	8,592	747	—	9,345
Business acquisitions and holdback settlements	—	(480,096)	—	—	(480,096)
Other, net	(18)	7,398	(8,696)	—	(1,316)
Advances to subsidiaries, net	(262,684)	—	—	262,684	—
Net cash used in investing activities	(266,606)	(719,370)	(16,153)	262,684	(739,445)
Cash Flows from Financing Activities					
Proceeds from borrowings	1,132,610	19,565	10,277	—	1,162,452
Repayment of debt	(831,166)	(119,127)	(3,456)	—	(953,749)
Minority interest in earnings	—	(711)	—	—	(711)
Purchase of treasury stock	(17,010)	—	—	—	(17,010)
Proceeds from the exercise of stock options	20,381	—	—	—	20,381
Stock issued for the employee stock purchase plan	14,091	—	—	—	14,091
Tax benefit realized from the exercise of stock options	13,327	—	—	—	13,327
Dividends paid to stockholders	(31,828)	—	—	—	(31,828)
Change in cash overdraft	(317)	—	—	—	(317)
Changes in due to/from parent	—	286,923	(24,239)	(262,684)	—
Net cash provided by (used in) financing activities	300,088	186,650	(17,418)	(262,684)	206,636
Change in Cash	\$ —	\$ 15,147	\$ 1,970	\$ —	\$ 17,117
Cash—Beginning of period	—	25,250	681	—	25,931
Cash—End of period	\$ —	\$ 40,397	\$ 2,651	\$ —	\$ 43,048

Notes to Consolidated Financial Statements continued
Condensed Consolidating Statement of Cash Flows

Airgas, Inc. and Subsidiaries

(In thousands)

Year Ended March 31, 2007

	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Net cash provided by (used in)					
operating activities	\$ (102,808)	\$ 432,677	\$ (3,526)	\$ —	\$ 326,343
Cash Flows from Investing Activities					
Capital expenditures	(4,012)	(228,672)	(5,590)	—	(238,274)
Proceeds from sales of plant and equipment	177	8,349	159	—	8,685
Business acquisitions and holdback settlements	—	(687,892)	—	—	(687,892)
Other, net	(572)	58	40	—	(474)
Advances to subsidiaries, net	(462,564)	—	—	462,564	—
Net cash used in investing activities	(466,971)	(908,157)	(5,391)	462,564	(917,955)
Cash Flows from Financing Activities					
Proceeds from borrowings	1,480,984	95,149	1,834	—	1,577,967
Repayment of debt	(926,827)	(79,215)	(2,144)	—	(1,008,186)
Financing costs	(5,103)	—	—	—	(5,103)
Premium paid on call of senior subordinated notes	(10,267)	—	—	—	(10,267)
Minority interest in earnings	—	(2,845)	—	—	(2,845)
Proceeds from the exercise of stock options	15,107	—	—	—	15,107
Stock issued for the employee stock purchase plan	11,951	—	—	—	11,951
Tax benefit realized from the exercise of stock options	9,013	—	—	—	9,013
Dividends paid to stockholders	(21,980)	—	—	—	(21,980)
Change in cash overdraft	16,901	—	—	—	16,901
Changes in due to/from parent	—	457,458	5,106	(462,564)	—
Net cash provided by financing activities	569,779	470,547	4,796	(462,564)	582,558
Change in Cash	\$ —	\$ (4,933)	\$ (4,121)	\$ —	\$ (9,054)
Cash—Beginning of period	—	30,183	4,802	—	34,985
Cash—End of period	\$ —	\$ 25,250	\$ 681	\$ —	\$ 25,931