

AIRGAS INC  
Form DEFA14A  
May 06, 2010

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a)**  
**of the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-12

**Airgas, Inc.**

(Name of Registrant as Specified In Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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- (2) Aggregate number of securities to which transaction applies:
  
  
  
  
  
  
  
  
  
  
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**For release:           Immediately**

**Airgas Reports Fiscal Fourth Quarter and Full Year 2010 Earnings**

Fourth quarter adjusted diluted EPS\* of \$0.69, which excludes \$0.22 of special items, up 6% sequentially and up 1% over prior year

Fourth quarter sales per day up 2% over third quarter, the second consecutive quarter of sequential daily sales growth

Record full year free cash flow\* of \$411 million, up 25% from prior year; \$268 million adjusted debt\* reduction in fiscal 2010  
**RADNOR, PA   May 6, 2010** Airgas, Inc. (NYSE: ARG), the largest U.S. distributor of industrial, medical, and specialty gases, and related supplies, today reported net earnings of \$40.1 million, or \$0.47 per diluted share, for its fourth quarter ended March 31, 2010. Excluding legal and professional fees of \$0.18 per diluted share\*\* related to an unsolicited takeover attempt, debt extinguishment charges of \$0.07 per diluted share, and a \$0.03 per diluted share income tax benefit, adjusted earnings per diluted share\* were \$0.69, up 6% sequentially and up 1% from the prior year.

Fourth quarter sales were \$980 million, a sequential increase of 2% in sales per day and 4% in total sales compared to the third quarter. Compared to the prior year, total same-store sales declined 3% in the quarter, with hardgoods down 2% and gas and rent down 3%. Acquisitions contributed 2% sales growth in the quarter.

The economic recovery appears to be building momentum, as daily sales rates improved sequentially for the second consecutive quarter, and March was our first positive same-store sales month since November 2008, said Airgas Chairman and Chief Executive Officer Peter McCausland. Conditions continued to improve in our manufacturing customer base, and our Great Lakes region posted the strongest gains while hardgoods sales began to rebound nationwide. The signs point to a strengthening industrial economy, and

we expect to achieve same-store sales growth in the mid to high single digits for fiscal 2011. We are more confident than ever in our ability to build on our track record of success in delivering strong returns and creating meaningful value for all Airgas stockholders.

Cost reductions and operating efficiencies helped support fourth quarter adjusted operating margin\*, which declined modestly year-over-year to 10.7% from 11.5% and sequentially from 11.1%. The sequential decline is attributable to the seasonality of certain businesses in the All Other Operations segment. Adjusted operating margin\* in the Distribution segment expanded sequentially for a third consecutive quarter to 11.3%.

For the full year, sales declined 11% from the prior year to \$3.9 billion. Acquisitions contributed 3% sales growth for the year, while total same-store sales declined by 14%, with hardgoods down 20% and gas and rent down 10%. The Company acquired six businesses in fiscal 2010, with aggregate annual revenue of more than \$47 million.

Net earnings for the year were \$2.34 per diluted share. Excluding \$0.34 of special items, adjusted earnings per diluted share\* were \$2.68, down 14% versus prior year, and the related full-year adjusted operating margin\* was 11.1%. Free cash flow\* for the year was a record \$411 million compared to \$328 million last year, driven by adjusted cash from operations\* of \$647 million, and a \$99 million (28%) year-over-year reduction in capital expenditures. The Company reduced adjusted debt\* by \$268 million, and increased its dividend payout by 36% in fiscal 2010.

Strong, stable cash flow is a fundamental element of our business model, and we were pleased to generate record free cash flow\* this year in spite of the severe economic conditions, McCausland said. Having achieved strong earnings deep into the recession and solid results through the downturn, we are excited to again have our sights on double-digit earnings growth. Airgas is poised to capitalize on the substantial infrastructure investment and industry consolidation we have achieved over the last decade as the economic recovery takes shape. There is significant value to be realized for our stockholders through the execution of our business strategies, continued focus on operating efficiency programs, and implementation of our SAP system, which we will begin to roll out in July.

The Company expects earnings per diluted share of \$0.70 to \$0.72 for the first quarter, an increase of 6% to 9% over the prior year, which includes \$0.02 per diluted share of incremental expense associated with its SAP implementation. For the full year 2011, the Company expects earnings per diluted share of \$2.95 to \$3.05, an increase of 10% to 14% over fiscal 2010 adjusted earnings, which

includes \$0.10 per diluted share of incremental expense associated with its SAP implementation. The first quarter and fiscal 2011 guidance does not incorporate the impact of debt extinguishment or multi-employer pension plan withdrawal charges, if any, or future costs related to the unsolicited takeover attempt.

Our fiscal 2011 guidance represents a year-over-year increase of 14% to 18% in underlying earnings before SAP costs, added McCausland. The increasing earnings momentum reinforces our confidence in the mid-term financial goals outlined at our December Analyst Meeting. We've targeted earnings of at least \$4.20 per share in calendar 2012, three quarters of which fall in our 2013 fiscal year. The earnings goal includes the costs of the SAP implementation but none of the benefits. Implementing SAP will enable more efficient processes across all facets of our complex, high-volume distribution business, including driving future operating efficiencies and enhancing our customer service culture. We expect the financial benefits of SAP to more than justify the investment. As we progress through our business unit conversions, we will be better positioned to quantify the project's benefits and identify their timing.

The Company will conduct an earnings teleconference at 11:00 a.m. Eastern Time on Thursday, May 6. The teleconference will be available by calling (888) 283-6901. The presentation materials (this press release, slides to be presented during the Company's teleconference and information about how to access a live and on-demand webcast of the teleconference) are available in the Investor Information section of the Company's website at [www.airgas.com](http://www.airgas.com). A webcast of the teleconference will be available live and on demand through June 5 at <http://investor.shareholder.com/arg/events.cfm>. A replay of the teleconference will be available through May 15. To listen, call (888) 203-1112 and enter passcode 8514645.

- \* See attached reconciliations and calculations of the non-GAAP adjusted earnings per diluted share, adjusted operating margin, free cash flow, adjusted cash from operations, and adjusted debt.
- \*\* The legal and professional fees incurred are in response to Air Products' unsolicited takeover attempt, a significant portion of which represents up-front accruals for the minimum obligations to the Company's advisors.

**About Airgas, Inc.**

Airgas, Inc. (NYSE: ARG), through its subsidiaries, is the largest U.S. distributor of industrial, medical, and specialty gases, 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, and a leading distributor of process chemicals,

refrigerants, and ammonia products. More than 14,000 employees work in over 1,100 locations, including branches, retail stores, gas fill plants, specialty gas labs, production facilities, and distribution centers. Airgas also distributes its products and services through eBusiness, catalog, and telesales channels. Its national scale and strong local presence offer a competitive edge to its diversified customer base. For more information, please visit [www.airgas.com](http://www.airgas.com).

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#### **Forward-Looking Statements**

This press release may contain statements that are forward looking, as that term is defined by the Private Securities Litigation Reform Act of 1995 or by the Securities and Exchange Commission in its rules, regulations and releases. These statements include, but are not limited to: expectations for first quarter earnings per diluted share to be in the range of \$0.70 to \$0.72, which includes \$0.02 per diluted share of incremental expense associated with the SAP implementation; expectations for earnings per diluted share for fiscal 2011 to be in the range of \$2.95 to \$3.05, which includes \$0.10 per diluted share of incremental expense associated with the SAP implementation; first quarter and fiscal 2011 guidance not incorporating the impact of debt extinguishment or multi-employer pension plan withdrawal charges, if any, or future costs related to the unsolicited takeover attempt; signs pointing to a strengthening industrial economy; same-store sales growth in the mid to high single digits in fiscal 2011; our ability to build on our track record of success in delivering strong returns and creating meaningful value for all Airgas stockholders; future double-digit earnings growth; the advantages of our substantial infrastructure investment and industry consolidation as the economic recovery takes shape; significant value to be realized for our stockholders through the execution of our business strategies, our continued focus on operating efficiency programs, and the implementation of our SAP system, which we expect to begin to roll out in July 2010; our calendar 2012 mid-term financial goals, which include diluted earnings per share of at least \$4.20, and the costs of the SAP implementation but none of the benefits; SAP enabling more efficient processes across all facets of our complex, high-volume distribution business, including driving future operating efficiencies and enhancing our customer service culture; and statements related to the financial benefits of implementing SAP. Forward-looking statements also include any statement that is not based on historical fact, including statements containing the words believes, may, plans, will, could, should, estimates, continues, anticipates, intends, expects and similar expressions. We intend that all forward-looking statements be subject to the safe harbors created thereby. All forward-looking statements are based on current expectations regarding important risk factors and should not be regarded as a representation by us or any other person that the results expressed therein will be achieved. We assume no obligation to revise or update any forward-looking statements for any reason, except as required by law. Important factors that could cause actual results to differ materially from those contained in any forward-looking statement include: adverse changes in customer buying patterns resulting from deterioration in current economic conditions; weakening in the operating and financial performance of our customers, which can negatively impact our sales and our ability to collect our accounts receivable; postponement of projects due to economic developments; customer acceptance of price increases; the success of implementing and continuing our cost reduction programs; our ability to achieve anticipated acquisition synergies; supply cost pressures; increased industry competition; our ability to successfully identify, consummate, and integrate acquisitions; our continued ability to access credit markets on satisfactory terms; significant fluctuations in interest rates; increases in energy costs and other operating expenses eroding the planned cost savings; higher than expected implementation costs of the SAP system; conversion problems related to the SAP system that disrupt our business and negatively impact customer relationships; the impact of tightened credit markets on our customers; the impact of changes in tax and fiscal policies and laws; the potential for increased expenditures relating to compliance with environmental regulatory initiatives; the impact of new environmental, healthcare, tax, accounting, and other regulation; continued potential liability under the Multiemployer Pension Plan Amendments Act of 1980 with respect

to our participation in or withdrawal from multi-employer pension plans for our union employees; the timing of economic recovery in the U.S. economy; the effect of catastrophic events; political and economic uncertainties associated with current world events; business disruptions associated with Air Products' unsolicited takeover attempt; and other factors described in the Company's reports, including its March 31, 2009 Form 10-K, subsequent Forms 10-Q, and other forms filed by the Company with the Securities and Exchange Commission.

Consolidated statements of earnings, condensed consolidated balance sheets, consolidated statements of cash flows, and reconciliations of non-GAAP financial measures follow below.

#### Additional Information

This press release does not constitute an offer to buy or solicitation of an offer to sell any securities. In response to the tender offer commenced by Air Products Distribution, Inc., a wholly owned subsidiary of Air Products and Chemicals, Inc., Airgas has filed a solicitation/recommendation statement on Schedule 14D-9 with the U.S. Securities and Exchange Commission (SEC). INVESTORS AND SECURITY HOLDERS OF AIRGAS ARE URGED TO READ THESE AND OTHER DOCUMENTS FILED WITH THE SEC CAREFULLY IN THEIR ENTIRETY BECAUSE THEY CONTAIN IMPORTANT INFORMATION. Investors and security holders may obtain free copies of these documents and other documents filed with the SEC by Airgas through the web site maintained by the SEC at <http://www.sec.gov>. Also, materials related to Air Products' Unsolicited Proposals are available in the Investor Information section of the Company's website at [www.airgas.com](http://www.airgas.com), or through the following web address: <http://investor.shareholder.com/arg/airgascontent.cfm>.

In addition, Airgas may file a proxy statement with the SEC. Any definitive proxy statement will be mailed to stockholders of Airgas. INVESTORS AND SECURITY HOLDERS OF AIRGAS ARE URGED TO READ THESE AND OTHER DOCUMENTS FILED WITH THE SEC CAREFULLY IN THEIR ENTIRETY WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. Investors and security holders will be able to obtain free copies of these documents (when available) and other documents filed with the SEC by Airgas through the web site maintained by the SEC at <http://www.sec.gov>.

#### Certain Information Regarding Participants

Airgas and certain of its directors and executive officers may be deemed to be participants under the rules of the SEC. Security holders may obtain information regarding the names, affiliations and interests of Airgas' directors and executive officers in Airgas' Annual Report on Form 10-K for the year ended March 31, 2009, which was filed with the SEC on June 1, 2009, and its proxy statement for the 2009 Annual Meeting, which was filed with the SEC on July 13, 2009. To the extent holdings of Airgas securities have changed since the amounts printed in the proxy statement for the 2009 Annual Meeting, such changes have been or will be reflected on Statements of Change in Ownership on Form 4 filed with the SEC. These documents can be obtained free of charge from the sources indicated above. Additional information regarding the interests of these participants in any proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, will also be included in any proxy statement and other relevant materials to be filed with the SEC if and when they become available.

## AIRGAS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in thousands, except per share data)

|   | (Unaudited)<br>Three Months Ended<br>March 31, |            | (Unaudited)<br>Year Ended<br>March 31, |              |
|---|--|------------|--|--------------|
|   | 2010   | 2009       | 2010                                   | 2009         |
| Net sales   | \$ 980,375                                     | \$ 992,100 | \$ 3,864,005                           | \$ 4,349,455 |
| Costs and expenses:                                   |  |            |  |              |
| Cost of products sold (excluding depreciation)        | 449,791  | 447,729    | 1,732,424                              | 2,045,020    |
| Selling, distribution and administrative expenses (d) | 364,293  | 372,324    | 1,473,599                              | 1,558,772    |
| Costs related to unsolicited takeover attempt (e)     | 23,435   |            | 23,435                                 |              |
| Depreciation  | 54,846   | 51,266     | 212,718                                | 198,033      |
| Amortization  | 6,127  | 6,275      | 22,231                                 | 22,762       |
| Total costs and expenses                              | 898,492  | 877,594    | 3,464,407                              | 3,824,587    |
| Operating income                                      | 81,883   | 114,506    | 399,598                                | 524,868      |
| Interest expense, net                                 | (13,566)                                       | (20,002)   | (63,310)                               | (84,395)     |
| Discount on securitization of trade receivables (a)   | (1,148)  | (1,697)    | (5,651)                                | (10,738)     |
| Loss on debt extinguishment (c)                       | (9,191)  |            | (17,869)                               |              |
| Other income (expense), net                           | 442  | 89         | 1,332                                  | (382)        |
| Earnings before income tax expense                    | 58,420   | 92,896     | 314,100                                | 429,353      |
| Income tax expense (f)                                | (18,342)                                       | (36,415)   | (117,800)                              | (168,265)    |
| Net earnings  | \$ 40,078                                      | \$ 56,481  | \$ 196,300                             | \$ 261,088   |
| Net earnings per common share:                        |  |            |  |              |
| Basic earnings per share                              | \$ 0.48  | \$ 0.69    | \$ 2.39                                | \$ 3.19      |
| Diluted earnings per share                            | \$ 0.47  | \$ 0.68    | \$ 2.34                                | \$ 3.12      |
| Weighted average shares outstanding:                  |  |            |  |              |
| Basic   | 82,928   | 81,329     | 82,129                                 | 81,926       |
| Diluted   | 84,669   | 82,666     | 83,787                                 | 83,816       |
| See attached Notes.                                   |  |            |  |              |



## AIRGAS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

|  | (Unaudited)<br>March 31,<br>2010 | (Unaudited)<br>March 31,<br>2009 |
|--|----------------------------------|----------------------------------|
| <b>ASSETS</b>                                    |                                  |                                  |
| Cash   | \$ 47,001                        | \$ 47,188                        |
| Trade receivables, net (a)                       | 186,804                          | 184,739                          |
| Inventories, net                                 | 333,961                          | 390,445                          |
| Deferred income tax asset, net                   | 48,591                           | 45,692                           |
| Prepaid expenses and other current assets        | 94,978                           | 76,679                           |
| <b>TOTAL CURRENT ASSETS</b>                      | <b>711,335</b>                   | <b>744,743</b>                   |
| Plant and equipment, net                         | 2,427,996                        | 2,366,526                        |
| Goodwill   | 1,109,276                        | 1,063,370                        |
| Other intangible assets, net                     | 212,752                          | 216,070                          |
| Other non-current assets                         | 34,573                           | 35,601                           |
| <b>TOTAL ASSETS</b>                              | <b>\$ 4,495,932</b>              | <b>\$ 4,426,310</b>              |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>       |                                  |                                  |
| Accounts payable, trade                          | \$ 157,566                       | \$ 156,838                       |
| Accrued expenses and other current liabilities   | 307,822                          | 280,405                          |
| Current portion of long-term debt                | 10,255                           | 11,058                           |
| <b>TOTAL CURRENT LIABILITIES</b>                 | <b>475,643</b>                   | <b>448,301</b>                   |
| Long-term debt, excluding current portion (b)    | 1,499,384                        | 1,750,308                        |
| Deferred income tax liability, net               | 652,389                          | 576,715                          |
| Other non-current liabilities                    | 72,972                           | 79,231                           |
| Stockholders equity                              | 1,795,544                        | 1,571,755                        |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b> | <b>\$ 4,495,932</b>              | <b>\$ 4,426,310</b>              |

See attached Notes.

## AIRGAS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

|   | (Unaudited)<br>2010 | (Unaudited)<br>Year Ended<br>March 31,<br>2009 |
|---|---------------------|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                     |  |
| Net earnings  | \$ 196,300          | \$ 261,088                                     |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                     |  |
| Depreciation  | 212,718             | 198,033  |
| Amortization  | 22,231              | 22,762   |
| Deferred income taxes   | 66,166              | 103,280  |
| Loss (gain) on sales of plant and equipment   | 3,014               | (964)  |
| Stock-based compensation expense  | 22,868              | 20,635   |
| Loss on debt extinguishment (c)   | 17,869              |  |
| Changes in assets and liabilities, excluding effects of business acquisitions:      |                     |  |
| Securitization of trade receivables (a)   | (16,400)            | (48,600)                                       |
| Trade receivables, net  | 18,287              | 77,209   |
| Inventories, net  | 58,785              | 441  |
| Prepaid expenses and other current assets   | (18,028)            | (11,479)                                       |
| Accounts payable, trade   | (3,863)             | (40,239)                                       |
| Accrued expenses and other current liabilities                                      | 24,085              | 744  |
| Other non-current assets  | 4,012               | (673)  |
| Other non-current liabilities   | (7,997)             | 530  |
| <b>Net cash provided by operating activities</b>                                    | <b>600,047</b>      | <b>582,767</b>                                 |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                     |  |
| Capital expenditures  | (252,828)           | (351,912)                                      |
| Proceeds from sales of plant and equipment  | 14,466              | 14,360   |
| Business acquisitions and holdback settlements                                      | (80,777)            | (273,750)                                      |
| Other, net  | (3,142)             | 1,378  |
| <b>Net cash used in investing activities</b>  | <b>(322,281)</b>    | <b>(609,924)</b>                               |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                     |  |
| Proceeds from borrowings  | 1,446,500           | 1,364,423                                      |
| Repayment of debt   | (1,700,368)         | (1,188,675)                                    |
| Financing costs   | (5,161)             | (9,201)  |
| Premium paid on call of senior subordinated notes (c)                               | (14,624)            |  |
| Purchase of treasury stock  |                     | (120,219)                                      |
| Proceeds from the exercise of stock options   | 21,863              | 16,188   |
| Stock issued for the employee stock purchase plan                                   | 15,428              | 16,507   |
| Tax benefit realized from the exercise of stock options                             | 15,444              | 11,846   |
| Dividends paid to stockholders  | (62,526)            | (45,766)                                       |
| Change in cash overdraft and other  | 5,491               | (13,806)                                       |
| <b>Net cash (used in) provided by financing activities</b>                          | <b>(277,953)</b>    | <b>31,297</b>                                  |
| <b>Change in cash</b>   | <b>\$ (187)</b>     | <b>\$ 4,140</b>                                |

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|      |                     |           |           |
|------|---------------------|-----------|-----------|
| Cash | Beginning of period | 47,188    | 43,048    |
| Cash | End of period       | \$ 47,001 | \$ 47,188 |

See attached Notes.

Notes:

- a) The Company participates in a securitization agreement with three commercial banks to which it sells trade receivables on a revolving basis. Upon its renewal in March 2010, the maximum amount of the facility was established at \$295 million, down from \$345 million at March 31, 2009. The amount of outstanding receivables sold under the agreement was \$295 million and \$311 million at March 31, 2010 and March 31, 2009, respectively. The Discount on securitization of trade receivables in the accompanying Consolidated Statements of Earnings represents the difference between the proceeds from the sale of trade receivables and the carrying value of those receivables.
- b) The Company maintains a senior credit facility with a syndicate of lenders. Approximately \$823 million was available to the Company under this facility at March 31, 2010.
- c) During the fiscal fourth quarter, the Company repurchased \$83 million of its 7.125% senior subordinated notes that are due on October 1, 2018, bringing the fiscal year to date repurchases of the 7.125% senior subordinated notes to \$154 million. Losses on the extinguishment of debt of approximately \$9.2 million and \$17.9 million (\$5.8 million and \$11.3 million after tax) were recognized related to the redemption premium and the write-off of deferred financing costs associated with the issuance of the notes during the fiscal fourth quarter and year-to-date periods, respectively.
- d) As collective bargaining agreements ( CBAs ) came up for renewal, the Company actively negotiated the withdrawal from multi-employer defined benefit pension plans ( MEPP ) replacing those retirement plans for CBA employees with defined contribution plans. As part of the withdrawal from a MEPP, the Company is required to fund its portion of the MEPP s unfunded pension obligation. The ultimate amount of the withdrawal liability assessed by the MEPP is impacted by a number of factors, including investment returns, benefit levels, and continued participation by other employers in the MEPP. During the year, the Company negotiated the withdrawal from MEPPs at seven of its collective bargaining units. Although there were no charges in the fiscal fourth quarter, the Company recorded multi-employer pension plan charges of \$6.7 million during the year. These charges were reflected in selling, distribution and administrative expenses. Through fiscal 2012, five remaining CBAs, covering approximately 60 employees, whose members participate in multi-employer pension plans, will come up for renewal.
- e) In February 2010, Air Products & Chemicals, Inc. made an unsolicited public proposal to acquire the Company, and subsequently commenced a tender offer. The legal and professional fees incurred are in response to the unsolicited takeover attempt and principally represent up-front accruals for the minimum obligations to the Company s advisors.
- f) The effective tax rate for the current quarter was 31.4% as compared to 39.2% in the prior year quarter. Fiscal year-to-date, the effective tax rate is 37.5% as compared to 39.2% in the prior year. The lower tax rate for the current quarter and year reflects the impact of tax benefits of \$2.2 million associated with the reorganization of certain facilities within the All Other Operations business segment and the recognition of previously unrecognized tax benefits associated with uncertain tax positions. Future effective tax rates are expected to be between 38.0% and 39.0%.

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- g) Business segment information for the Company's Distribution and All Other Operations business segments is presented below. Corporate operating expenses are generally allocated to each business segment based on sales dollars. However, the legal and professional fees incurred as a result of Air Products' unsolicited takeover attempt were not allocated to the Company's business segments, and are reflected in the eliminations and other column below:

| (In thousands)                                    | (Unaudited)<br>Three Months Ended<br>March 31, 2010 |              |             |            | (Unaudited)<br>Three Months Ended<br>March 31, 2009 |              |             |            |
|---|---|--------------|-------------|------------|---|--------------|-------------|------------|
|   | Distribution  | All<br>Other |             | Total      | Distribution  | All<br>Other |             | Total      |
|   |   | Ops.         | Elim./Other |            |   | Ops.         | Elim./Other |            |
| Gas and rent                                      | \$ 532,491  | \$ 98,740    | \$ (6,009)  | \$ 625,222 | \$ 534,739  | \$ 102,521   | \$ (5,424)  | \$ 631,836 |
| Hardgoods   | 353,715   | 1,444        | (6)         | 355,153    | 359,228   | 1,038        | (2)         | 360,264    |
| Total net sales                                   | 886,206   | 100,184      | (6,015)     | 980,375    | 893,967   | 103,559      | (5,426)     | 992,100    |
| Cost of products sold (excluding depreciation)    | 399,012   | 56,794       | (6,015)     | 449,791    | 395,609   | 57,546       | (5,426)     | 447,729    |
| Selling, distribution and administrative expenses | 331,168   | 33,125       |             | 364,293    | 340,463   | 31,861       |             | 372,324    |
| Costs related to unsolicited takeover attempt     |   |              | 23,435      | 23,435     |   |              |             |            |
| Depreciation                                      | 51,185  | 3,661        |             | 54,846     | 47,857  | 3,409        |             | 51,266     |
| Amortization                                      | 4,966   | 1,161        |             | 6,127      | 4,743   | 1,532        |             | 6,275      |
| Operating income                                  | \$ 99,875   | \$ 5,443     | \$ (23,435) | \$ 81,883  | \$ 105,295  | \$ 9,211     | \$          | \$ 114,506 |

| (In thousands)                                    | (Unaudited)<br>Year Ended<br>March 31, 2010 |              |             |              | (Unaudited)<br>Year Ended<br>March 31, 2009 |              |             |              |
|---|---|--------------|-------------|--------------|---|--------------|-------------|--------------|
|   | Distribution                                | All<br>Other |             | Total        | Distribution                                | All<br>Other |             | Total        |
|   |   | Ops.         | Elim./Other |              |   | Ops.         | Elim./Other |              |
| Gas and rent                                      | \$ 2,106,128                                | \$ 414,903   | \$ (24,240) | \$ 2,496,791 | \$ 2,239,724                                | \$ 452,037   | \$ (26,236) | \$ 2,665,525 |
| Hardgoods   | 1,361,199                                   | 6,038        | (23)        | 1,367,214    | 1,678,652                                   | 5,292        | (14)        | 1,683,930    |
| Total net sales                                   | 3,467,327                                   | 420,941      | (24,263)    | 3,864,005    | 3,918,376                                   | 457,329      | (26,250)    | 4,349,455    |
| Cost of products sold (excluding depreciation)    | 1,534,165                                   | 222,522      | (24,263)    | 1,732,424    | 1,813,125                                   | 258,145      | (26,250)    | 2,045,020    |
| Selling, distribution and administrative expenses | 1,345,583                                   | 128,016      |             | 1,473,599    | 1,432,105                                   | 126,667      |             | 1,558,772    |
| Costs related to unsolicited takeover attempt     |   |              | 23,435      | 23,435       |   |              |             |              |
| Depreciation                                      | 198,066                                     | 14,652       |             | 212,718      | 184,991                                     | 13,042       |             | 198,033      |
| Amortization                                      | 18,196                                      | 4,035        |             | 22,231       | 18,267                                      | 4,495        |             | 22,762       |
| Operating income                                  | \$ 371,317                                  | \$ 51,716    | \$ (23,435) | \$ 399,598   | \$ 469,888                                  | \$ 54,980    | \$          | \$ 524,868   |

**Reconciliations of Non-GAAP Financial Measures (Unaudited)****Adjusted Earnings Per Diluted Share**

Reconciliations and computations of adjusted earnings per diluted share:

|  | Three Months Ended<br>March 31, 2010 | Three Months Ended<br>December 31,<br>2009 | Year Ended<br>March<br>31, 2010 |
|--|--------------------------------------|--|---------------------------------|
| Earnings per diluted share                     | \$ 0.47                              | \$ 0.56                                    | \$ 2.34                         |
| Adjustments to earnings per diluted share:     |                                      |  |                                 |
| Costs related to unsolicited takeover attempt  | 0.18                                 |  | 0.18                            |
| Loss on debt extinguishment                    | 0.07                                 | 0.05                                       | 0.14                            |
| Multi-employer pension plan withdrawal charges |                                      | 0.04                                       | 0.05                            |
| Income tax benefit                             | (0.03)                               |  | (0.03)                          |
| <b>Adjusted earnings per diluted share</b>     | <b>\$ 0.69</b>                       | <b>\$ 0.65</b>                             | <b>\$ 2.68</b>                  |

The Company believes that adjusted earnings per diluted share provides investors meaningful insight into the Company's earnings performance without the impact of debt extinguishment, multi-employer pension plan withdrawal charges, costs related to Air Products' unsolicited takeover attempt, and tax benefit. Non-GAAP numbers should be read in conjunction with GAAP financial measures, as non-GAAP metrics are merely a supplement to, and not a replacement for, GAAP financial measures. It should be noted as well that our adjusted earnings per diluted share metric may be different from adjusted earnings per diluted share metrics provided by other companies.

Adjusted Operating Margin

Reconciliations and computations of adjusted operating margin:

Consolidated Airgas

| (Dollars in thousands)                         | Three Months Ended<br>March 31, 2010 | Three Months Ended<br>December 31,<br>2009 | Year Ended<br>March 31, 2010 |
|--|--------------------------------------|--|------------------------------|
| Net sales                                      | \$ 980,375                           | \$ 942,107                                 | \$ 3,864,005                 |
| Operating income                               | \$ 81,883                            | \$ 99,989                                  | \$ 399,598                   |
| Operating margin                               | 8.4%                                 | 10.6%                                      | 10.3%                        |
| Plus:  |                                      |  |                              |
| Costs related to unsolicited takeover attempt  | 23,435                               |  | 23,435                       |
| Multi-employer pension plan withdrawal charges |                                      | 4,950                                      | 6,650                        |
| <b>Adjusted operating income</b>               | <b>\$ 105,318</b>                    | <b>\$ 104,939</b>                          | <b>\$ 429,683</b>            |
| <b>Adjusted operating margin</b>               | <b>10.7%</b>                         | <b>11.1%</b>                               | <b>11.1%</b>                 |

Distribution Segment

| (Dollars in thousands)                         | Three Months Ended<br>March 31,<br>2010 | Three Months Ended<br>December 31,<br>2009 | Three Months Ended<br>September 30,<br>2009 | Three Months Ended<br>June 30, 2009 |
|--|---|--|---|-------------------------------------|
| Net sales                                      | \$ 886,206                              | \$ 851,821                                 | \$ 857,443                                  | \$ 871,857                          |
| Operating income                               | \$ 99,875                               | \$ 89,306                                  | \$ 92,388                                   | \$ 89,748                           |
| Operating margin                               | 11.3%                                   | 10.5%                                      | 10.8%                                       | 10.3%                               |
| Plus:  |   |  |   |                                     |
| Multi-employer pension plan withdrawal charges |   | 4,950                                      | 1,700                                       |                                     |
| <b>Adjusted operating income</b>               | <b>\$ 99,875</b>                        | <b>\$ 94,256</b>                           | <b>\$ 94,088</b>                            | <b>\$ 89,748</b>                    |
| <b>Adjusted operating margin</b>               | <b>11.3%</b>                            | <b>11.1%</b>                               | <b>11.0%</b>                                | <b>10.3%</b>                        |

The Company believes the above adjusted operating margin computations help investors assess the Company's operating performance without the impact of charges associated with the Company's withdrawal from multi-employer pension plans and costs related to Air Products' unsolicited takeover attempt. Non-GAAP numbers should be read in conjunction with GAAP financial measures, as non-GAAP metrics are merely a supplement to, and not a replacement for, GAAP financial measures. It should be noted as well that our adjusted operating margin computations may be different from the adjusted operating margin computations provided by other companies.

Free Cash Flow and Adjusted Cash from Operations

Reconciliations and computations of free cash flow and adjusted cash from operations:

| (In thousands)  | Year Ended        |                   |
|---|-------------------|-------------------|
|   | 2010              | March 31,<br>2009 |
| Net cash provided by operating activities               | \$ 600,047        | \$ 582,767        |
| Adjustments to cash provided by operating activities:   |                   |                   |
| Cash used by securitization of trade receivables        | 16,400            | 48,600            |
| Stock issued for the employee stock purchase plan       | 15,428            | 16,507            |
| Tax benefit realized from the exercise of stock options | 15,444            | 11,846            |
| <b>Adjusted cash from operations</b>                    | <b>647,319</b>    | <b>659,720</b>    |
| Capital expenditures                                    | (252,828)         | (351,912)         |
| Adjustments to capital expenditures:                    |                   |                   |
| Proceeds from sales of plant and equipment              | 14,466            | 14,360            |
| Operating lease buyouts                                 | 1,687             | 5,575             |
| <b>Adjusted capital expenditures</b>                    | <b>(236,675)</b>  | <b>(331,977)</b>  |
| <b>Free Cash Flow</b>                                   | <b>\$ 410,644</b> | <b>\$ 327,743</b> |

The Company believes that free cash flow and adjusted cash from operations provide investors meaningful insight into the Company's ability to generate cash from operations, which is available for servicing debt obligations and for the execution of its business strategies, including acquisitions, the prepayment of debt, the payment of dividends, or to support other investing and financing activities. Non-GAAP numbers should be read in conjunction with GAAP financial measures, as non-GAAP metrics are merely a supplement to, and not a replacement for, GAAP financial measures. It should be noted as well that our free cash flow and adjusted cash from operations metrics may be different from free cash flow and adjusted cash from operations metrics provided by other companies.

Adjusted Debt

Reconciliations and computations of adjusted debt:

| (In thousands)                            | March 31,<br>2010   | March 31,<br>2009   |
|---|---------------------|---------------------|
| Current portion of long-term debt         | \$ 10,255           | \$ 11,058           |
| Long-term debt, excluding current portion | 1,499,384           | 1,750,308           |
| Net debt                                  | 1,509,639           | 1,761,366           |
| Securitization of trade receivables       | 295,000             | 311,400             |
| <b>Adjusted debt</b>                      | <b>\$ 1,804,639</b> | <b>\$ 2,072,766</b> |

The company uses adjusted debt to provide investors with a more meaningful measure of the Company's debt obligations by adjusting for funds received under the trade receivables securitization program.