AIRGAS INC
Form 10-Q
August 12, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: **June 30, 2003**

Commission file number: 1-9344

AIRGAS, INC.

(Exact name of registrant as specified in its charter)

Delaware	56-0732648
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
259 North Radnor-Chester Road, Suite 100 Radnor, PA	19087-5283
(Address of principal executive offices)	(ZIP code)

(610) 687-5253

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities and Exchange Act of 1934). Yes [X] No [ ]

Common Stock outstanding at August 7, 2003: 73,372,987 shares

AIRGAS, INC.

FORM 10-Q
June 30, 2003

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

AIRGAS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended June 30,	
	2003	**2002**
Net sales	$461,056	$457,668
Costs and expenses		
Cost of products sold (excluding depreciation)	221,133	222,266
Selling, distribution and administrative expenses	178,461	176,299
Depreciation	19,291	18,459
Amortization	1,511	1,740
Special charges		2,694
Total costs and expenses	420,396	421,458
Operating income	40,660	36,210
Interest expense, net	(10,435)	(13,121)
Discount on securitization of trade receivables	(868)	(851)
Other income (expense), net	(173)	(123)
Equity in earnings of unconsolidated affiliates	700	932
Earnings before income taxes	29,884	23,047
Income taxes	11,356	9,003
Net earnings	$ 18,528	$ 14,044
Basic earnings per share	$ 0.26	$ 0.20
Diluted earnings per share	$ 0.25	$ 0.20
Weighted average shares outstanding:		
Basic	71,900	69,900
Diluted	73,900	72,000
Comprehensive income	$ 19,300	$ 14,920

See accompanying notes to consolidated financial statements.

AIRGAS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	(Unaudited) June 30, 2003	March 31, 2003
ASSETS		
Current Assets		
Trade receivables, less allowances for doubtful accounts of $9,158 at June 30, 2003 and $8,514 at March 31, 2003	$ 78,787	$ 71,346
Inventories, net	157,968	151,405
Deferred income tax asset, net	18,058	17,688
Prepaid expenses and other current assets	29,406	30,143
Total current assets	284,219	270,582
Plant and equipment, at cost	1,368,732	1,345,783
Less accumulated depreciation	(496,797)	(476,291)
Plant and equipment, net	871,935	869,492
Goodwill	439,977	437,709
Other intangible assets, net	21,142	19,832
Investments in unconsolidated affiliates	66,104	65,957
Other non-current assets	41,143	36,671
Total assets	$ 1,724,520	$ 1,700,243
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable, trade	$ 77,321	$ 85,375
Accrued expenses and other current liabilities	107,909	121,292
Current portion of long-term debt	609	2,229
Total current liabilities	185,839	208,896
Long-term debt	669,214	658,031
Deferred income taxes, net	215,213	209,140
Other non-current liabilities	30,210	27,243
Commitments and contingencies		
Stockholders Equity		
Preferred stock, no par value, 20,000 shares authorized, no shares issued or outstanding at June 30, 2003 and March 31, 2003		
Common stock, par value $.01 per share, 200,000 shares authorized, 77,077 and 76,373 shares issued at June 30, 2003 and March 31, 2003, respectively	771	764
Capital in excess of par value	225,465	216,275
Retained earnings	428,889	413,286
Accumulated other comprehensive loss	(2,530)	(3,302)
Treasury stock, 547 common shares at cost at June 30, 2003 and March 31, 2003	(4,289)	(4,289)
Employee benefits trust, 3,217 and 3,421 common shares at cost at June 30, 2003 and March 31, 2003, respectively	(24,262)	(25,801)
Total stockholders equity	624,044	596,933

Total liabilities and stockholders equity	$ 1,724,520	$ 1,700,243

See accompanying notes to consolidated financial statements.

AIRGAS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Dollars in thousands)	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 18,528	$ 14,044
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	19,291	18,459
Amortization	1,511	1,740
Deferred income taxes	4,800	(11,396)
Equity in earnings of unconsolidated affiliates	(700)	(932)
Losses on divestitures		241
Losses on sales of plant and equipment	57	246
Stock issued for employee stock purchase plan	2,264	2,227
Changes in assets and liabilities, excluding effects of business acquisitions and divestitures:		
Securitization of trade receivables	(2,300)	6,400
Trade receivables, net	(4,073)	(12,697)
Inventories, net	(5,682)	(348)
Prepaid expenses and other current assets	392	19,737
Accounts payable, trade	(8,259)	(6,957)
Accrued expenses and other current liabilities	(12,368)	(17,787)
Other assets	(1,551)	882
Other liabilities	3,804	1,547
Net cash provided by operating activities	15,714	15,406
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(21,319)	(14,427)
Proceeds from sales of plant and equipment	1,342	1,102
Proceeds from divestitures		3,167
Business acquisitions, holdbacks and other settlements of acquisition related liabilities	(5,750)	(4,342)
Dividends and fees from unconsolidated affiliates	422	684
Other, net	(1,520)	1,281
Net cash used in investing activities	(26,825)	(12,535)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	81,603	93,400
Repayment of debt	(74,505)	(96,100)
Dividends paid	(2,925)	
Exercise of stock options	5,803	4,331
Cash overdraft	1,135	(4,502)
Net cash provided by (used in) financing activities	11,111	(2,871)
Change in cash	$	$
Cash Beginning of period		
Cash End of period	$	$
Cash paid during the period for:		
Interest	$ 13,874	$ 20,733

Income taxes, net of refunds	$ 1,466	$ (1,232)

See accompanying notes to consolidated financial statements.

AIRGAS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Airgas, Inc. and its subsidiaries (the Company). Intercompany accounts and transactions are eliminated in consolidation. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These statements do not include all disclosures required for annual financial statements. These financial statements should be read in conjunction with the more complete disclosures contained in the Company s audited consolidated financial statements for the fiscal year ended March 31, 2003.

The consolidated financial statements reflect, in the opinion of management, all adjustments necessary to present fairly the Company s financial position, results of operations and cash flows for the periods presented. Such adjustments are of a normal, recurring nature except for the special charges, which are discussed in these notes to the consolidated financial statements. The interim operating results are not necessarily indicative of the results to be expected for an entire year.

Certain reclassifications have been made to prior period financial statements to conform to the current presentation.

(2) NEW ACCOUNTING PRONOUNCEMENTS AND ACCOUNTING CHANGES

FASB Financial Interpretation No. 46

In January 2003, the Financial Accounting Standards Board issued Financial Interpretation of Accounting Research Bulletin No. 51 (ARB 51) entitled, *Consolidation of Variable Interest Entities* (FIN 46). The interpretation is effective for the first interim period beginning after June 15, 2003. FIN 46 addresses consolidation by a business enterprise of variable interest entities. Variable interest entities are defined as corporations, partnerships, trusts, or any other legal structure used for business purposes whose holders of its equity instruments lack one of the characteristics of a controlling financial interest. Under previous accounting practice, entities generally were not consolidated unless the entity was controlled through voting interests. FIN 46 introduces the concept of a Primary Beneficiary and requires variable interest entities to be consolidated by the party deemed to be the Primary Beneficiary.

The Company participates in a joint venture with National Welders Supply Company, Inc. (National Welders). The Company is the only common stockholder of the joint venture, but has a 50% / 50% voting interest shared with National Welders preferred stockholders. The Company believes that its National Welders joint venture is a variable interest entity as defined by FIN 46. Further, the Company, as the only common stockholder, believes it is the Primary Beneficiary of the joint venture. Accordingly, the Company believes that the joint venture should be consolidated for financial reporting purposes effective July 1, 2003. The Company anticipates applying FIN 46 prospectively and does not anticipate a cumulative-effect adjustment upon adoption. Due to the complexity in the application of FIN 46, the Company has requested a pre-filing consultation with the Securities and Exchange Commission (SEC) with respect to its interpretation of FIN 46 as it applies to the National Welders joint venture. Ultimately, the outcome of the pre-filing consultation with the SEC will determine whether or not the joint venture will be consolidated. See Note 11 for more information regarding the National Welders joint venture as well as the financial impact if the joint venture is consolidated.

AIRGAS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(2) NEW ACCOUNTING PRONOUNCEMENTS AND ACCOUNTING CHANGES (Continued)

The Company leases real estate and certain equipment from a grantor trust (the Trust) established by a commercial bank under a sale-leaseback arrangement. The Company has determined the Trust to be a variable interest entity as defined by FIN 46. In addition, the Company is the Primary Beneficiary of the sale-leaseback arrangement. In accordance with FIN 46, the Company will consolidate the Trust for financial reporting purposes effective July 1, 2003. See Note 12 for more information, including the financial impact upon consolidation of the Trust.

SFAS 143

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

(3) ACQUISITIONS & DIVESTITURES

(a) Acquisitions

The Company acquired a manufacturer and distributor of dry ice on April 14, 2003 and a distributor of safety products on May 1, 2003. The dry ice business generates annual revenues of approximately $2 million and is included in the Gas Operations segment. The dry ice business was acquired to expand the Company s market reach into certain southern U.S. states. The distributor of safety products generates annual revenues of approximately $10 million and is included in the Distribution segment. The safety distributor business was acquired to complement the Company s existing packaged gas distribution operations in the western U.S. The acquired businesses are not expected to generate significant operating income during fiscal 2004.

The Company paid cash of $5.8 million for businesses acquired during the quarter ended June 30, 2003. Costs in excess of net assets acquired (goodwill) related to the acquisitions totaled approximately $1.1 million. The final purchase price allocation to net assets, identified intangibles and goodwill acquired has not been completed pending the performance of asset appraisals and intangible valuations. The Company does not expect that the final purchase price allocation will have a material impact on the Company s financial position.

(b) Divestitures

In May 2002, the Company completed the sale of Kendeco for cash proceeds of $3.2 million. Kendeco s fiscal 2003 operating results were insignificant. During the quarter ended June 30, 2002, the Company also resolved an indemnity claim related to a prior period divestiture. Other income (expense), net, for the three months ended June 30, 2002 included a $241 thousand net loss from these divestiture-related transactions.

AIRGAS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(4) SPECIAL CHARGES

During the quarter ended June 30, 2002, the Company recorded special charges of $2.7 million consisting of a restructuring charge related to the integration of the business acquired from Air Products and Chemicals, Inc. (Air Products) during the fourth quarter of fiscal 2002 and costs related to the consolidation of certain hardgoods procurement functions. The special charges include facility exit costs associated with the closure of certain facilities and severance for approximately 130 employees. The facilities to be exited and the affected employees were part of the Company s existing operations prior to the acquisition of the Air Products business.

(5) 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 and common stock held by the Employee Benefits Trust. 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 warrants.

The table below reconciles basic weighted average common shares outstanding to diluted weighted average common shares outstanding for the three months ended June 30, 2003 and 2002:

	Three Months Ended June 30,	
(In thousands)	**2003**	**2002**
Weighted average common shares outstanding:		
Basic	71,900	69,900
Stock options and warrants	2,000	2,100
Diluted	73,900	72,000

Pursuant to a joint venture agreement between the Company and the holders of the preferred stock of National Welders, between June 30, 2006 and June 30, 2009, the preferred shareholders have the option to exchange their 3.2 million preferred shares of National Welders either for cash at a price of $17.78 per share or to tender them to the joint venture in exchange for approximately 2.38 million shares of Airgas common stock (see Note 11). When Airgas common stock is at a market value of approximately $24.00 per share, the stock and cash redemption options are equivalent. As of June 30, 2003, there were no contingently issuable shares included in the diluted weighted average common shares calculation (the diluted computation) associated with the joint venture agreement.

Additionally, there were approximately 1.6 million and 800 thousand outstanding stock options and warrants at June 30, 2003 and 2002, respectively, with an exercise price above market, excluded from the Company s diluted computation as their effect would be anti-dilutive. As the market value of the Company s stock increases above the respective exercise prices of the options and warrants, they will be included in the diluted computation as common stock equivalents.

AIRGAS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(6) TRADE RECEIVABLES SECURITIZATION

The Company participates in a securitization agreement with two commercial banks to sell up to $175 million of qualifying trade receivables. The agreement will expire in December 2005, but is subject to renewal provisions contained in the agreement. During the three months ended June 30, 2003, the Company sold, net of its retained interest, $471.6 million of trade receivables and remitted to bank conduits, pursuant to a servicing agreement, $473.9 million in collections on those receivables. The amount of outstanding receivables under the agreement was $156.6 million at June 30, 2003 and $158.9 million at March 31, 2003.

The transaction has been accounted for as a sale under the provisions of SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Under the securitization agreement, eligible trade receivables are sold to bank conduits through a bankruptcy-remote special purpose entity, which is consolidated for financial reporting purposes. The difference between the proceeds from the sale and the carrying value of the receivables is recognized as Discount on securitization of trade receivables in the accompanying Consolidated Statements of Earnings and varies on a monthly basis depending on the amount of receivables sold and market rates. The Company retains a subordinated interest in the receivables sold, which is recorded at the receivables previous carrying value. A subordinated retained interest of approximately $47 million and $45 million are included in Trade receivables in the accompanying Consolidated Balance Sheets at June 30, 2003 and March 31, 2003, respectively. The Company s retained interest is generally collected within 60 days. On a monthly basis, management measures the fair value of the retained interest at management s best estimate of the undiscounted expected future cash collections on the transferred receivables. Changes in the fair value are recognized as bad debt expense. Actual cash collections may differ from these estimates and would directly affect the fair value of the retained interest. In accordance with a servicing agreement, the Company continues to service, administer and collect the trade receivables on behalf of the bank conduits. The servicing fees charged to the bank conduits approximate the costs of collections.

(7) INVENTORIES, NET

Inventories, net, consist of:

(In thousands)	(Unaudited) June 30, 2003	March 31, 2003
Hardgoods	$141,999	$136,347
Gases	15,969	15,058
	$157,968	$151,405

Net inventories determined by the LIFO inventory method totaled $16.1 million and $15.7 million at June 30, 2003 and March 31, 2003, respectively. If the FIFO inventory method had been used for these inventories, the carrying value would have been increased $1.4 million at both June 30, 2003 and March 31, 2003. Substantially all of the inventories are finished goods.

AIRGAS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(8) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities include:

(In thousands)	(Unaudited) June 30, 2003	March 31, 2003
Accrued payroll and employee benefits	$ 25,368	$ 33,548
Business insurance reserves	15,836	15,272
Health insurance reserves	10,314	9,828
Taxes other than income taxes	12,891	12,972
Cash overdraft	9,673	8,538
Accrued interest expense	9,584	12,000
Other accrued expenses and current liabilities	24,243	29,134
	$107,909	$121,292

The decrease in accrued payroll and employee benefits primarily resulted from the payment of fiscal 2003 bonuses during the quarter ended June 30, 2003. The cash overdraft is attributable to the float of the Company s outstanding checks.

(9) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company s involvement with derivative instruments is limited to highly effective fixed and variable interest rate swap agreements used to manage well-defined interest rate risk exposures. Interest rate swap agreements are not entered into for trading purposes.

At June 30, 2003, the Company had a notional amount of $90 million in fixed interest rate swap agreements that effectively convert a corresponding amount of variable interest rate operating leases and the revolving credit facilities to fixed interest rate instruments. During the three months ended June 30, 2003, the Company recorded a net decrease in the fair value of the fixed interest rate swap agreements of $7 thousand as Accumulated other comprehensive income.

At June 30, 2003, the Company also had a notional amount of $155 million in variable interest rate swap agreements that effectively convert a corresponding amount of fixed rate medium-term and senior subordinated notes to variable rate debt. The fair value of these variable interest rate swap agreements and the increased carrying value of the hedged portions of the medium-term and senior subordinated notes at June 30, 2003 was $20.1 million. The changes in the fair value of the swap agreements are offset by changes in the fair value of the hedged portions of the medium-term and senior subordinated notes.

The effect of these interest rate swap agreements was to adjust the Company s ratio of fixed to variable interest rates to 40% fixed and 60% variable.

AIRGAS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(10) GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the net carrying amount of goodwill for the three months ended June 30, 2003 were as follows:

(In thousands)	Distribution Segment	Gas Operations Segment	Total
Balance at March 31, 2003	$362,400	$75,309	$437,709
Acquisitions	533	611	1,144
Other adjustments	1,044	80	1,124
Balance at June 30, 2003	$363,977	$76,000	$439,977

Other intangible assets amounted to $21.1 million and $19.8 million (net of accumulated amortization of $89.1 million and $87.8 million) at June 30, 2003 and March 31, 2003, respectively. These intangible assets primarily consist of acquired customer lists amortized over 11 years and non-compete agreements entered into in connection with business combinations amortized over the term of the agreements, principally five years. There are no expected residual values related to these intangible assets. Estimated remaining fiscal year amortization expense in millions is as follows: remainder of 2004 $4.5; 2005 $5.9; 2006 $3.5; 2007-$3.0 million; 2008-$2.3 million, and $1.9 million thereafter.

(11) JOINT VENTURE WITH NATIONAL WELDERS

The Company has an investment totaling approximately $60 million and $59 million at June 30, 2003 and March 31, 2003, respectively, in its National Welders joint venture. The Company currently accounts for its investment under the equity method of accounting. National Welders, which is reported in the Distribution segment, is a producer and distributor of industrial gases based in Charlotte, North Carolina. National Welders owns and operates 46 branch stores, two acetylene plants, a specialty gas lab, and three air separation plants that produce all of the joint venture s oxygen and nitrogen and approximately 50% of its argon requirements. The joint venture also distributes medical and specialty gases, processed chemicals and welding equipment and supplies.

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

AIRGAS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(11) JOINT VENTURE WITH NATIONAL WELDERS (Continued)

As disclosed in Note 2, the Company believes that its National Welders joint venture is a variable interest entity as defined by FIN 46 and that the Company is its Primary Beneficiary. Accordingly, the Company believes that the joint venture should be consolidated for financial reporting purposes effective July 1, 2003. Consolidation of the joint venture is subject to a pre-filing consultation with the SEC with respect to the Company s interpretation of FIN 46 as it applies to the National Welders joint venture. If the joint venture is consolidated, the Company will record assets on its July 1, 2003 balance sheet of approximately $150 million, liabilities of approximately $114 million and a minority interest of $36 million, net of a $21 million note receivable from the preferred shareholders. The Company s consolidated statement of earnings for the period beginning July 1, 2003 will also reflect the consolidation of the joint venture s results of operations. In fiscal 2003, the joint venture generated annual revenues of $142 million and operating income of $12 million. The Company s net earnings would not be affected by the consolidation of the joint venture.

(12) SALE-LEASEBACK TRANSACTION WITH GRANTOR TRUST

The Company leases real estate and certain equipment from a grantor trust (the Trust) established by a commercial bank. The operating leases are structured as a sale-leaseback transaction in which the Trust holds title to the properties and equipment included in the leases. The rental payments are based on LIBOR plus an applicable margin and the cost of the property acquired by the Trust. The non-cancelable lease obligation of the real estate and equipment leases totaled approximately $42 million at June 30, 2003 and March 31, 2003. The lease terms expire in October 2004. The Company has guaranteed a residual value of the real estate and equipment at the end of the lease terms of approximately $30 million.

In accordance with FIN 46 (see Note 2), the Company will consolidate the Trust for financial reporting purposes effective July 1, 2003. The Company will record approximately $42 million of real estate and equipment and associated long-term debt on its balance sheet. The adoption of FIN 46 will not have a material impact on the net earnings of the Company.

AIRGAS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(13) STOCKHOLDERS EQUITY

Changes in stockholders equity were as follows:

(In thousands of shares)	Shares of Common Stock $.01 Par Value	Treasury Stock	Employee Benefits Trust
Balance March 31, 2003	76,373	547	3,421
Common stock issuance (a)	704		
Reissuance of stock from Trust (b)			(204)
Balance June 30, 2003	77,077	547	3,217

(In thousands of dollars)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Employee Benefits Trust	Compre-hensive Income
Balance March 31, 2003	$ 764	$ 216,275	$ 413,286	$ (3,302)	$ (4,289)	$ (25,801)	$
Net earnings			18,528				18,528
Common stock issuance (a)	7	5,796					
Dividends paid on common stock ($.04 per share)			(2,925)				
Foreign currency translation adjustments				1,211			1,211
Net change in fair value of interest rate swap agreements				(7)			(7)
Reissuance of common stock from Trust (b)		726				1,539	
Tax benefit from stock option exercises		2,668					
Net tax expense on other comprehensive income items				(432)			(432)
Balance June 30, 2003	$ 771	$ 225,465	$ 428,889	$ (2,530)	$ (4,289)	$ (24,262)	$ 19,300

(a) Issuance of common stock for stock option exercises.

(b) Reissuance of common stock from the Employee Benefits Trust for employee benefit programs.

2003 Employee Stock Purchase Plan

On July 29, 2003, the Company s stockholders approved the 2003 Employee Stock Purchase Plan (the 2003 Plan). The 2003 Plan is designed to encourage and assist employees of the Company to acquire an equity interest in the Company through the purchase of shares of Airgas common stock at a discount. The 2003 Plan is authorized to issue up to 1.5 million shares of common stock for purchase by employees. Eligible employees may elect to have up to 15% of their annual gross earnings withheld to purchase common stock at 85% of the market value. Market value under the 2003 Plan is defined as either the closing share price on the New York Stock Exchange as of the employees enrollment date or the closing price on the first business day of the fiscal quarter when the shares are purchased, whichever is lower. An employee may lock-in a purchase price for up to 12 months. The 2003 Plan is designed to comply with the requirements of Sections 421 and 423 of the Internal Revenue Code. The 2003 Plan will replace the previous 2001 Employee Stock Purchase Plan.

AIRGAS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(14) STOCK-BASED COMPENSATION

The Company has elected to continue to account for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation,* as amended by SFAS No. 148. Accordingly, no compensation expense has been recognized for its stock option and employee stock purchase plans. The following table illustrates the effect on net income and earnings per share for the three months ended June 30, 2003 and 2002 as if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based compensation.

	Three Months Ended June 30,	
(In thousands, except per share amounts)	**2003**	**2002**
Net earnings, as reported	$18,528	$14,044
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(1,271)	(1,996)
Pro forma net earnings	$17,257	$12,048
Net earnings per share:		
Basic as reported	$ 0.26	$ 0.20
Basic pro forma	$ 0.24	$ 0.17
Diluted as reported	$ 0.25	$ 0.20
Diluted pro forma	$ 0.23	$ 0.17

(15) COMMITMENTS AND CONTINGENCIES

Litigation

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

AIRGAS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(16) SUMMARY BY BUSINESS SEGMENT

Information related to the Company s operations by business segment for the three months ended June 30, 2003 and 2002 is as follows:

	Three Months Ended June 30, 2003				Three Months Ended June 30, 2002			
(In thousands)	Distribution	Gas Operations	Elim.	Combined	Distribution	Gas Operations	Elim.	Combined
Gas and rent	$220,407	$ 48,072	$ (9,597)	$258,882	$216,957	$ 43,666	$(8,840)	$251,783
Hardgoods	201,448	1,349	(623)	202,174	205,098	1,300	(513)	205,885
Total net sales	421,855	49,421	(10,220)	461,056	422,055	44,966	(9,353)	457,668
Cost of products sold, excl. deprec. expense	209,149	22,204	(10,220)	221,133	211,449	20,170	(9,353)	222,266
Selling, distribution and administrative expenses	161,950	16,511		178,461	160,615	15,684		176,299
Depreciation expense	16,170	3,121		19,291	15,678	2,781		18,459
Amortization expense	1,357	154		1,511	1,613	127		1,740
Special charges					2,694			2,694
Operating income	33,229	7,431		40,660	30,006	6,204		36,210

(17) SUPPLEMENTARY CONDENSED CONSOLIDATING FINANCIAL INFORMATION OF SUBSIDIARY GUARANTORS

The obligations of the Company under its senior subordinated notes (the Notes) are guaranteed by the Company s domestic subsidiaries (the Guarantors). The Company s joint venture operations, foreign holdings and bankruptcy remote special purpose entity (the Non-guarantors) are not guarantors of the Notes. The guarantees are made on a joint and several basis. The claims of creditors of Non-guarantor subsidiaries have priority over the rights of the Company to receive dividends or distributions from such subsidiaries. Presented below is supplementary condensed consolidating financial information for the Company, the Guarantors and the Non-guarantors as of June 30, 2003 and March 31, 2003 and for the three-month periods ended June 30, 2003 and 2002.

AIRGAS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Condensed Consolidating Balance Sheet
June 30, 2003

(In thousands)	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
ASSETS					
Current Assets					
Trade receivables, net	$	$ 4,410	$ 74,377	$	$ 78,787
Intercompany receivable/(payable)		(17,850)	17,850		
Inventories, net		153,814	4,154		157,968
Deferred income tax asset, net	7,464	10,594			18,058
Prepaid expenses and other current assets	11,037	18,032	337		29,406
Total current assets	18,501	169,000	96,718		284,219
Plant and equipment, net	17,240	830,080	24,615		871,935
Goodwill		427,747	12,230		439,977
Other intangible assets, net	486	20,420	236		21,142
Investments in unconsolidated affiliates	60,647	5,457			66,104
Investments in subsidiaries	1,398,367			(1,398,367)	
Intercompany receivable/(payable)	(199,005)	201,148	(2,143)		
Other non-current assets	33,372	6,098	1,673		41,143
Total assets	$1,329,608	$1,659,950	$133,329	$(1,398,367)	$1,724,520
LIABILITIES AND STOCKHOLDERS EQUITY					
Current Liabilities					
Accounts payable, trade	$ 1,169	$ 73,083	$ 3,069	$	$ 77,321
Accrued expenses and other current liabilities	57,035	48,040	2,834		107,909
Current portion of long-term debt		513	96		609
Total current liabilities	58,204	121,636	5,999		185,839
Long-term debt	639,150	7,818	22,246		669,214
Deferred income tax liability, net	942	208,697	5,574		215,213
Other non-current liabilities	7,268	22,577	365		30,210
Commitments and contingencies					
Stockholders Equity					
Preferred stock, no par value					
Common stock, par value $.01 per share	771				771
Capital in excess of par value	225,465	860,164	8,224	(868,388)	225,465
Retained earnings	428,889	439,043	90,164	(529,207)	428,889
Accumulated other Comprehensive income (loss)	(2,530)	15	757	(772)	(2,530)
Treasury stock	(4,289)				(4,289)
Employee benefits trust	(24,262)				(24,262)
Total stockholders equity	624,044	1,299,222	99,145	(1,398,367)	624,044
	$1,329,608	$1,659,950	$133,329	$(1,398,367)	$1,724,520

Total liabilities and stockholders equity					

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AIRGAS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidating Balance Sheet
March 31, 2003

(In thousands)	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
ASSETS					
Current Assets					
Trade receivables, net	$	$ 4,543	$66,803	$	$71,346
Intercompany receivable/(payable)		(8,032)	8,032		
Inventories, net		148,088	3,317		