

AIRGAS INC  
Form 10-Q  
August 06, 2004

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended: **June 30, 2004**

**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  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  No

Common Stock outstanding at August 3, 2004: 74,588,651 shares

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**AIRGAS, INC.**

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## Item 1. Financial Statements

**AIRGAS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF EARNINGS**

(Unaudited)

(In thousands, except per share amounts)

	<b>Three Months Ended June 30,</b>	
	<b>2004</b>	<b>2003</b>
<b>Net sales</b>	\$544,017	\$461,056
<b>Costs and expenses</b>		
Cost of products sold (excluding depreciation)	266,221	221,133
Selling, distribution and administrative expenses	204,062	178,461
Depreciation	23,929	19,291
Amortization	1,433	1,511
	<hr/>	<hr/>
Total costs and expenses	495,645	420,396
	<hr/>	<hr/>
<b>Operating income</b>	48,372	40,660
Interest expense, net	(11,855)	(10,435)
Discount on securitization of trade receivables	(830)	(868)
Other income (expense), net	174	(173)
Equity in earnings of unconsolidated affiliates	248	700
	<hr/>	<hr/>
Earnings before income taxes and minority interest	36,109	29,884
Income taxes	13,541	11,356
	<hr/>	<hr/>
Earnings before minority interest	22,568	18,528
Minority interest	452	
	<hr/>	<hr/>
<b>Net earnings</b>	\$ 22,116	\$ 18,528
	<hr/>	<hr/>
Basic earnings per share	\$ 0.30	\$ 0.26
	<hr/>	<hr/>
Diluted earnings per share	\$ 0.29	\$ 0.25
	<hr/>	<hr/>

Weighted average shares outstanding:		
Basic	74,200	71,900
	<u>          </u>	<u>          </u>
Diluted	76,200	73,900
	<u>          </u>	<u>          </u>
Comprehensive income	\$ 22,956	\$ 19,300
	<u>          </u>	<u>          </u>

See accompanying notes to consolidated financial statements.

**Table of Contents****AIRGAS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(In thousands, except per share amounts)

	<b>(Unaudited) June 30, 2004</b>	<b>March 31, 2004</b>
	<hr/>	<hr/>
<b>ASSETS</b>		
<b>Current Assets</b>		
Trade receivables, less allowances for doubtful accounts of \$7,496 at June 30, 2004 and \$7,294 at March 31, 2004	\$ 100,810	\$ 107,013
Inventories, net	187,671	170,300
Deferred income tax asset, net	23,022	21,054
Prepaid expenses and other current assets	23,339	28,463
	<hr/>	<hr/>
<b>Total current assets</b>	334,842	326,830
	<hr/>	<hr/>
Plant and equipment, at cost	1,675,797	1,654,187
Less accumulated depreciation	(637,957)	(620,261)
	<hr/>	<hr/>
Plant and equipment, net	1,037,840	1,033,926
Goodwill	505,140	504,207
Other intangible assets, net	18,520	19,733
Investments in unconsolidated affiliates	5,932	6,292
Other non-current assets	33,741	40,091
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$1,936,015</b>	<b>\$1,931,079</b>
	<hr/>	<hr/>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable, trade	\$ 102,034	\$ 114,303
Accrued expenses and other current liabilities	120,507	122,026
Current portion of long-term debt	6,130	6,140
	<hr/>	<hr/>
<b>Total current liabilities</b>	228,671	242,469
	<hr/>	<hr/>
Long-term debt	662,963	682,698
Deferred income taxes, net	263,860	257,031
Other non-current liabilities	18,586	20,789

Minority interest in subsidiary	36,191	36,191
Commitments and contingencies		
<b>Stockholders Equity</b>		
Preferred stock, no par value, 20,000 shares authorized, no shares issued or outstanding at June 30, 2004 and March 31, 2004		
Common stock, par value \$0.01 per share, 200,000 shares authorized, 77,439 and 77,159 shares issued at June 30, 2004 and March 31, 2004, respectively	774	772
Capital in excess of par value	242,946	233,574
Retained earnings	500,424	481,677
Accumulated other comprehensive loss	(1,726)	(2,566)
Treasury stock, 1,408 and 1,470 common shares at cost at June 30, 2004 and March 31, 2004	(4,174)	(4,658)
Employee benefits trust, 1,658 and 2,241 common shares at cost at June 30, 2004 and March 31, 2004, respectively	(12,500)	(16,898)
	<u>725,744</u>	<u>691,901</u>
<b>Total stockholders equity</b>		
	<u>725,744</u>	<u>691,901</u>
<b>Total liabilities and stockholders equity</b>	<u>\$1,936,015</u>	<u>\$1,931,079</u>

See accompanying notes to consolidated financial statements.

**Table of Contents****AIRGAS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

<b>(Dollars in thousands)</b>	<b>Three Months Ended June 30, 2004</b>	<b>Three Months Ended June 30, 2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings	\$ 22,116	\$ 18,528
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	23,929	19,291
Amortization	1,433	1,511
Deferred income taxes	6,600	4,800
Equity in earnings of unconsolidated affiliates	(248)	(700)
Gain on divestiture	(380)	
Losses on sales of plant and equipment	211	57
Minority interest in earnings	452	
Stock issued for employee stock purchase plan	2,327	2,264
Changes in assets and liabilities, excluding effects of business acquisitions and divestitures:		
Securitization of trade receivables	8,900	(2,300)
Trade receivables, net	(2,892)	(4,073)
Inventories, net	(18,749)	(5,682)
Prepaid expenses and other current assets	4,354	392
Accounts payable, trade	(12,264)	(8,259)
Accrued expenses and other current liabilities	(6,730)	(12,368)
Other assets	1	(1,551)
Other liabilities	(1,140)	3,804
	<hr/>	<hr/>
Net cash provided by operating activities	27,920	15,714
	<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(26,634)	(21,319)
Proceeds from sales of plant and equipment	678	1,342
Proceeds from divestiture	828	
Business acquisitions, holdbacks and other settlements of acquisition related liabilities	(528)	(5,750)
Dividends and fees from unconsolidated affiliates	608	422
Other, net	(16)	(1,520)
	<hr/>	<hr/>
Net cash used in investing activities	(25,064)	(26,825)
	<hr/>	<hr/>



**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from borrowings	62,369	81,603
Repayment of debt	(77,353)	(74,505)
Minority interest	(452)	
Exercise of stock options	8,836	5,803
Dividends paid	(3,369)	(2,925)
Cash overdraft	7,113	1,135
	<u>          </u>	<u>          </u>
Net cash provided by (used in) financing activities	(2,856)	11,111
	<u>          </u>	<u>          </u>
Change in cash	\$	\$
Cash Beginning of period	<u>          </u>	<u>          </u>
Cash End of period	\$ <u>          </u>	\$ <u>          </u>
Cash paid during the period for:		
Interest	\$ 13,163	\$ 13,874
Income taxes, net of refunds	\$ 8,824	\$ 1,466

See accompanying notes to consolidated financial statements.

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**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), as well as the Company's consolidated affiliate, National Welders (see Note 2). Intercompany accounts and transactions, including those between the Company and National Welders, 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, 2004.

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. The interim operating results are not necessarily indicative of the results to be expected for an entire year.

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

Effective December 31, 2003, the Company adopted Financial Accounting Standards Board Interpretation No. 46R, Consolidation of Variable Interest Entities, with respect to its joint venture with National Welders Supply Company, Inc. (National Welders), a producer and distributor of industrial, medical and specialty gases based in Charlotte, North Carolina. For the three months ended June 30, 2003, National Welders' operating results were reflected as Equity in Earnings of Unconsolidated Affiliates. For the three months ended June 30, 2004, the operating results of National Welders were reported broadly across the income statement in the All Other Operations business segment. National Welders contributed \$39.6 million to sales and \$3.9 million to operating income for the three months ended June 30, 2004. The consolidation of National Welders had no impact on the Company's consolidated net earnings.

**(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 All Other 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 Company paid cash of \$5.8 million for the two acquired businesses. Costs in excess of net assets acquired (goodwill) related to the acquisitions totaled \$1.3 million.

*(b) Divestiture*

In May 2004, the Company divested a janitorial products distribution business for cash proceeds of \$828 thousand and recognized a gain of \$380 thousand. Proceeds from the divestiture were used to reduce borrowings under the

Company's revolving credit facilities. The business was included in the Distribution segment and generated annual sales of approximately \$5 million.

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**AIRGAS, INC. AND SUBSIDIARIES**  
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**(4) 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, 2004 and 2003:

<b>(In thousands)</b>	<b>Three Months Ended June 30,</b>	
	<b>2004</b>	<b>2003</b>
Weighted average common shares outstanding:		
Basic	74,200	71,900
Stock options and warrants	2,000	2,000
	<hr/>	<hr/>
Diluted	76,200	73,900
	<hr/>	<hr/>

Pursuant to a joint venture agreement between the Company and the holders of the preferred stock of National Welders, between June 30, 2006 and June 30, 2009, the preferred shareholders have the option to exchange their 3.2 million preferred shares of National Welders either for cash at a price of \$17.78 per share or to tender them to the joint venture in exchange for approximately 2.3 million shares of Airgas common stock. If Airgas common stock has a market value of \$24.45 per share, the stock and cash redemption options are equivalent. No contingently issuable shares are included in the diluted weighted average common shares calculation (the diluted computation), as the conversion of the National Welders preferred stock in exchange for the Company's common stock is anti-dilutive.

Outstanding stock options and warrants, with an exercise price above market, are excluded from the Company's diluted computation as their effect would be anti-dilutive. There were approximately 19 thousand and 1.6 million outstanding stock options and warrants with an exercise price above the average market price for the three months ended June 30, 2004 and June 30, 2003, respectively. If the average market value of the Company's common stock increases above the respective exercise prices of the options and warrants, they will be included in the diluted computation as common stock equivalents.

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**(5) TRADE RECEIVABLES SECURITIZATION**

The Company participates in a securitization agreement with two commercial banks to sell up to \$175 million of qualifying trade receivables. The agreement will expire in December 2005, but may be renewed subject to renewal provisions contained in the agreement. During the three months ended June 30, 2004, the Company sold, net of its retained interest, \$456.9 million of trade receivables and remitted to bank conduits, pursuant to a servicing agreement, \$448.0 million in collections on those receivables. The amount of outstanding receivables under the agreement was \$171.5 million at June 30, 2004 and \$162.6 million at March 31, 2004. Effective July 30, 2004, the maximum amount of qualified trade receivables that can be sold under the securitization increased to \$200 million.

The transaction has been accounted for as a sale under the provisions of Statement of Financial Accounting Standards 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 \$43 million and \$44 million are included in Trade receivables in the accompanying Consolidated Balance Sheets at June 30, 2004 and March 31, 2004, 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.

**(6) INVENTORIES, NET**

Inventories, net, consist of:

<b>(In thousands)</b>	<b>(Unaudited)</b> <b>June 30,</b> <b>2004</b>	<b>March 31,</b> <b>2004</b>
Hardgoods	\$ 170,700	\$ 154,038
Gases	16,971	16,262
	<b>\$ 187,671</b>	<b>\$ 170,300</b>

Net inventories determined by the LIFO inventory method totaled \$29.1 million and \$26.8 million at June 30, 2004 and March 31, 2004, respectively. If the FIFO inventory method had been used for these inventories, the carrying value would have been increased \$3 million at June 30, 2004 and March 31, 2004, respectively. Substantially all of the inventories are finished goods.

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**AIRGAS, INC. AND SUBSIDIARIES**  
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**(Unaudited)**

**(7) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities include:

<b>(In thousands)</b>	<b>(Unaudited)</b> <b>June 30,</b> <b>2004</b>	<b>March 31,</b> <b>2004</b>
Accrued payroll and employee benefits	\$ 34,104	\$ 39,133
Business insurance reserves	20,451	19,824
Health insurance reserves	9,845	9,627
Taxes other than income taxes	13,806	12,828
Accrued interest expense	12,003	12,724
Other accrued expenses and current liabilities	30,298	27,890
	<b>\$ 120,507</b>	<b>\$ 122,026</b>

**(8) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

The Company manages its exposure to changes in market interest rates. The Company's involvement with derivative instruments is limited to highly effective fixed and floating interest rate swap agreements used to manage well-defined interest rate risk exposures. Interest rate swap agreements are not entered into for trading purposes.

At June 30, 2004, the Company had six fixed interest rate swap agreements with a notional amount of \$140 million that effectively convert a corresponding amount of variable interest rate debt of the Grantor Trust and the trade receivables securitization (see Note 5) to fixed rate debt. The swap agreements require the Company to make fixed interest payments based on an average effective rate of 4.41% and receive variable interest payments from its counterparties based on three-month LIBOR (average rate of 1.18% at June 30, 2004). The remaining terms of these swap agreements range from between one month and five years. During the three months ended June 30, 2004, the Company recorded a net decrease in the fair value of the fixed interest rate swap agreements of \$1.3 million as a reduction of Accumulated Other Comprehensive Loss.

At June 30, 2004, the Company also had four variable interest rate swap agreements with a notional amount of \$125 million that effectively converts a corresponding amount of fixed rate medium-term and senior subordinated notes to variable rate debt. The swap agreements require the Company to make variable interest payments based primarily on six-month LIBOR plus a credit spread (average rate of 3.14% at June 30, 2004) and receive fixed interest payments from its counterparties based on an average effective rate of 8.36% at June 30, 2004. The remaining terms of these swap agreements range from between two and seven years. The fair value of these variable interest rate swap agreements and the increased carrying value of the hedged portions of the medium-term and senior subordinated notes at June 30, 2004 was \$9.1 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.





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

**(8) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (continued)***National Welders Hedging Activities*

The Company's National Welders joint venture affiliate participates in one interest rate swap with a notional principal amount of \$21 million that effectively converts a corresponding amount of variable interest rate debt to a fixed rate debt instrument. The interest rate swap requires National Welders to make interest payments based on a fixed rate of 6.72% and receive variable interest payments from its counterparty based on a floating LIBOR rate of 1.34% at June 30, 2004. The interest rate swap agreement was not entered into for trading purposes.

At June 30, 2004, the effect of these interest rate swap agreements was to adjust the Company's ratio of fixed to variable interest rates to 63% fixed and 37% variable. See Note 14 for the impact of subsequent borrowings.

**(9) GOODWILL AND OTHER INTANGIBLE ASSETS**

Changes in the net carrying amount of goodwill for the three months ended June 30, 2004 were as follows:

<b>(In thousands)</b>	<b>Distribution Segment</b>	<b>All Other Operations Segment</b>	<b>Total</b>
Balance at March 31, 2004	\$372,563	\$131,644	\$504,207
Acquisitions	2,112		2,112
Other adjustments	(1,156)	(23)	(1,179)
Balance at June 30, 2004	<u>\$373,519</u>	<u>\$131,621</u>	<u>\$505,140</u>

Other intangible assets amounted to \$18.5 million and \$19.7 million (net of accumulated amortization of \$34.6 million and \$33.2 million) at June 30, 2004 and March 31, 2004, respectively. These intangible assets primarily consist of acquired customer lists amortized over 7 to 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 2005 - \$4.0; 2006 - \$4.4; 2007 - \$3.1; 2008 - \$2.4 million; 2009 - \$1.2 million, and \$3.4 million thereafter.

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**AIRGAS, INC. AND SUBSIDIARIES**  
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**(Unaudited)**

**(10) STOCKHOLDERS EQUITY**

Changes in stockholders equity were as follows:

<b>(In thousands of shares)</b>	<b>Shares of Common Stock \$.01 Par Value</b>	<b>Treasury Stock</b>	<b>Employee Benefits Trust</b>
Balance March 31, 2004	77,159	1,470	2,241
Common stock issuance (a)	280		
Reissuance of treasury stock for warrant exercises		(62)	
Reissuance of stock from Trust (b)			(583)
	<u>77,439</u>	<u>1,408</u>	<u>1,658</u>
Balance June 30, 2004	77,439	1,408	1,658

<b>(In thousands of dollars)</b>	<b>Common Stock</b>	<b>Capital in Excess of Par Value</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Treasury Stock</b>	<b>Employee Benefits Trust</b>	<b>Compre- hensive Income</b>
Balance March 31, 2004	\$ 772	\$233,574	\$481,677	\$ (2,566)	\$(4,658)	\$(16,898)	\$
Net earnings			22,116				22,116
Common stock issuance (a)	2	3,617					
Dividends paid on common stock (\$.045 per share)			(3,369)				
Foreign currency translation adjustments				(465)			(465)
Net change in fair value of interest rate swap agreements				2,044			2,044
Reissuance of common stock from Trust (b)		3,145				4,398	
Reissuance of treasury stock for warrant exercises		(484)			484		
Tax benefit from stock option exercises		3,094					
Net tax expense on other comprehensive income items				(739)			(739)

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Balance June 30, 2004	\$ 774	\$ 242,946	\$ 500,424	\$ (1,726)	\$ (4,174)	\$ (12,500)	\$ 22,956
	—	—	—	—	—	—	—

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

(b) Reissuance of common stock from the Employee Benefits Trust for employee stock option exercises and purchases through the Employee Stock Purchase Plan.

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

**(11) 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, 2004 and 2003 as if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based compensation. The fair value of each option grant is estimated as of the grant date using the Black-Scholes option pricing model.

<b>(In thousands, except per share amounts)</b>	<b>Three Months Ended June 30,</b>	
	<b>2004</b>	<b>2003</b>
Net earnings, as reported	\$ 22,116	\$ 18,528
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(1,296)	(1,271)
Pro forma net earnings	<u>\$ 20,820</u>	<u>\$ 17,257</u>
Net earnings per share:		
Basic as reported	\$ 0.30	\$ 0.26
Basic pro forma	\$ 0.28	\$ 0.24
Diluted as reported	\$ 0.29	\$ 0.25
Diluted pro forma	\$ 0.27	\$ 0.23

**(12) 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.

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

**(13) SUMMARY BY BUSINESS SEGMENT**

Information related to the Company's operations by business segment for the three months ended June 30, 2004 and 2003 is as follows:

<b>(In thousands)</b>	<b>Three Months Ended June 30, 2004</b>				<b>Three Months Ended June 30, 2003</b>			
	<b>Distribution</b>	<b>All Other Operations</b>	<b>Elim.</b>	<b>Combined</b>	<b>Distribution</b>	<b>All Other Operations</b>	<b>Elim.</b>	<b>Combined</b>
Gas and rent	\$228,578	\$77,169	\$(10,438)	\$295,309	\$220,407	\$48,072	\$ (9,597)	\$258,882
Hardgoods	233,809	15,794	(895)	248,708	201,448	1,349	(623)	202,174
Total net sales	462,387	92,963	(11,333)	544,017	421,855	49,421	(10,220)	461,056
Cost of products sold, excl. deprec. expense	236,096	41,458	(11,333)	266,221	209,149	22,204	(10,220)	221,133
Selling, distribution and administrative expenses	171,100	32,962		204,062	161,950	16,511		178,461
Depreciation expense	17,997	5,932		23,929	16,170	3,121		19,291
Amortization expense	1,265	168		1,433	1,357	154		1,511
Operating income	35,929	12,443		48,372	33,229	7,431		40,660

**(14) SUBSEQUENT EVENTS***Acquisition*

On July 30, 2004, the Company acquired the assets of the U.S. packaged gas business of The BOC Group, Inc. (BOC) for \$175 million cash, exclusive of transaction costs, plus up to \$25 million to be paid on or about November 15, 2005. The \$25 million contingent portion of the purchase price is based on the Company achieving certain financial targets. The acquisition was financed through borrowing on the Company's variable rate revolving credit facilities. As a result of the additional borrowing, the Company's ratio of fixed to variable interest rates was approximately 50% fixed to 50% variable at July 31, 2004.

The Company acquired the BOC business based on its strategic fit with the Company's existing packaged gas distribution business and to strengthen its national network by giving it a presence in important new geographies. The acquisition includes more than 120 retail stores, warehouses, fill plants and other operations in 21 states involved in distributing packaged industrial, specialty and medical gases, as well as welding equipment and supplies. The acquired business generated approximately \$240 million in revenue in its fiscal year ended September 30, 2003. Approximately 65 percent of the revenues were from gas sales and cylinder rent, with the remainder from welding hardgoods and supplies. The acquired operations will be predominately reported in the Distribution segment.

In addition to the assets acquired, the Company and BOC signed reciprocal long-term supply agreements. The Company will become the supplier for a substantial portion of BOC's resale packaged gas needs. BOC will supply liquid bulk gases to support the operations it sold to the Company.

*Dividend declaration*

On August 4, 2004, the Company announced that its Board of Directors declared a regular quarterly cash dividend of \$0.045 per share payable September 30, 2004 to stockholders of record as of September 15, 2004.

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**AIRGAS, INC. AND SUBSIDIARIES  
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(Unaudited)**

(14) SUBSEQUENT EVENTS (continued)

*1997 Directors Stock Option Plan, as amended*

On August 4, 2004, the Company announced that its stockholders approved an amendment to the 1997 Directors Stock Option Plan (the Plan). The amendment increased the maximum authorized shares issuable under the Plan to 800 thousand.

(15) 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 guarantees are made on a joint and several basis. The Company's joint venture operations, foreign holdings and bankruptcy remote special purpose entity (the Non-guarantors) are not guarantors of the Notes. As such, the claims of the creditors of the Non-guarantors have priority over the rights of the Company to receive dividends or distributions from the Non-guarantors.

Effective December 31, 2003, the Company adopted FIN 46R with respect to its National Welders joint venture (see Note 2). As permitted by FIN 46R, the Company applied the interpretation prospectively. With the adoption of FIN 46R, the operating results of the National Welders joint venture and corresponding minority interest expense were reflected in the Condensed Consolidating Statement of Earnings with the Non-guarantors. In prior periods, the Company reported its share of the operating results of the National Welders joint venture as equity in earnings of unconsolidated affiliates under the Parent. Presented below is supplementary condensed consolidating financial information for the Company, the Guarantors and the Non-guarantors as of June 30, 2004 and March 31, 2004 and for the three-month periods ended June 30, 2004 and 2003.

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**AIRGAS, INC. AND SUBSIDIARIES**  
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**(Unaudited)**

**Condensed Consolidating Balance Sheet**  
**June 30, 2004**

<b>(In thousands)</b>	<b>Parent</b>	<b>Guarantors</b>	<b>Non- Guarantors</b>	<b>Elimination Entries</b>	<b>Consolidated</b>
<b>ASSETS</b>					
<b>Current Assets</b>					
Trade receivables, net	\$	\$ 5,290	\$ 95,520	\$	\$ 100,810
Intercompany receivable/(payable)		(7,788)	7,788		
Inventories, net		174,872	12,799		187,671
Deferred income tax asset, net	9,545	11,316	2,161		23,022
Prepaid expenses and other current assets	3,157	13,186	6,996		23,339
	<u>12,702</u>	<u>196,876</u>	<u>125,264</u>		<u>334,842</u>
<b>Total current assets</b>	12,702	196,876	125,264		334,842
Plant and equipment, net	26,025	874,470	137,345		1,037,840
Goodwill		440,384	64,756		505,140
Other intangible assets, net	77	17,324	1,119		18,520
Investments in unconsolidated affiliates	1,108	4,824			5,932
Investments in subsidiaries	1,511,089			(1,511,089)	
Intercompany receivable/(payable)	(209,206)	158,449	50,757		
Other non-current assets	26,786	4,114	2,841		33,741
	<u>\$1,368,581</u>	<u>\$1,696,441</u>	<u>\$382,082</u>	<u>\$(1,511,089)</u>	<u>\$1,936,015</u>
<b>Total assets</b>	\$1,368,581	\$1,696,441	\$382,082	\$(1,511,089)	\$1,936,015
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>Current Liabilities</b>					
Accounts payable, trade	\$ 695	\$ 91,771	\$ 9,568	\$	\$ 102,034
Accrued expenses and other current liabilities	47,828	55,777	16,902		120,507
Current portion of long-term debt		449	5,681		6,130
	<u>48,523</u>	<u>147,997</u>	<u>32,151</u>		<u>228,671</u>
<b>Total current liabilities</b>	48,523	147,997	32,151		228,671



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Long-term debt	592,413	5,716	64,834		662,963
Deferred income tax (asset) liability, net	(3,800)	228,993	38,667		263,860
Other non-current liabilities	4,350	10,761	3,475		18,586
Minority interest in subsidiary Commitments and contingencies			36,191		36,191
<b>Stockholders Equity</b>					
Preferred stock, no par value					
Common stock, par value \$0.01 per share	774				774
Capital in excess of par value	242,946	782,874	71,955	(854,829)	242,946
Retained earnings	500,424	520,280	135,980	(656,260)	500,424
Accumulated other comprehensive loss	(745)	(180)	(801)		(1,726)
Treasury stock	(3,804)		(370)		(4,174)
Employee benefits trust	(12,500)				(12,500)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total stockholders equity</b>	727,095	1,302,974	206,764	(1,511,089)	725,744
<b>Total liabilities and stockholders equity</b>	<b>\$1,368,581</b>	<b>\$1,696,441</b>	<b>\$382,082</b>	<b>\$(1,511,089)</b>	<b>\$1,936,015</b>

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**AIRGAS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Condensed Consolidating Balance Sheet**  
**March 31, 2004**

(In thousands)	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
<b>ASSETS</b>					
<b>Current Assets</b>					
Trade receivables, net	\$	\$ 5,263	\$ 101,750	\$	\$ 107,013
Intercompany receivable/(payable)		(7,471)	7,471		
Inventories, net		157,991	12,309		170,300
Deferred income tax asset, net	9,391	10,679	984		21,054
Prepaid expenses and other current assets	4,839	18,422	5,202		28,463
<b>Total current assets</b>	14,230	184,884	127,716		326,830
Plant and equipment, net	26,906	868,400	138,620		1,033,926
Goodwill		436,505	67,702		504,207
Other intangible assets, net	304	19,187	242		19,733
Investments in unconsolidated affiliates	1,117	5,175			6,292
Investments in subsidiaries	1,481,948			(1,481,948)	
Intercompany receivable/(payable)	(198,326)	168,423	29,903		
Other non-current assets	30,634	6,619	2,838		40,091
<b>Total assets</b>	<b>\$1,356,813</b>	<b>\$1,689,193</b>	<b>\$367,021</b>	<b>\$(1,481,948)</b>	<b>\$1,931,079</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>Current Liabilities</b>					
Accounts payable, trade	\$ 4,298	\$ 100,239	\$ 9,766	\$	\$ 114,303
Accrued expenses and other current liabilities	49,870	60,604	11,552		122,026
Current portion of long-term debt		467	5,673		6,140
<b>Total current liabilities</b>	54,168	161,310	26,991		242,469
Long-term debt	607,832	6,185	68,681		682,698

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Deferred income tax (asset) liability, net	(4,115)	223,409	37,737		257,031
Other non-current liabilities	5,687	10,933	4,169		20,789
Minority interest in subsidiaries			36,191		36,191
Commitments and contingencies					
<b>Stockholders Equity</b>					
Preferred stock, no par value					
Common stock, par value \$0.01 per share	772				772
Capital in excess of par value	233,574	786,534	71,956	(858,490)	233,574
Retained earnings	481,677	500,822	122,636	(623,458)	481,677
Accumulated other comprehensive loss	(1,596)		(970)		(2,566)
Treasury stock	(4,288)		(370)		(4,658)
Employee benefits trust	(16,898)				(16,898)
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
<b>Total stockholders equity</b>	693,241	1,287,356	193,252	(1,481,948)	691,901
<b>Total liabilities and stockholders equity</b>	<u>\$1,356,813</u>	<u>\$1,689,193</u>	<u>\$367,021</u>	<u>\$(1,481,948)</u>	<u>\$1,931,079</u>

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

**Condensed Consolidating Statement of Earnings**  
**Three Months Ended**  
**June 30, 2004**

<b>(In thousands)</b>	<b>Parent</b>	<b>Guarantors</b>	<b>Non- Guarantors</b>	<b>Elimination Entries</b>	<b>Consolidated</b>
<b>Net sales</b>	\$	\$499,054	\$44,963	\$	\$544,017
<b>Costs and expenses</b>					
Costs of products sold (excluding depreciation)		247,389	18,832		266,221
Selling, distribution and administrative expenses	13,314	171,275	19,473		204,062
Depreciation	1,820	18,696	3,413		23,929
Amortization	22	1,382	29		1,433
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Operating income (loss)</b>	(15,156)	60,312	3,216		48,372
Interest (expense) income, net	(14,917)	3,907	(845)		(11,855)
(Discount) gain on securitization of trade receivables		(20,076)	19,246		(830)
Other income (expense), net	13,633	(13,170)	(289)		174
Equity in earnings of unconsolidated affiliates		248			248
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Earnings (losses) before income taxes and minority interest expense	(16,440)	31,221	21,328		36,109
Income tax benefit (expense)	5,754	(11,763)	(7,532)		(13,541)
Minority interest (expense)			(452)		(452)
Equity in earnings of subsidiaries	32,802			(32,802)	
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net earnings</b>	\$ 22,116	\$ 19,458	\$13,344	\$(32,802)	\$ 22,116
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**AIRGAS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Condensed Consolidating Statement of Earnings**  
**Three Months Ended**  
**June 30, 2003**

<b>(In thousands)</b>	<b>Parent</b>	<b>Guarantors</b>	<b>Non- Guarantors</b>	<b>Elimination Entries</b>	<b>Consolidated</b>
<b>Net sales</b>	\$	\$454,723	\$ 6,333	\$	\$461,056
<b>Costs and expenses</b>					
Costs of products sold (excluding depreciation)		219,445	1,688		221,133
Selling, distribution and administrative expenses	13,669	159,814	4,978		178,461
Depreciation	1,609	17,093	589		19,291
Amortization	59	1,452			1,511
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Operating income (loss)</b>	(15,337)	56,919	(922)		40,660
Interest (expense) income, net	(14,065)	3,927	(297)		(10,435)
(Discount) gain on securitization of trade receivables		(20,186)	19,318		(868)
Other income (expense), net	14,357	(14,836)	306		(173)
Equity in earnings of unconsolidated affiliates	662	38			700
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Earnings (loss) before income taxes	(14,383)	25,862	18,405		29,884
Income tax benefit (expense)	5,476	(10,311)	(6,521)		(11,356)
Equity in earnings of subsidiaries	27,435			(27,435)	
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net earnings</b>	\$ 18,528	\$ 15,551	\$11,884	\$(27,435)	\$ 18,528
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**AIRGAS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Condensed Consolidating Statement of Cash Flows**  
**Three Months Ended**  
**June 30, 2004**

<b>(In thousands)</b>	<b>Parent</b>	<b>Guarantors</b>	<b>Non- Guarantors</b>	<b>Elimination Entries</b>	<b>Consolidated</b>
<b>Net cash (used in) provided by operating activities</b>	\$(16,025)	\$ 19,145	\$ 24,800	\$	\$ 27,920
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Capital expenditures	(884)	(23,480)	(2,270)		(26,634)
Proceeds from sales of plant and equipment		151	527		678
Proceeds from divestiture		828			828
Business acquisitions and acquisition liability settlements		(528)			(528)
Dividends and fees from unconsolidated affiliates	263	345			608
Other, net	16		(32)		(16)
<b>Net cash used in investing activities</b>	(605)	(22,684)	(1,775)		(25,064)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from borrowings	50,273		12,096		62,369
Repayment of debt	(60,931)	(486)	(15,936)		(77,353)
Minority interest			(452)		(452)
Exercise of stock options	8,836				8,836
Dividends paid to stockholders	(3,369)				(3,369)
Cash overdraft	6,619		494		7,113
Intercompany	15,202	4,025	(19,227)		
<b>Net cash provided by (used in) financing activities</b>	16,630	3,539	(23,025)		(2,856)
<b>CHANGE IN CASH</b>	\$	\$	\$	\$	\$

Cash	Beginning of year	_____	_____	_____	_____	_____
Cash	End of year	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____

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

**Condensed Consolidating Statement of Cash Flows**  
**Three Months Ended**  
**June 30, 2003**

<b>(In thousands)</b>	<b>Parent</b>	<b>Guarantors</b>	<b>Non- Guarantors</b>	<b>Elimination Entries</b>	<b>Consolidated</b>
<b>Net cash (used in) provided by operating activities</b>	\$ (6,071)	\$ 26,253	\$(4,468)	\$ —	\$ 15,714
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Capital expenditures	(951)	(19,976)	(392)		(21,319)
Proceeds from sales of plant and equipment		1,342			1,342
Business acquisitions and acquisition liability settlements		(5,750)			(5,750)
Dividends and fees from unconsolidated affiliates	244	178			422
Other, net	(501)	(1,904)	885		(1,520)
<b>Net cash (used in) provided by investing activities</b>	(1,208)	(26,110)	493		(26,825)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from borrowings	80,402		1,201		81,603
Repayment of debt	(73,652)	(788)	(65)		(74,505)
Exercise of stock options	5,803				5,803
Dividends paid to common stockholders	(2,925)	&#1			