AIRGAS INC
Form 10-K
May 26, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2011

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File No. 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, Pennsylvania	**19087-5283**
(Address of principal executive offices)	**(Zip Code)**

(610) 687-5253

(Registrant s telephone number, including area code)

Securities Registered Pursuant to Section 12 (b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12 (g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x NO ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

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 ¨

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) YES x NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of the 75,832,680 shares of voting stock held by non-affiliates of the registrant was approximately $5.2 billion computed by reference to the closing price of such stock on the New York Stock Exchange as of the last day of the registrant s most recently completed second quarter, September 30, 2010. For purposes of this calculation, only executive officers and directors were deemed to be affiliates.

The number of shares of common stock outstanding as of May 20, 2011 was 78,499,297.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s Proxy Statement for the 2011 Annual Meeting of Stockholders (when it is filed) will be incorporated by reference into Part III of this Report.

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AIRGAS, INC.

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PART I

ITEM 1. BUSINESS.

GENERAL

Airgas, Inc. and subsidiaries (Airgas or the Company) became a publicly traded company in 1986 and, through its subsidiaries, is the largest U.S. distributor of industrial, medical and specialty gases (delivered in packaged or cylinder form), and hardgoods, such as welding equipment and supplies. Airgas is also one of the largest U.S. distributors of safety products, the largest U.S. producer of nitrous oxide and dry ice, the largest liquid carbon dioxide producer in the Southeast, the fifth largest producer of atmospheric merchant gases in North America, and a leading distributor of process chemicals, refrigerants and ammonia products. The Company markets these products to its diversified customer base through multiple sales channels including branch-based sales representatives, retail stores, strategic customer account programs, telesales, catalogs, eBusiness and independent distributors. Products reach customers through an integrated network of more than 14,000 employees and approximately 1,100 locations including branches, retail stores, gas fill plants, specialty gas labs, production facilities and distribution centers. The Company s national scale and strong local presence offer a competitive edge to its diversified customer base.

The Company s consolidated sales were $4.25 billion, $3.88 billion and $4.36 billion in the fiscal years ended March 31, 2011, 2010 and 2009, respectively. The Company s operations are predominantly in the United States. However, the Company does conduct operations outside of the United States, principally in Canada and, to a lesser extent, Mexico, Russia, Dubai and Europe. Revenues derived from foreign countries, based on the point of sale, were $75 million, $77 million and $86 million in the fiscal years ended March 31, 2011, 2010 and 2009, respectively. Long-lived assets attributable to the Company s foreign operations represent less than 4.0% of the consolidated total long-lived assets of the Company and were $142 million, $141 million and $116 million at March 31, 2011, 2010 and 2009, respectively.

Since its inception, the Company has made approximately 400 acquisitions. During fiscal 2011, the Company acquired eight businesses with aggregate historical annual sales of more than $21 million. The largest of these businesses was Conley Gas, Ltd., a supplier of pure gases to the specialty gas industry. The La Porte, Texas-based business purifies, repackages and distributes high-purity hydrocarbons such as methane and ethylene. The Company acquired these eight businesses in order to expand its geographic coverage and strengthen its national network of branch-store locations. The Company paid a total of $21.2 million in cash to acquire these businesses and settle holdback liabilities and contingent consideration arrangements associated with certain prior year acquisitions. See Note 3 to the Company s Consolidated Financial Statements under Item 8, Financial Statements and Supplementary Data, for a description of current and prior year acquisition activity.

The Company has two reporting segments, Distribution and All Other Operations. The Distribution business segment primarily engages in the distribution of industrial, medical and specialty gases and hardgoods, and in the production of gases to supply the regional distribution companies. The All Other Operations business segment consists of six business units which primarily manufacture and/or distribute carbon dioxide, dry ice, nitrous oxide, ammonia and refrigerant gases. Financial information by business segment can be found in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A), and in Note 21 to the Company s Consolidated Financial Statements under Item 8, Financial Statements and Supplementary Data. A more detailed description of the Company s business segments follows.

DISTRIBUTION BUSINESS SEGMENT

The Distribution business segment accounted for approximately 90% of consolidated sales in each of the fiscal years 2011, 2010 and 2009.

Principal Products and Services

The Distribution business segment s principal products include industrial, medical and specialty gases sold in packaged and bulk quantities, as well as hardgoods. The Company s air separation facilities and national specialty gas labs primarily produce gases that are sold by the Distribution business segment s business units. Gas sales include nitrogen, oxygen, argon, helium, hydrogen, welding and fuel gases such as acetylene, propylene and propane, carbon dioxide, nitrous oxide, ultra high purity grades, special application blends and process chemicals. Business units in the Distribution business segment also recognize rental revenue, derived from gas cylinders, cryogenic liquid containers, bulk storage tanks, tube trailers and welding and welding related equipment. Gas and rent represented 60%, 61% and 57% of the Distribution business segment s sales in fiscal years 2011, 2010 and 2009, respectively. Hardgoods consist of welding consumables and equipment, safety products, construction supplies, and maintenance, repair and operating supplies. Hardgoods sales represented 40%, 39% and 43% of the Distribution business segment s sales in fiscal years 2011, 2010 and 2009, respectively.

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Principal Markets and Methods of Distribution

The industry has three principal modes of gas distribution: on-site or pipeline supply, bulk or merchant supply, and cylinder or packaged supply. Airgas market focus has primarily been on packaged gas distribution supplying customers with product in gaseous form in cylinders, in liquid form in dewars, and in less-than-truckload liquid bulk quantities. Generally, packaged gas distributors also sell welding hardgoods. The Company believes the U.S. market for packaged gases and welding hardgoods to have been approximately $13 billion in annual revenue during its fiscal 2011. Packaged gases and welding hardgoods are generally delivered to customers on Company-owned or leased trucks, although third-party carriers are also used in the delivery of welding and safety products, and customers can purchase products at retail branch stores and through catalogs and eBusiness.

Airgas is the largest distributor of packaged gases and welding hardgoods in the United States, with an estimated 25% market share. The Company s competitors in this market include local and regional independent distributors that account for about half of the market s annual revenues, and vertically integrated gas producers, which account for the remainder of the market. Packaged gas distribution is a localized business because it is generally not economical to transport gas cylinders more than 50 to 100 miles. The localized nature of the business makes these markets highly competitive and competition is generally based on reliable product delivery, product availability, technical support, quality and price.

Customer Base

The Company s operations are predominantly in the United States. The Company s customer base is diverse and sales are not dependent on a single or small group of customers. The Company s largest customer accounts for approximately 0.5% of total net sales. The Company estimates the following industry segments account for the indicated percentages of its total fiscal 2011 net sales:

Repair & Maintenance (29%)

Industrial Manufacturing (26%)

Energy and Infrastructure Construction (10%)

Medical (9%)

Petrochemical (7%)

Food and Beverage (6%)

Retail and Wholesale (3%)

Analytical (2%)

Utilities (3%)

Transportation (2%)

Other (3%).

Supply

The Company s atmospheric gas production capacity includes 15 air separation plants that produce oxygen, nitrogen and argon, making Airgas the fifth largest producer of atmospheric gases in North America. In addition, the Company purchases atmospheric and other gases pursuant to contracts with national and regional producers of industrial gases. The Company is party to a long-term take-or-pay supply agreement in effect through August 2017, under which Air Products and Chemicals, Inc. (Air Products) will supply the Company with bulk nitrogen, oxygen, argon and helium. The Company is committed to purchase approximately $53 million annually in bulk gases under the Air Products supply agreements. The Company also has long-term take-or-pay supply agreements with The Linde Group, AG (Linde AG) to purchase oxygen, nitrogen, argon and helium. The agreements expire at various dates through July 2019 and represent approximately $49 million in annual bulk gas purchases. Additionally, the Company has long-term take-or-pay supply agreements to purchase oxygen, nitrogen and argon from other major producers. The agreements expire at various dates through June 2024, and annual purchases under these contracts are approximately $14 million. The annual purchase commitments above reflect future minimum purchase commitments at current pricing.

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The supply agreements noted above contain periodic pricing adjustments based on certain economic indices and market analyses. The Company believes the minimum product purchases under the agreements are within the Company s normal product purchases. Actual purchases in future periods under the supply agreements could differ materially from those presented above due to fluctuations in demand requirements related to varying sales levels as well as changes in economic conditions. If a long-term supply agreement with a major supplier of gases or other raw materials were terminated, the Company would look to utilize available internal production capacity and locate alternative sources of supply to meet customer requirements. The Company purchases hardgoods from major manufacturers and suppliers. For certain products, the Company has negotiated national purchasing arrangements. The Company believes that if an arrangement with any supplier of hardgoods were terminated, it would be able to negotiate comparable alternative supply arrangements.

ALL OTHER OPERATIONS

The All Other Operations business segment consists of six business units. The primary products manufactured and/or distributed are carbon dioxide, dry ice (solid form of carbon dioxide), nitrous oxide, ammonia and refrigerant gases. The business units reflected in the All Other Operations business segment individually do not meet the thresholds to be reported as separate business segments.

Carbon Dioxide & Dry Ice

Airgas is a leading supplier of liquid carbon dioxide and dry ice. Customers for carbon dioxide and dry ice include food processors, food service businesses, pharmaceutical and biotech industries, and wholesale trade and grocery outlets, with food and beverage applications accounting for approximately 70% of the market. Some seasonality is experienced within this business, as the Company generally experiences a higher level of dry ice sales during the warmer months. With 11 dry ice plants (converting liquid carbon dioxide into dry ice), Airgas has the largest network of dry ice conversion plants in the United States. Additionally, Airgas operates six carbon dioxide production facilities. The Company s carbon dioxide production capacity is supplemented by long-term take-or-pay supply contracts.

Nitrous Oxide

Airgas is the largest manufacturer of nitrous oxide gas in the U.S., with four nitrous oxide production facilities operated by the Company. Nitrous oxide is used as an anesthetic in the medical and dental fields, as a propellant in the packaged food business and in the manufacturing process of certain electronics industries. The raw materials utilized in nitrous oxide production are purchased under contracts with major manufacturers and suppliers.

Specialty Products

Airgas Specialty Products is a distributor of anhydrous and aqua ammonia. Industrial ammonia applications primarily include the abatement of nitrogen oxide compounds in the utilities industry (DeNOx), chemicals processing, commercial refrigeration, water treatment and metal treatment. Airgas Specialty Products operates 28 distribution facilities across the U.S. and purchases ammonia from suppliers under agreements.

Refrigerants

Refrigerants are used in a wide variety of commercial and consumer freezing and cooling applications. Airgas purchases and distributes refrigerants and provides technical and refrigerant reclamation services. The primary focus of the refrigerants business is on the sale and distribution of refrigerants, with a varied customer base that includes small and large HVAC contractors, facility owners, transportation companies, manufacturing facilities and government agencies. The refrigerants business typically experiences some seasonality, with higher sales levels during the warmer months as well as during the March and April timeframe in preparation for the cooling season.

AIRGAS GROWTH STRATEGIES

The Company s primary objective is to maximize shareholder value by driving market-leading sales growth through core and strategic product offerings that leverage the Company s infrastructure and customer base, by pursuing acquisitions in the Company s core business and in adjacent businesses, by providing outstanding customer service and by improving operational efficiencies. To meet this objective, the Company is focusing on:

a new customer-centric sales and marketing alignment that provides leadership and strategic support throughout all sales channels, particularly the strategic accounts program, allowing the Company to leverage its unique combination of products, application technology and service, as well as its unrivaled national foot print;

strategic products, which have strong growth profiles due to favorable customer segments, application development, increasing environmental regulation, strong cross-selling opportunities, or a combination thereof (e.g., bulk gases, specialty gases, medical products, carbon dioxide and safety products);

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- enhanced training, tools and resources for all associates, including installing a new enterprise information system;

- reducing costs associated with production, cylinder maintenance and distribution logistics; and

- acquisitions to complement and expand its business and to leverage its significant national platform.

REGULATORY AND ENVIRONMENTAL MATTERS

The Company s subsidiaries are subject to federal and state laws and regulations adopted for the protection of the environment and the health and safety of employees and users of the Company s products. The Company has programs for the operation and design of its facilities to achieve compliance with applicable environmental regulations. The Company believes that it is in compliance, in all material respects, with such laws and regulations. Expenditures for environmental compliance purposes during fiscal 2011 were not material.

INSURANCE

The Company has established insurance programs to cover workers compensation, business automobile and general liability claims. During fiscal 2011, 2010 and 2009, these programs had high deductible limits of $1 million per occurrence. For fiscal 2012, the high deductible limits will remain $1 million per occurrence. The Company accrues estimated losses using actuarial methods and assumptions based on the Company s historical loss experience.

EMPLOYEES

On March 31, 2011, the Company employed more than 14,000 associates. Less than 5% of the Company s associates were covered by collective bargaining agreements. The Company believes it has good relations with its employees and has not experienced a significant strike or work stoppage in over ten years.

PATENTS, TRADEMARKS AND LICENSES

The Company holds the following trademarks: Airgas, Airgas National Welders, Airgas National Carbonation, Airgas National Cryogenics, Airgas Total Access, Airgas Retail Solutions, AcuGrav, AIM, AiRx, AIR BOSS, Aspen, Aspen Refrigerants, Any Refrigerant, Ar Time, For All Your Refrigerant Needs, Radnor, Gold Gas, SteelMIX, StainMIX, AluMIX, Outlook, Ny-Trous+, Powersource, RED-D-ARC WELDERENTALS, Gaspro, GAIN, MasterCut, $_2$-Bow, Walk-O Airgas Puritan Medical, Penguin Brand Dry Ice, Kangaroo Kart, National Farm and Shop, National/HEF, OUTLOOK, UNAMIX, UNAMIG Xtra, UNAMIG Six, UNATIG, EZ-Cyl, FreezeRight Reklaim, Safe-T-Cyl, StatusChecker, Smart-Logic, When You re Ready To Weld, WelderHelper and Your Total Ammonia Solution service mark for You ll find it with us.

The Company believes that its businesses as a whole are not materially dependent upon any single patent, trademark or license.

EXECUTIVE OFFICERS OF THE COMPANY

The executive officers of the Company are as follows:

Name	Age	Position
Peter McCausland	61	President and Chief Executive Officer
Michael L. Molinini	60	Executive Vice President and Chief Operating Officer
Robert M. McLaughlin	54	Senior Vice President and Chief Financial Officer
Robert A. Dougherty	53	Senior Vice President and Chief Information Officer
Dwight T. Wilson	55	Senior Vice President - Human Resources
Leslie J. Graff	50	Senior Vice President - Corporate Development
Robert H. Young, Jr.	60	Senior Vice President and General Counsel
Max D. Hooper	51	Division President - West

B. Shaun Powers	59	Division President - East
Andrew R. Cichocki	48	Division President - Process Gases and Chemicals
Thomas M. Smyth [1]	57	Vice President and Controller

[1] Mr. Smyth serves as the Company s Principal Accounting Officer, but he is not an executive officer.

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Mr. McCausland has been an Airgas director from June 1986 until September 15, 2010 and from September 23, 2010 to the present and served as Chairman of the Board from 1987 to September 15, 2010. Mr. McCausland has also served as the Chief Executive Officer of Airgas since May 1987 and President of Airgas from June 1986 to August 1988, from April 1993 to November 1995, from April 1997 to January 1999 and from January 2005 to the present. Mr. McCausland serves as a director of the Fox Chase Cancer Center, the Independence Seaport Museum and The Philadelphia Orchestra. Mr. McCausland also serves on the Board of Visitors of the Boston University School of Law and the College of Arts and Sciences of the University of South Carolina.

Mr. Molinini has been Executive Vice President and Chief Operating Officer since January 2005. Prior to that time, Mr. Molinini served as Senior Vice President - Hardgoods Operations from August 1999 to January 2005 and as Vice President - Airgas Direct Industrial from April 1997 to July 1999. Prior to joining Airgas, Mr. Molinini served as Vice President of Marketing of National Welders Supply Company, Inc. (National Welders) from 1991 to 1997.

Mr. McLaughlin has been Senior Vice President and Chief Financial Officer since October 2006 and served as Vice President and Controller from the time he joined Airgas in June 2001 to September 2006. Prior to joining Airgas, Mr. McLaughlin served as Vice President Finance for Asbury Automotive Group from 1999 to 2001, and was a Vice President and held various senior financial positions at Unisource Worldwide, Inc. from 1992 to 1999.

Mr. Dougherty has been Senior Vice President and Chief Information Officer since joining Airgas in January 2001. Prior to joining Airgas, Mr. Dougherty served as Vice President and Chief Information Officer from 1998 to 2000 and as Director of Information Systems from 1993 to 1998 of Subaru of America, Inc.

Mr. Wilson has been Senior Vice President - Human Resources since January 2004. Prior to joining Airgas, Mr. Wilson served as Senior Vice President, Corporate Resources at DecisionOne Corporation from October 1995 to December 2003.

Mr. Graff has been Senior Vice President - Corporate Development since August 2006. Prior to that, Mr. Graff held various positions since joining the Company in 1989, including Director of Corporate Finance, Director of Corporate Development, Assistant Vice President - Corporate Development, and Vice President - Corporate Development. He has directed the in-house acquisition department since 2001. Prior to joining Airgas, Mr. Graff served with KPMG LLP from 1983 to 1989.

Mr. Young has been Senior Vice President and General Counsel since October 2007. Prior to joining Airgas, Mr. Young was a shareholder of McCausland Keen & Buckman, which he joined in 1985, and served as outside counsel for the Company on many acquisitions and other corporate legal matters. At McCausland Keen & Buckman, Mr. Young focused his practice on general corporate law for both public and private corporations, mergers and acquisitions, and venture capital financing. Mr. Young began his legal career as an attorney at Drinker Biddle & Reath in Philadelphia.

Mr. Hooper has been Division President - West since December 2005. Prior to this role, Mr. Hooper was President of Airgas West from 1996. Prior to joining Airgas, Mr. Hooper served for three years as General Manager and President of an independent distributor, Arizona Welding Equipment Company, in Phoenix, AZ and nine years with BOC Gases in various sales and management roles. Mr. Hooper began his career with AG Pond Welding Supply in San Jose, CA in 1983.

Mr. Powers has been Division President - East since joining Airgas in April 2001. Prior to joining Airgas, Mr. Powers served as Senior Vice President of Industrial Gases at AGA from October 1995 to March 2001. Mr. Powers has more than 25 years of experience in the industrial gas industry.

Mr. Cichocki has been Division President - Process Gases and Chemicals since July 2008. Prior to that time, Mr. Cichocki served as President of Airgas National Welders and Airgas joint venture, National Welders, from 2003. Prior to that, Mr. Cichocki served in key corporate roles for Airgas, including Senior Vice President of Human Resources, Senior Vice President of Business Operations and Planning, and for ten years as Vice President of Corporate Development.

Mr. Smyth has been Vice President and Controller since November 2006. Prior to that, Mr. Smyth served as Director of Internal Audit since joining Airgas in February 2001 and became Vice President in August 2004. Prior to joining Airgas, Mr. Smyth served in internal audit, controller and chief accounting roles at Philadelphia Gas Works from 1997 to 2001. Prior to that, Mr. Smyth spent 12 years with Bell Atlantic, now Verizon, in a variety of internal audit and general management roles and in similar positions during eight years at Amtrak.

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COMPANY INFORMATION

The Company s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed with or furnished to the Securities and Exchange Commission (SEC) are available free of charge on the Company s website (www.airgas.com) under the Investors section. The Company makes these documents available as soon as reasonably practicable after they are filed with or furnished to the SEC, but no later than the end of the day that they are filed with or furnished to the SEC.

Code of Ethics and Business Conduct

The Company has adopted a Code of Ethics and Business Conduct applicable to its employees, officers and directors. The Code of Ethics and Business Conduct is available on the Company s website, under the link Company Information, About Airgas, Corporate Governance. Amendments to and waivers from the Code of Ethics and Business Conduct will also be disclosed promptly on the website. In addition, stockholders may request a printed copy of the Code of Ethics and Business Conduct, free of charge, by contacting the Company s Investor Relations department at:

Airgas, Inc.

Attention: Investor Relations

259 N. Radnor-Chester Rd.

Radnor, PA 19087-5283

Telephone: (610) 902-6256

Corporate Governance Guidelines

The Company has Corporate Governance Guidelines as well as charters for its Audit Committee, Finance Committee and Governance & Compensation Committee. These documents are available on the Company s website, noted above. Stockholders may also request a copy of these documents, free of charge, by contacting the Company s Investor Relations department at the address and phone number noted above.

Certifications

The Company has filed certifications of its President and Chief Executive Officer and Senior Vice President and Chief Financial Officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 as exhibits to its annual report on Form 10-K for each of the years ended March 31, 2011, 2010 and 2009.

ITEM 1A. RISK FACTORS.

In addition to risk factors discussed in MD&A under Critical Accounting Estimates and elsewhere in this report, the Company believes the following, which have not been sequenced in any particular order, are the most significant risks related to our business that could cause actual results to differ materially from those contained in any forward-looking statements.

We face risks related to general economic conditions, which may impact the demand for and supply of our products and our results of operations.

Demand for our products depends in part on the general economic conditions affecting the United States and, to a lesser extent, the rest of the world. Although our diverse product offering and customer base help provide relative stability to our business in difficult times, a broad decline in general economic conditions could result in customers postponing capital projects and could negatively impact the demand for our products and services as well as our customers ability to fulfill their obligations to us. Falling demand could lead to lower sales volumes, lower pricing and/or lower profit margins. A protracted period of lower product demand and profitability could result in diminished values for both tangible and intangible assets, increasing the possibility of future impairment charges. Further, suppliers could be impacted by an economic downturn, which could impact their ability to fulfill their obligations to us. Although current economic conditions are favorable, should economic conditions deteriorate, our financial condition and cash flows could be adversely affected.

We operate in a highly competitive environment and such competition could negatively impact us.

The U.S. industrial gas industry operates in a highly competitive environment. Competition is generally based on price, reliable product delivery, product availability, technical support, quality and service. If we are unable to compete effectively with our competitors, we may suffer lower revenue and/or a loss of market share.

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Increases in product and energy costs could reduce our profitability.

The cost of industrial gases represents a significant percentage of our operating costs. The production of industrial gases requires significant amounts of electric energy. Therefore, industrial gas prices have historically increased as the cost of electric power increases. Price increases for oil and natural gas have historically resulted in electric power surcharges. In addition, a significant portion of our distribution expenses consists of diesel fuel costs. Energy prices can be volatile and may rise in the future, resulting in an increase in the cost of industrial gases and/or the cost to distribute them. While we have historically been able to pass increases in the cost of our products and operating expenses on to our customers, we cannot guarantee our ability to do so in the future, which could negatively impact our operations, financial results or liquidity.

Our financial results may be adversely affected by gas supply disruptions/constraints.

We are the largest U.S. distributor of industrial, medical and specialty gases in packaged form and have long-term supply contracts with the major gas producers. Additionally, we operate 15 air separation plants, 16 acetylene plants and six carbon dioxide liquification plants, which provide us with substantial production capacity. Our long-term supply contracts and our own production capacity mitigate supply disruptions to various degrees. However, natural disasters, plant shut downs, labor strikes and other supply disruptions may occur within our industry. Regional supply disruptions may create shortages of raw materials and certain products. Consequently, we may not be able to obtain the products required to meet our customers demands or may incur significant cost to ship product from other regions of the country to meet customer requirements. Such additional costs may adversely impact operating results until product sourcing can be restored. In the past, we successfully met customer demand by arranging for alternative supplies and transporting product into an affected region, but we cannot guarantee that we will be successful in arranging alternative product supplies or passing the additional transportation or other costs on to customers in the event of future supply disruptions, which could negatively impact our operations, financial results or liquidity.

U.S. credit markets may impact our ability to obtain financing or increase the cost of future financing.

As of March 31, 2011, we had total consolidated debt of approximately $1.9 billion, which had an average length to maturity of approximately four years. During periods of volatility and disruption in the U.S. credit markets, obtaining additional or replacement financing may be more difficult and costly. Higher cost of new debt may limit our ability to finance future acquisitions on terms that are acceptable to us. Additionally, although we actively manage our interest rate risk through derivative and diversified debt obligations, approximately 50% of our debt has a variable interest rate. If interest rates increase, our interest expense could increase, affecting earnings and reducing cash flows available for working capital, capital expenditures and acquisitions. Finally, our cost of borrowing can be affected by debt ratings assigned by independent rating agencies which are based in large part on our performance as measured by certain liquidity metrics. An adverse change in these debt ratings could increase the cost of borrowing and make it more difficult to obtain financing on favorable terms.

We may not be successful in integrating acquisitions and achieving intended benefits and synergies.

We have successfully integrated approximately 400 acquisitions in our history and consider the acquisition and integration of businesses to be a core competency. However, the process of integrating acquired businesses into our operations may result in unexpected operating difficulties and may require significant financial and other resources. Unexpected difficulties may impair our ability to achieve targeted synergies or planned operating results, which could diminish the value of acquired tangible and intangible assets resulting in future impairment charges. Acquisitions involve numerous risks, including:

- acquired companies may not have an internal control structure appropriate for a larger public company resulting in a need for significant revisions;
- acquired operations, information systems and products may be difficult to integrate;
- acquired operations may not achieve targeted synergies;
- we may not be able to retain key employees, customers and business relationships of acquired companies; and

our management team may have their attention and resources diverted from ongoing operations.

We depend on our key personnel to manage our business effectively and they may be difficult to replace.

Our performance substantially depends on the efforts and abilities of our senior management team, including our President and Chief Executive Officer, other executive officers and key employees. Furthermore, much of our competitive advantage is based on the expertise, experience and know-how of our key personnel regarding our distribution infrastructure, systems and products. The loss of key employees could have a negative effect on our business, revenues, results of operations and financial condition.

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We are subject to litigation risk as a result of the nature of our business, which may have a material adverse effect on our business.

From time to time, we are involved in lawsuits that arise from our business. Litigation may, for example, relate to product liability claims, vehicle accidents, contractual disputes or employment matters. The defense and ultimate outcome of lawsuits against us may result in higher operating expenses. Those higher operating expenses could have a material adverse effect on our business, results of operations or financial condition.

We have established insurance programs with significant deductibles and maximum coverage limits which could result in the recognition of significant losses.

We maintain insurance coverage for workers compensation, auto and general liability claims with significant per claim deductibles. In the past, we have incurred significant workers compensation, auto and general liability losses. Such losses could impact our profitability. Additionally, claims in excess of our insurance limits could have a material adverse effect on our financial condition, results of operations or liquidity.

Catastrophic events may disrupt our business and adversely affect our operating results.

Although our operations are widely distributed across the U.S., a catastrophic event such as a fire or explosion at one of the Company s fill plants or a supplier s plant, or natural disasters, such as hurricanes, tornadoes and earthquakes, could result in significant property losses, employee injuries and third-party damage claims. Additionally, such events may severely impact our regional customer base and supply sources resulting in lost revenues, higher product costs and increased bad debts.

We are subject to environmental, health and safety regulations that generate ongoing environmental costs and could subject us to liability.

We are subject to laws and regulations relating to the protection of the environment and natural resources. These include, among other things, reporting on chemical inventories and risk management plans, and management of hazardous substances and wastes, air emissions and water discharges. Violations of existing laws and enactment of future legislation and regulations could result in substantial penalties, temporary or permanent plant closures and legal consequences. Moreover, the nature of our existing and historical operations exposes us to the risk of liabilities to third parties. These potential claims include property damage, personal injuries and cleanup obligations. See Item 1, Business Regulatory and Environmental Matters above.

More recently, the issue of greenhouse gas emissions has been subject to increased scrutiny, public awareness and evolving legislation, both internationally and in the U.S. Increased regulation of greenhouse gas emissions could impose additional costs on us, both directly through new compliance and reporting requirements as well as indirectly through increased industrial gas and energy costs. Until such time that federal legislation is passed in the United States, it will remain unclear as to what industries would be impacted, the period of time within which compliance would be required, the significance of the greenhouse gas emissions reductions and the costs of compliance. Although we do not believe that increased greenhouse gas emissions regulation will have a material adverse effect on our financial condition, results of operations or liquidity, we cannot provide assurance that such costs will not increase in the future or will not become material.

Recent health care legislation in the United States contains provisions that will significantly impact government reimbursement of health-care costs. Many of these provisions will be effective in future years. Therefore, this legislation s impact on our health-care customers and the products and services we offer them is unclear and may be detrimental. We continue to monitor developments with respect to this evolving legislation.

We face risks in connection with our current project to install a new enterprise information system for our business.

We continue our phased implementation of a new enterprise information system (SAP) for many aspects of our business. The implementation is a technically intensive process, requiring testing, modifications and project coordination. Although our SAP implementation process includes more than fifteen months of design and testing, which is intended to minimize business disruption and conversion risks, we may experience disruptions in our business operations related to this implementation effort. Such disruptions could result in material adverse consequences, including delays in the design and implementation of the system, loss of information, loss of personnel, a reduction in our ability to process transactions, harm to our control environment, and unanticipated increases in costs.

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We face risks in connection with our new divisional alignment and restructuring of our accounting and certain administrative functions.

In May 2011 in conjunction with the SAP implementation, we announced that we will consolidate the accounting and certain administrative functions of our twelve regional distribution companies into four Business Support Centers. Currently, each of the regional distribution companies operates with its own accounting group and administrative functions. The consolidation of our regional company accounting and certain administrative functions is expected to support the net operating income benefits anticipated as part of the SAP project. However, the cost of such consolidation, which includes severance, transition staffing, relocation and other costs, could exceed our estimates. The administrative efficiencies, which we believe will result from the consolidation, may not be realized to the extent anticipated, thereby reducing the operating income benefit. Additionally, key personnel may not relocate to the new Business Support Centers and employees affected by the consolidation may leave us prior to completing the transition efforts, which may slow the process and increase its cost.

We face risks that the full amount and/or timing of the anticipated net operating income benefits from our SAP implementation may not be realized.

We have announced expected incremental annual operating income benefits in the range of $75 to $125 million on an annual run-rate basis. By December 2013, we expect to be at the run-rate of the mid-point of the target operating income benefits range. However, unanticipated delays in the SAP system implementation could adversely affect the timing of when these benefits may be realized. In addition, adverse market conditions could slow anticipated accelerated sales growth, the realization of pricing management benefits, and attainment of administrative and operating efficiencies.

Market conditions and other uncertainties may unfavorably impact our withdrawal liabilities from multi-employer pension plans.

We have and continue to participate in multi-employer pension plans that provide defined benefits to union employees under the provisions of collective bargaining agreements. Multi-employer pension plans generally provide retirement benefits to participants based on their service to contributing employers. As we negotiate changes in collective bargaining agreements and cease making contributions to certain multi-employer pension plans, estimates for withdrawal liabilities must be recorded in our consolidated financial statements. At March 31, 2011, estimated liabilities for multi-employer pension plans from which we have withdrawn amounted to $16 million. These estimates and estimates for plans in which we still participate are based on numerous assumptions that continually change and information that is not always current, and can take a number of years to settle. Furthermore, the investment assets in these plans are subject to market fluctuations and may significantly increase potential withdrawal liabilities during market downturns. As a result, increases in future withdrawal liabilities from multi-employer pension plans could have a material adverse effect on our financial condition, results of operations or liquidity.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The Company operates in 48 states, Canada and to a lesser extent Mexico, Russia, Dubai and Europe. The principal executive offices of the Company are located in leased space in Radnor, Pennsylvania.

The Company s Distribution business segment operates a network of multiple use facilities consisting of more than 875 branches, approximately 300 cylinder fill plants, 61 regional specialty gas laboratories, nine national specialty gas laboratories, one medical equipment facility, one research and development center, one specialty gas equipment center, 16 acetylene plants and 15 air separation units, as well as six national hardgoods distribution centers, various customer call centers, buying centers and administrative offices. The Distribution business segment conducts business in 48 states and internationally in Canada, Mexico, Russia, Dubai and Europe. The Company owns approximately 42% of these facilities. The remaining facilities are primarily leased from third parties. A limited number of facilities are leased from employees, generally former owners of acquired businesses, and are on terms consistent with commercial rental rates prevailing in the surrounding rental market.

The Company s All Other Operations business segment consists of businesses, located throughout the United States, which operate multiple use facilities consisting of approximately 75 branch/distribution locations, six liquid carbon dioxide and 11 dry ice production facilities, and four nitrous oxide production facilities. The Company owns approximately 26% of these facilities. The remaining facilities are leased from third parties.

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During fiscal 2011, the Company s production facilities operated at approximately 72% of capacity based on an average daily production period of 16 hours. If required, additional shifts could be run to expand production capacity.

The Company believes that its facilities are adequate for its present needs and that its properties are generally in good condition, well maintained and suitable for their intended use.

ITEM 3. LEGAL PROCEEDINGS.

The Company is involved in various legal and regulatory proceedings that have arisen in the ordinary course of 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 condition, results of operations or liquidity.

On February 11, 2010, Air Products initiated an unsolicited tender offer for all of the Company s outstanding shares of common stock. In connection with this tender offer, Air Products filed an action against the Company and members of its Board in the Delaware Court of Chancery. In the suit, Air Products sought, among other things, an order declaring that members of the Company s Board breached their fiduciary duties by refusing to negotiate with Air Products. Additionally, a number of purported stockholder class action lawsuits were commenced against the Company and/or the members of the Airgas Board in the Delaware Court of Chancery. These suits, which were later consolidated, alleged, among other things, that the members of the Airgas Board breached their fiduciary duties by refusing to negotiate with Air Products, failing to seek more valuable alternatives and failing to redeem the Company s shareholder rights plan.

On February 15, 2011, the Delaware Court of Chancery denied in their entirety all requests for relief by Air Products and by the plaintiffs in the stockholder class action lawsuits, and dismissed with prejudice all claims asserted against the Company and its directors. Air Products promptly terminated its unsolicited tender offer and no appeal of the Court s decision was filed by Air Products or the stockholder plaintiffs.

As disclosed in Note 23 to the Consolidated Financial Statements, the Company incurred substantial legal and professional fees related to the Air Products takeover attempt and litigation through March 31, 2011.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The Company s common stock is listed on the New York Stock Exchange (ticker symbol: ARG). The following table sets forth, for each quarter during the last two fiscal years, the high and low closing price per share for the common stock as reported by the New York Stock Exchange and cash dividends per share for the period from April 1, 2009 to March 31, 2011:

	High	Low	Dividends Per Share
Fiscal 2011			
First Quarter	$ 64.40	$ 59.79	$ 0.22
Second Quarter	68.04	62.04	0.25
Third Quarter	71.00	61.10	0.25
Fourth Quarter	66.78	60.87	0.29
Fiscal 2010			
First Quarter	$ 45.18	$ 34.46	$ 0.18
Second Quarter	50.21	37.44	0.18
Third Quarter	50.65	44.36	0.18
Fourth Quarter	65.71	42.26	0.22

The closing sale price of the Company s common stock as reported by the New York Stock Exchange on May 20, 2011, was $66.86 per share. As of May 20, 2011, there were 360 stockholders of record.

On May 17, 2011, the Company s Board of Directors declared a regular quarterly cash dividend of $0.29 per share, which is payable on June 30, 2011 to stockholders of record as of June 15, 2011. Future dividend declarations and associated amounts paid will depend upon the Company s earnings, financial condition, loan covenants, capital requirements and other factors deemed relevant by management and the Company s Board of Directors.

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Stockholder Return Performance Presentation

Below is a graph comparing the yearly change in the cumulative total stockholder return on the Company s common stock against the cumulative total return of the S&P 500 Index and the S&P 500 Chemicals Index for the five year period that began April 1, 2006 and ended March 31, 2011.

The Company believes the use of the S&P 500 Index and the S&P 500 Chemicals Index for purposes of this performance comparison is appropriate because Airgas is a component of the indices and they include companies of similar size to Airgas.

	March 31	2006	2007	2008	2009	2010	2011
¨	**Airgas, Inc.**	**100.00**	108.61	118.10	88.99	170.04	180.31
n	**S&P 500 Index**	**100.00**	111.83	106.15	65.72	98.43	113.83
p	**S&P 500 Chemicals Index**	**100.00**	119.51	140.44	88.30	126.35	161.53

The graph above assumes that $100 was invested on April 1, 2006 in Airgas, Inc. common stock, the S&P 500 Index and the S&P 500 Chemicals Index.

Stock Repurchase Programs

On February 16, 2011, the Company announced plans to purchase up to $300 million of Airgas, Inc. common stock under a stock repurchase plan approved by the Executive Committee of the Company s Board of Directors. During fiscal 2011, 4,780,008 shares of Company common stock were repurchased and the $300 million repurchase authorization was exhausted.

	(a)	(b)	(c)	(d)
Period	**Total Number of Shares Purchased**	**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plan**	**Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plan**
2/16/11-2/28/11	1,972,812	$ 62.99	1,972,812	$ 175,733,651
3/1/11-3/31/11	2,807,196	$ 62.60	2,807,196	$ 0
Total	4,780,008	$ 62.76	4,780,008	

On May 5, 2011, the Company announced a program to repurchase up to $300 million of its outstanding shares of common stock. As of May 4, 2011, Airgas had approximately 79.8 million common shares outstanding. Airgas may repurchase shares from time to time for cash in open market transactions or in privately-negotiated transactions in accordance with applicable federal securities laws. The Company will determine the timing and the amount of any repurchases based on its evaluation of market conditions, share price and other factors. The stock repurchase program will be funded under the Company s existing credit facility, has no pre-established closing date, and may be suspended or discontinued at any time.

ITEM 6. SELECTED FINANCIAL DATA.

Selected financial data for the Company is presented in the table below and should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 and the Company s consolidated financial statements and notes thereto included in Item 8 herein.

				Years Ended March 31,						
(In thousands, except per share amounts):		**2011 (1)**		**2010 (2)**		**2009**		**2008 (3)**		**2007 (4)**
Operating Results:										
Net sales	$	4,251,467	$	3,875,153	$	4,361,479	$	4,028,253	$	3,214,809
Depreciation and amortization	$	250,518	$	234,949	$	220,795	$	189,775	$	147,343
Operating income	$	468,381	$	399,598	$	524,868	$	475,824	$	341,497
Interest expense, net		60,054		63,310		84,395		89,485		60,180
Discount on securitization of trade receivables				5,651		10,738		17,031		13,630
Losses on the extinguishment of debt		4,162		17,869						12,099
Other income (expense), net		1,958		1,332		(382)		1,454		1,556
Income taxes		156,357		117,800		168,265		144,184		99,883
Minority interest in earnings of consolidated affiliate								(3,230)		(2,845)
Net earnings	$	249,766	$	196,300	$	261,088	$	223,348	$	154,416
NET EARNINGS PER COMMON SHARE										
Basic earnings per share	$	2.99	$	2.39	$	3.19	$	2.74	$	1.98
Diluted earnings per share	$	2.93	$	2.34	$	3.12	$	2.66	$	1.92
Dividends per common share declared and paid (5)	$	1.01	$	0.76	$	0.56	$	0.39	$	0.28
Balance Sheet and Other Data at March 31:										
Working capital	$	556,142	$	235,692	$	296,442	$	132,323	$	121,543
Total assets		4,935,881		4,495,932		4,426,310		3,987,264		3,333,457
Current portion of long-term debt		9,868		10,255		11,058		40,400		40,296
Long-term debt		1,842,994		1,499,384		1,750,308		1,539,648		1,309,719
Deferred income tax liability, net		722,954		652,389		576,715		439,782		373,246
Other non-current liabilities		70,548		72,972		79,231		80,104		39,963
Minority interest in affiliate										57,191
Stockholders equity		1,734,882		1,795,544		1,571,755		1,413,336		1,125,382
Capital expenditures for years ended March 31,		256,030		252,828		351,912		267,378		238,274

(1) As discussed in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and in the notes to the Company s Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, the results for fiscal 2011 include $44.4 million ($28.0 million after tax) or $0.33 per diluted share in costs related to an unsolicited takeover attempt and $4.6 million ($2.8 million after tax) or $0.03 per diluted share in multi-employer pension plan withdrawal charges. Also included in the results for fiscal 2011 are a charge of $4.2 million ($2.6 million after tax) or $0.03 per diluted share for the early extinguishment of debt and a one-time interest penalty of $2.6 million ($1.7 million after tax) or $0.02 per diluted share related to the late removal of the restrictive legend on the Company s 7.125% senior subordinated notes. On April 1, 2010, the Company adopted a new accounting standard for transfers of financial assets, which affected the accounting treatment of its trade receivables securitization program. The Company participates in a trade receivables securitization agreement (the Securitization Agreement) with three commercial banks to which it sells qualifying trade receivables on a revolving basis. The amount of receivables securitized under the Securitization Agreement was $295 million at March 31, 2011. Under the new guidance, proceeds received under the Securitization Agreement are treated as secured borrowings, whereas previously they were treated as proceeds from the sale of trade receivables. The impact of the new accounting treatment resulted in the recognition, in fiscal 2011, of both the trade receivables securitized under the program and the borrowings they collateralize, which led to a $295 million increase in working capital, total assets and long-term debt in the table above. With respect to the Company s operating results, the amounts previously recorded within the line item Discount on securitization of trade receivables, are now reflected within Interest expense, net as borrowing costs, consistent with the new accounting treatment. There was no impact to the Company s consolidated net earnings as a result of the change in accounting principle.

(2) As discussed in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and in the notes to the Company s Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, the results for fiscal 2010 include $23.4 million ($14.8 million after tax) or $0.18 per diluted share in costs related to an unsolicited takeover attempt and $6.7 million ($4.1 million after tax) or $0.05 per diluted share in multi-employer pension plan withdrawal charges. Also included in the results for fiscal 2010 are a charge of $17.9 million ($11.3 million after tax) or $0.14 per diluted share for the early extinguishment of debt and a tax benefit of $2.2 million or $0.03 per diluted share associated with the reorganization of certain facilities within the All Other Operations business segment. Additionally, certain reclassifications were made to the operating results in the table above to conform to the current period presentation. These reclassifications resulted in increasing revenue, as well as expenses, for the fiscal years 2010 and prior and were not material. The Company s operating income and net earnings for the prior period were not impacted by the reclassifications.

(3) The results for fiscal 2008 include a one-time, non-cash, after tax charge of $2.5 million, or $0.03 per diluted share, related to the National Welders Exchange Transaction through which the joint venture became a 100% owned subsidiary. Also included in the results for fiscal 2008 is a tax benefit of $1.3 million or $0.01 per diluted share, due to additional guidance issued with respect to a prior year change in Texas state income tax law. Fiscal 2008 acquisition integration costs, principally related to the Linde AG Bulk Gas and Linde AG Packaged Gas acquisitions, were $10.1 million ($6.2 million after tax) or $0.06 per diluted share.

(4) The results for fiscal 2007 include a charge of $12.1 million ($7.9 million after tax), or $0.10 per diluted share, for the early extinguishment of debt and a tax benefit of $0.02 per diluted share related to a change in Texas state income tax law.

(5) The Company paid its stockholders quarterly cash dividends of $0.22 per share at the end of the first quarter and $0.25 per share at end of the second and third quarters of fiscal 2011. In the fourth quarter of fiscal 2011, the Company paid dividends of $0.29 per share. In fiscal 2010, the Company paid its stockholders quarterly cash dividends of $0.18 per share at the end of each of the first three quarters and $0.22 per share in the fourth quarter. During fiscal 2009, the Company paid regular quarterly cash dividends of $0.12 per share at the end of each of the first two quarters and $0.16 per share in the third and fourth quarters. During fiscal 2008, the Company paid regular quarterly cash dividends of $0.09 per share during the first three quarters and $0.12 per share during the fourth quarter. In fiscal 2007, the Company paid its stockholders regular quarterly cash dividends of $0.07 per share. On May 17, 2011, the Company s Board of Directors declared a regular quarterly cash dividend of $0.29 per share, which is payable on June 30, 2011 to stockholders of record as of June 15, 2011. Future dividend declarations and associated amounts paid will depend upon the Company s earnings, financial condition, loan covenants, capital requirements and other factors deemed relevant by management and the Company s Board of Directors.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.
RESULTS OF OPERATIONS: 2011 COMPARED TO 2010

OVERVIEW

Airgas had net sales for the fiscal year ended March 31, 2011 (fiscal 2011 or current year) of $4.3 billion compared to $3.9 billion for the fiscal year ended March 31, 2010 (fiscal 2010 or prior year), an increase of 10%. Total same-store sales increased 8%, with hardgoods up 11% and gas and rent up 7%. Acquisitions contributed 2% sales growth in the current year. The same-store sales growth for the current year was driven by both volume and price, with sales volumes up 5% and pricing up 3%. The increase in sales volumes reflects accelerating growth in the Company s core business on strength in the manufacturing, utilities and petrochemical customer segments, as the manufacturing recovery that began in the central regions of the U.S. among the Company s larger customers expanded more broadly throughout the country and to smaller manufacturers. The Company s medical business also began to accelerate, and the Company experienced increased activity in customers using Airgas products and services for repair and maintenance operations. The increase in pricing reflects a broad-based price increase on gas, rent and hardgoods effective June 1, 2010, and to a lesser extent, a price increase on gas, rent and other service charges on March 1, 2011. The pricing actions were designed to offset rising product, operating and distribution costs.

The Company s operating income margin increased 70 basis points to 11.0% in the current year compared to 10.3% in the prior year. The current year s operating income margin reflected a 110 basis point improvement in the operating income margin driven by operating leverage on sales growth in the current year, offset by $44.4 million in costs related to Air Products unsolicited takeover attempt and $4.6 million in charges related to the Company s withdrawal from some of its multi-employer pension plans (MEPPs), which together reduced the Company s operating income margin by 120 basis points. The Company s operating income margin in the prior year reflected the impact of $23.4 million in costs related to Air Products unsolicited takeover attempt and $6.7 million in MEPP withdrawal charges, which reduced the prior year s operating income margin by 80 basis points.

Net earnings per diluted share rose 25% to $2.93 in the current year versus $2.34 in the prior year. Net earnings per diluted share in the current year included special charges aggregating to $0.41 per diluted share comprised of $0.33 per diluted share in costs related to the unsolicited takeover attempt, $0.03 per diluted share in MEPP withdrawal charges, $0.03 per diluted share in losses on the extinguishment of debt and $0.02 per diluted share for a one-time interest penalty. Net earnings per diluted share in the prior year included net special charges aggregating to $0.34 per diluted share comprised of $0.18 per diluted share in costs related to the unsolicited takeover attempt, $0.05 per diluted share in MEPP withdrawal charges, $0.14 per diluted share in losses on the extinguishment of debt and a $0.03 per diluted share income tax benefit associated with the reorganization of certain facilities within the All Other Operations business segment. The special charges reduced reported net earnings per diluted share by 12% in fiscal 2011 and 13% in fiscal 2010.

Fiscal 2012 Outlook

Looking forward, the Company expects earnings per diluted share for the first quarter ending June 30, 2011 in the range of $0.82 to $0.87. The earnings per diluted share range for the first quarter includes an estimated $0.10 per diluted share of restructuring charges and $0.08 per diluted share of implementation costs and depreciation expense associated with the Company s SAP implementation. For the full year ending March 31, 2012 (fiscal 2012), the Company expects earnings per diluted share in the range of $3.58 to $3.73, which includes an estimated $0.17 per diluted share of restructuring charges and $0.32 per diluted share of implementation costs and depreciation expense associated with its SAP implementation. Guidance for both the first quarter ending June 30, 2011 and fiscal 2012 also includes the impact of the Company s repurchase of 4.8 million shares of common stock completed in the quarter ended March 31, 2011. The above guidance excludes any potential MEPP withdrawal charges that may arise from the three remaining collective bargaining agreements (CBAs), covering approximately 30 employees who participate in MEPPs, that come up for renewal in fiscal 2012, and excludes the impact, if any, of the new share repurchase program announced on May 5, 2011.

Enterprise Information System

The Company continues its phased, multi-year rollout of its highly-customized SAP enterprise information system, with the successful conversion of the first regional distribution company on April 4, 2011. The Company continues to prepare for the implementation of SAP at the remainder of its business units, the next of which is scheduled to convert in September 2011. The conversion schedule accelerates thereafter, with all regional distribution companies expected to be converted to SAP by the first half of fiscal 2013.

The Company expects to incur the highest level of expenses related to the SAP implementation in fiscal 2012, as the majority of the regional distribution companies are converted during the year. Total implementation costs and depreciation expense related to the SAP system are expected to be $0.08 per diluted share for the quarter ending June 30, 2011 and $0.32 per diluted share for fiscal 2012.

During fiscal 2011, the Company quantified the economic benefits expected to be achieved through its implementation of SAP in the key areas of accelerated sales growth through expansion of the telesales platform, price management, and administrative and operating efficiencies. Upon full implementation, the Company expects these areas alone to yield an aggregate of $75 million to $125 million in incremental operating income on an annual run-rate basis. By December 2013, the Company expects to be at the run-rate of the mid-point of the target operating income benefits range. Excluding depreciation, total SAP project expenditures are expected to be approximately $186 million, with an estimated $91 million in expense and $95 million in capitalized costs. Through March 31, 2011, the Company had recognized $116 million in total SAP project expenditures, with $29 million in expense and $87 million in capitalized costs.

New Divisional Alignment

In conjunction with the SAP implementation, in May 2011, the Company announced a reorganization of its twelve regional distribution companies. Currently, each of the regional distribution companies operates with its own accounting group and administrative functions. In order to more effectively utilize the Company s resources across regional company boundaries, Airgas will realign its regional company support functions, including accounting and certain administrative functions, into four divisional Business Support Centers. With the Company s conversion to a single dataset across all of the regional companies as part of the SAP implementation, the consolidation of the Company s regional company accounting and certain administrative functions will support the efficiencies expected to be realized as part of the SAP project.

As a result of the reorganization, the Company will incur restructuring charges, including severance, transition staffing, relocation and other costs. In fiscal 2012, the Company expects to incur restructuring charges of $21 million, or $0.17 per diluted share, of which $13 million, or $0.10 per diluted share, is expected to occur in the first quarter ending June 30, 2011 primarily related to severance. The reorganization is expected to be complete in fiscal 2013, and the Company expects to incur additional restructuring charges of approximately $6 million, primarily related to transition staffing, relocation and other costs during such fiscal year. The benefits enabled by the new divisional alignment are included in the benefits expected to be realized from the SAP implementation quantified above.

Stock Repurchase Program

On May 5, 2011, the Company announced a new program to repurchase up to $300 million of its outstanding shares of common stock. The Company may repurchase shares from time to time for cash in open market transactions or in privately-negotiated transactions in accordance with applicable federal securities laws. The Company will determine the timing and the amount of any repurchases based on its evaluation of market conditions, share price and other factors. The stock repurchase program will be funded under the Company s existing credit facility, has no pre-established closing date, and may be suspended or discontinued at any time. The impact of the May 2011 stock repurchase program has not been included in the Company s forward-looking guidance.

Multi-employer Pension Plan Withdrawals

During fiscal 2012, the three remaining CBAs that provide for MEPPs and cover a total of approximately 30 employees will come up for renewal. The Company intends to negotiate its withdrawal from these plans and, if successful in its negotiations, expects to incur charges related to these plans in fiscal 2012. Assuming a complete withdrawal from these MEPPs, the Company estimates the additional withdrawal liability to be approximately $5 million as of March 31, 2011. The Company s guidance for both the first quarter ending June 30, 2011 and the full year fiscal 2012 does not include any potential MEPP withdrawal charges that may arise from the three remaining CBAs that come up for renewal in fiscal 2012.

Supply Constraints

The industrial gas industry is working through supply constraints related to calcium carbide, which is the raw material used in the generation of acetylene gas, as a result of a catastrophic explosion at one of two plants of the country s primary supplier of calcium carbide. Due to the calcium carbide supply disruption, costs of acetylene are escalating as a result of both rising raw materials and distribution costs. The Company is utilizing a combination of alternatives to compensate for the lack of calcium carbide, including increased use of chemical acetylene, reallocation of available calcium carbide, potential sourcing of calcium carbide from outside of the U.S. and customer adoption of alternative fuel gases where appropriate. To help mitigate the financial impact to Airgas, the Company has already instituted product allocations and surcharges related to bulk and cylinder acetylene. Sales of acetylene represent approximately 3% of the Company s consolidated gas and rent net sales.

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STATEMENT OF EARNINGS COMMENTARY Fiscal Year Ended March 31, 2011 Compared to Fiscal Year Ended March 31, 2010

Certain reclassifications were made to the Company s Consolidated Statements of Earnings for the fiscal years 2010 and 2009 to conform to the current period presentation. These reclassifications resulted in increasing revenue and selling, distribution and administrative expenses and reducing cost of products sold (excluding depreciation). These reclassifications were the result of conforming the Company s accounting policies in conjunction with its implementation of the SAP system and were not material. Consolidated operating income and net earnings for the prior periods were not impacted by the reclassifications.

Additionally, certain reclassifications were made to the presentation of business segment operating results for the prior periods to conform to the current period presentation. These reclassifications were the result of changes made to the allocation of corporate operating expenses. Although corporate operating expenses are generally allocated to each business segment based on sales dollars, the Company reports expenses related to the implementation of its SAP system and costs associated with the Company s withdrawal from various MEPPs under selling, distribution and administrative expenses as other expenses that are not allocated to the Company s business segments. Previously, these costs were allocated to each business segment based on sales dollars. Consolidated operating income and net earnings for the prior periods were not impacted by these reclassifications. Additionally, the legal and professional fees incurred as a result of Air Products unsolicited takeover attempt were not allocated to the Company s business segments. These costs are also reflected in the other line item in the tables below.

Business segment information and income statement commentary related to the prior periods have been recast to reflect the reclassifications described above.

Net Sales

Net sales increased 10% to $4.3 billion for the current year compared to the prior year, driven by same-store sales growth of 8% and incremental sales of 2% contributed by acquisitions. Gas and rent same-store sales increased 7% and hardgoods increased 11%. Same-store sales were driven by increased volumes of 5% and price of 3%.

Strategic products account for more than 40% of net sales and include safety products, bulk, medical and specialty gases, as well as carbon dioxide and dry ice. The Company has identified these products as strategic because it believes they have good long-term growth profiles relative to the Company s core industrial gas and welding products due to favorable end customer markets, application development, increasing environmental regulation, strong cross-selling opportunities or a combination thereof. For the current year, sales of strategic products increased 9% on a same-store sales basis as compared to the prior year, which was slightly stronger than the overall same-store sales increase of 8%.

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

Net Sales (In thousands)	**Year Ended March 31, 2011**	**2010**	**Increase**	
Distribution	$ 3,810,136	$ 3,478,475	$ 331,661	10%
All Other Operations	472,054	420,941	51,113	12%
Intercompany eliminations	(30,723)	(24,263)	(6,460)	
	$ 4,251,467	$ 3,875,153	$ 376,314	10%

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

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Distribution business segment sales increased 10% compared to the prior year with an increase in same-store sales of 8% and incremental sales of 2% contributed by current and prior year acquisitions. The Distribution business segment s gas and rent same-store sales increased 6% with volumes and pricing each up 3%. Hardgoods same-store sales increased 11% with volumes up 9% and pricing up 2%. Both gas and rent and hardgoods volumes reflect the overall improvement in economic activity, while the increase in pricing was primarily driven by the June 1, 2010 and March 1, 2011 price increases.

Sales of strategic gas products sold through the Distribution business segment in the current year increased 8% from the prior year. Among strategic gas products, bulk gas sales were up 10% as bulk sales to industrial manufacturing and petrochemical customers continued to recover, and bulk nitrogen for food-freezing applications continued to show strength. Sales of medical gases were up 4% as a result of new business signings, partially offset by a reduction in elective and non-critical medical procedures, which reduced overall demand. Sales of specialty gases were up 8% driven primarily by higher volumes and increased demand for core specialty gases. The rising demand for the Company s core specialty gases reflects further strengthening of the Company s market position in EPA protocols and other calibration gas mixtures, improving conditions in petrochemical markets and spot sales of certain rare gases in the fiscal second quarter.

Contributing to the rise in Distribution business segment hardgoods same-store sales were increases in both safety products and the Company s Radnor® private-label brand product line. Safety product sales increased 13% in the current year, comparing favorably to the overall hardgoods same-store sales increase of 11% and reflecting broad-based increases that were most pronounced in the manufacturing customer base. The Company s Radnor® private-label line was up 15% for the current year, driven by the overall increase in hardgoods volumes.

Sales of core industrial gases, which experienced the sharpest volume declines during the recession, increased 6% for the current year as compared to the prior year, reflecting accelerating growth in the Company s core business. Revenues from the Company s rental welder business experienced a 5% decline in same-store sales during the current year as compared to the prior year, primarily as a result of continued weakness in non-residential construction.

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

The All Other Operations business segment sales increased 12% in total and on a same-store basis compared to the prior year. The sales increase was driven by higher pricing and volumes for certain products in the refrigerants business and for ammonia used in DeNOx applications and chemicals processing, as well as higher volumes in the carbon dioxide and dry ice businesses.

Gross Profits (Excluding Depreciation)

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

Consolidated gross profits (excluding depreciation) increased 9% compared to the prior year, principally due to the same-store sales increase for the current year. The consolidated gross profit margin (excluding depreciation) in the current year declined 40 basis points to 55.0% compared to 55.4% in the prior year. The decline in consolidated gross profit margin (excluding depreciation) primarily reflects the sales mix shift toward lower-margin hardgoods that is characteristic of an industrial economic recovery.

Gross Profits (Excluding Depreciation) (In thousands)	Year Ended March 31, 2011	2010	Increase	
Distribution	$ 2,117,270	$ 1,948,868	$ 168,402	9%
All Other Operations	220,107	198,419	21,688	11%
	$ 2,337,377	$ 2,147,287	$ 190,090	9%

The Distribution business segment s gross profits (excluding depreciation) increased 9% compared to the prior year. The Distribution business segment s gross profit margin (excluding depreciation) was 55.6% versus 56.0% in the prior year, a decrease of 40 basis points. The decline in the Distribution business segment s gross profit margin (excluding depreciation) largely reflects the shift in sales mix toward hardgoods, which carry lower gross profit margins (excluding depreciation) than gas and rent. As a percentage of the Distribution business segment s sales, gas and rent decreased 120 basis points to 59.6% in the current year as compared to 60.8% in the prior year.

The All Other Operations business segment s gross profits (excluding depreciation) increased 11% compared to the prior year, primarily as a result of favorable pricing and product mix for the refrigerants, carbon dioxide and dry ice businesses. The All Other Operations business segment s gross profit margin (excluding depreciation) decreased 50 basis points to 46.6% in the current year from 47.1% in the prior year. The decrease in the All Other Operations business segment s gross profit margin (excluding depreciation) was primarily driven by higher costs in the ammonia business relative to pricing.

Operating Expenses

Selling, distribution and administrative (SD&A) expenses consist of labor and overhead associated with the purchasing, marketing and distributing of the Company s products, as well as costs associated with a variety of administrative functions such as legal, treasury, accounting, tax and facility-related expenses. Consolidated SD&A expenses increased $85 million, or 6%, in the current year as compared to the prior year. Contributing to the increase in SD&A expenses were $65 million of higher variable costs associated with growing sales, such as sales commissions, performance bonuses, production overtime and distribution costs, approximately $13 million of incremental operating costs associated with acquired businesses and $9 million in incremental costs associated with the SAP implementation, slightly offset by $2 million of lower MEPP withdrawal charges. As a percentage of net sales, SD&A expense decreased 140 basis points to 37.0% compared to 38.4% in the prior year driven by operating leverage on sales growth and by the shift in sales mix to hardgoods, which carry lower operating expenses in relation to sales and corresponding lower gross margins. Although corporate operating expenses are generally allocated to each business segment based on sales dollars, the Company reports SD&A expenses related to the implementation of its SAP system and the Company s withdrawal from various MEPPs in the other line item in the table below.

SD&A Expenses (In thousands)	**Year Ended March 31, 2011**	**2010**	**Increase**	
Distribution	$ 1,418,491	$ 1,348,022	$ 70,469	5%
All Other Operations	134,578	127,250	7,328	6%
Other	21,003	14,033	6,970	
	$ 1,574,072	$ 1,489,305	$ 84,767	6%

SD&A expenses in the Distribution and All Other Operations business segments increased 5% and 6%, respectively, in the current year. For both business segments, the increases in SD&A costs were driven by higher variable costs on sales growth, including sales commissions, performance bonuses, production overtime and distribution costs, and approximately $13 million of incremental operating costs associated with acquired businesses, the majority of which was incurred in the Distribution business segment. As a percentage of Distribution business segment net sales, SD&A expense in the Distribution business segment decreased 160 basis points to 37.2% compared to 38.8% in the prior year driven by operating leverage on sales growth and by the shift in sales mix to hardgoods. As a percentage of All Other Operations business segment net sales, SD&A expense in the All Other Operations business segment decreased 170 basis points to 28.5% compared to 30.2% in the prior year, driven primarily by operating leverage on sales growth in the refrigerants, carbon dioxide and dry ice businesses.

Enterprise Information System

On July 5, 2010, the Company began its phased, multi-year rollout of its highly-customized SAP enterprise information system, whereby business units will implement the new system in succession, with the successful conversion of its Safety telesales and hardgoods infrastructure business to SAP. On April 4, 2011, the first regional distribution company successfully converted to SAP. The Company continues to prepare for the implementation of SAP at the remainder of its business units. SAP costs for the current year were $16.4 million as compared to $7.4 million in the prior year, primarily reflecting the post-implementation monitoring, training and operating activities following the rollout of SAP to the Company s Safety telesales and hardgoods infrastructure business, and pre-implementation data conversion and training related to the rollout of SAP to the first regional distribution company. These costs were recorded as SD&A expenses and were not allocated to the Company s business segments. SAP implementation costs for fiscal 2012 to be reflected in SD&A expenses are expected to increase to $36 million as the Company accelerates the rollout of the system to the other regional distribution companies.

Multi-employer Pension Plan Withdrawals

The Company participates, with other employers, in a number of MEPPs providing defined benefits to union employees under the terms of CBAs. Contributions are made to the plans in accordance with those CBAs. The plans generally provide retirement benefits to participants based on their service to contributing employers.

As CBAs came up for renewal, the Company actively negotiated the withdrawal from MEPPs 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, benefits levels and continued participation by other employers in the MEPP. The computation of the Company s portion of a plan s unfunded obligation may take up to 24 months for the pension plan administrators to prepare. As a result, the Company has recorded estimated liabilities for these withdrawals based on the latest information available to the Company from the plans. MEPP withdrawal costs for the current year were $4.6 million and related to the ratification of certain CBAs up for renewal as well as revised estimated withdrawal liabilities from two plan administrators. In connection with the renewal of certain labor contracts during the prior year, the Company recognized MEPP withdrawal charges of $6.7 million in the prior year. These charges were reflected in SD&A expenses and were not allocated to the Company s business segments.

Unsolicited Takeover Attempt

On February 11, 2010, Air Products initiated an unsolicited tender offer for all of the Company s outstanding shares of common stock. In connection with this unsolicited takeover attempt, Air Products filed an action against the Company and members of its Board in the Delaware Court of Chancery. In the suit, Air Products sought, among other things, an order declaring that members of the Company s Board breached their fiduciary duties by refusing to negotiate with Air Products. Additionally, a number of purported stockholder class action lawsuits were commenced against the Company and/or the members of the Airgas Board in the Delaware Court of Chancery. These suits, which were later consolidated, alleged, among other things, that the members of the Airgas Board breached their fiduciary duties by refusing to negotiate with Air Products, failing to seek more valuable alternatives and failing to redeem the Company s shareholder rights plan.

Air Products also initiated a proxy contest to elect three directors to Airgas Board and to amend certain provisions of the Company s By-Laws. At the annual meeting of stockholders of the Company on September 15, 2010, the three nominees of Air Products were elected to the Company s Board of Directors and a majority of the shares voted, though less than 67% of the shares outstanding and entitled to vote, were voted in favor of the By-Law amendments proposed by Air Products. Airgas and certain of its directors initiated an action in the Delaware Court of Chancery alleging that the By-Law amendment requiring that an annual meeting be held on January 18, 2011, only four months after the September 15, 2010 annual meeting, was invalid under both Delaware law and Airgas charter. In a ruling dated October 8, 2010, the Delaware Court of Chancery ruled that the By-Law amendment was valid. Airgas and the directors involved appealed that ruling to the Supreme Court of Delaware and on November 23, 2010, the Supreme Court of Delaware found that the By-Law amendment was invalid and reversed the judgment of the Court of Chancery.

On February 15, 2011, the Delaware Court of Chancery denied in their entirety all requests for relief by Air Products and by the plaintiffs in the stockholder class action lawsuits, and dismissed with prejudice all claims asserted against the Company and its directors. Air Products promptly terminated its unsolicited tender offer and no appeal of the Court s decision was filed by Air Products or the stockholder plaintiffs.

During the current year, the Company incurred $44.4 million of legal and professional fees and other costs related to Air Products unsolicited takeover attempt and the related litigation compared to $23.4 million in the prior year. The costs related to the unsolicited takeover attempt were reflected as a separate line item in the Company s Consolidated Statements of Earnings, and were not allocated to the Company s business segments.

Depreciation and Amortization

Depreciation expense of $225 million increased $13 million, or 6%, in the current year as compared to $213 million in the prior year. The increase primarily reflects capital investments in revenue generating assets to support customer demand (such as cylinders and bulk tanks) and $2 million of incremental depreciation expense related to the SAP enterprise information system. Amortization expense of $25 million in the current year increased by $3 million as compared to the prior year reflecting amortization of intangibles acquired during both the current and prior years. Depreciation expense related to the SAP system is expected to increase to $8 million in fiscal 2012 without the benefit of full implementation of the system.

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Operating Income

Consolidated operating income of $468 million increased 17% in the current year driven by operating leverage on sales growth which more than offset the impact of costs related to the unsolicited takeover attempt, higher variable costs associated with sales growth, and incremental SAP implementation costs, slightly offset by lower MEPP withdrawal charges. The consolidated operating income margin, which was negatively impacted by significant costs related to the unsolicited takeover attempt, increased to 11.0% from 10.3% in the prior year. Although corporate operating expenses are generally allocated to each business segment based on sales dollars, the Company reports SD&A expenses related to the implementation of its SAP system and the Company s withdrawal from various MEPPs in the other line item in the table below. Additionally, the legal and professional fees and other costs related to the unsolicited takeover attempt are not allocated to the Company s business segments, and are also reflected in the other line item in the table below.

Operating Income (In thousands)	**Year Ended March 31, 2011**	**2010**	**Increase**	
Distribution	$ 468,295	$ 384,584	$ 83,711	22%
All Other Operations	65,495	52,482	13,013	25%
Other	(65,409)	(37,468)	(27,941)	
	$ 468,381	$ 399,598	$ 68,783	17%

Operating income in the Distribution business segment increased 22% in the current year. The Distribution business segment s operating income margin increased 120 basis points to 12.3% compared to 11.1% in the prior year. The operating income margin increase was driven by operating leverage on sales growth in the current year which more than offset higher variable costs associated with sales growth.

Operating income in the All Other Operations business segment increased 25% compared to the prior year. The All Other Operations business segment s operating income margin of 13.9% was 140 basis points higher than the operating income margin of 12.5% in the prior year. The increase in operating margin was driven primarily by operating leverage on sales growth in the refrigerants, carbon dioxide and dry ice businesses, partially offset by the impact of gross margin compression in the ammonia business.

Interest Expense, Net, Discount on Securitization of Trade Receivables and Losses on the Extinguishment of Debt

Interest expense, net, was $60 million in the current year, representing a decrease of approximately $9 million, or 13%, compared to interest expense, net, and the discount on securitization of trade receivables in the prior year. As a result of a change in accounting treatment effective April 1, 2010 related to the Company s trade receivables securitization program, costs formerly recognized as discount on securitization of trade receivables, which represented the difference between the carrying value of the receivables and the proceeds from their sale, are now reflected as interest expense, consistent with the new accounting treatment. The overall decrease in interest expense, net (including the discount on securitization of trade receivables in the prior year) resulted primarily from lower average debt balances in the current year as compared to aggregate debt and trade receivables securitization balances in the prior year, partially offset by a $2.6 million one-time interest penalty in the current year related to the 7.125% senior subordinated notes due October 1, 2018 (the 2018 Notes).

Interest Penalty

During the current year, the Company incurred a one-time interest penalty to the holders of its 2018 Notes in the amount of $2.6 million related to the late removal of the restrictive legend on these notes. In issuing the 2018 Notes, the Company utilized a newly available technology that has since become obsolete, wherein it was incumbent upon Airgas to remove the restrictive legend from the 2018 Notes at the end of the restricted transfer period. Failure to do so required the payment of an interest penalty to holders of the 2018 Notes, which the Company promptly addressed when it identified the oversight. The Company has classified this penalty as interest expense.

Trade Receivables Securitization

The Company participates in the Securitization Agreement with three commercial banks to which it sells qualifying trade receivables on a revolving basis. The maximum amount of the Securitization Agreement is $295 million. On April 1, 2010, the Company adopted new accounting guidance which affected the presentation of its Securitization Agreement. Under the new guidance, proceeds received under the Securitization Agreement are treated as secured borrowings, whereas previously they were treated as proceeds from the sale of trade receivables. Furthermore, the new accounting treatment resulted in the recognition of both the trade receivables securitized under the agreement and the borrowings they collateralize on the Company s Consolidated Balance Sheet, which led to a $295 million increase in trade receivables and long-term debt. There was no impact to the Company s consolidated net earnings as a result of the change in accounting principle. Additionally, the Company s debt covenants were not impacted by the balance sheet recognition of the borrowings under the new accounting guidance, as borrowings under the Securitization Agreement were already factored into the debt covenant calculations.

Financing and Losses on the Extinguishment of Debt

On September 13, 2010, the Company entered into a new four-year $750 million revolving credit facility (the Credit Facility). In connection with the entry into the Credit Facility, the Company terminated its $1.7 billion credit facility (the Prior Credit Facility), which was scheduled to mature on July 25, 2011. All obligations outstanding under the Prior Credit Facility were repaid using proceeds of the Credit Facility and other funds. As a result of the early termination of the Prior Credit Facility, the Company recognized a loss of $0.6 million associated with the write-off of unamortized debt issuance costs.

Additionally, during the current year, the Company repurchased $30 million of its 2018 Notes at an average price of 110.6% of the principal. In conjunction with the repurchase of the 2018 Notes, the Company recognized losses on the early extinguishment of debt of $3.6 million. The losses reflected the redemption premiums as well as the write-off of associated unamortized debt issuance costs. In connection with the prior year repurchase of $154 million of the 2018 Notes and the redemption in full of the $150 million 6.25% senior subordinated notes due July 15, 2014 (the 2004 Notes), the Company recognized losses on the early extinguishment of debt of $17.9 million in the prior year. The losses related to the redemption premiums and the write-off of unamortized debt issuance costs.

Stock Repurchase Program

In February 2011, the Company s Executive Committee of the Board of Directors approved a stock repurchase program that provided the Company with the authorization to repurchase up to $300 million of its common stock. By March 31, 2011, 4.8 million shares had been repurchased for $300 million.

Income Tax Expense

The effective income tax rate was 38.5% of pre-tax earnings in the current year compared to 37.5% in the prior year. The lower tax rate for the prior 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. The Company expects the effective income tax rate for fiscal 2012 to be between 38.0% and 39.0% of pre-tax earnings.

Net Earnings

Net earnings were $250 million, or $2.93 per diluted share, compared to $196 million, or $2.34 per diluted share, in the prior year. The current year s net earnings include costs related to the unsolicited takeover attempt of $44.4 million ($28.0 million after tax) or $0.33 per diluted share, charges related to withdrawals from MEPPs of $4.6 million ($2.8 million after tax) or $0.03 per diluted share, losses related to the early extinguishment of debt of $4.2 million ($2.6 million after tax) or $0.03 per diluted share and costs related to the one-time interest penalty of $2.6 million ($1.7 million after tax) or $0.02 per diluted share. The prior year s net earnings include costs related to the unsolicited takeover attempt of $23.4 million ($14.8 million after tax) or $0.18 per diluted share, charges related to withdrawals from MEPPs of $6.7 million ($4.1 million after tax) or $0.05 per diluted share, losses related to the early extinguishment of debt of $17.9 million ($11.3 million after tax) or $0.14 per diluted share and a one-time income tax benefit of $2.2 million or $0.03 per diluted share.

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RESULTS OF OPERATIONS: 2010 COMPARED TO 2009

OVERVIEW

Airgas had net sales for fiscal 2010 of $3.9 billion compared to $4.4 billion for the fiscal year ended March 31, 2009 (fiscal 2009). The fiscal 2010 net sales reflected a challenging sales environment due to the economic downturn in the U.S. For fiscal 2010, net sales decreased by 11% driven by a decline in same-store sales offset slightly by the impact of current and prior year acquisitions. The decline in same-store sales contributed 14% to the decrease in total sales, driven by a 13% decrease in sales volume and a 1% decrease in pricing. Acquisitions contributed sales growth of 3% for fiscal 2010. Lower sales volumes reflected the effects of the economic recession in the U.S. and decreased demand, especially in the first three quarters of fiscal 2010, across all customer and geographic segments. Steep declines in the Company s selling price to customers in response to price reductions from the Company s suppliers for ammonia and filler metals accounted for the majority of the pricing decline. The Company s strategic products and related growth initiatives helped to somewhat mitigate the impact of the economic downturn.

Operating income margin declined 170 basis points to 10.3% in fiscal 2010 compared to 12.0% in fiscal 2009. The decline in the fiscal 2010 operating income margin reflected the impact of lower sales as well as $23.4 million in costs related to the Air Products unsolicited takeover attempt and $6.7 million in MEPP withdrawal charges, partially offset by the impact of cost reduction and operating efficiency initiatives and a favorable sales mix shift from hardgoods to gas and rent sales. The costs related to the unsolicited takeover attempt and the MEPP charges accounted for 80 basis points (44%) of the decline in operating income margin. Net earnings per diluted share fell 25% to $2.34 in fiscal 2010 versus $3.12 in fiscal 2009. The results reflect lower operating income as well as losses on the extinguishment of debt of $17.9 million, partially offset by lower borrowing costs in fiscal 2010 and a $2.2 million or $0.03 per diluted share income tax benefit associated with the reorganization of certain facilities within the All Other Operations business segment. The costs related to the unsolicited takeover attempt, MEPP charges and debt extinguishment charges accounted for over half of the decline in net earnings per diluted share.

Multi-employer Pension Plan Withdrawal

In connection with the renewal of certain CBAs during fiscal 2010, the Company negotiated its withdrawal from participation in underfunded MEPPs and will instead contribute to a defined contribution plan for the affected union employees. Ratification of the CBAs led to $6.7 million in MEPP withdrawal charges during fiscal 2010. During fiscal 2009, the Company incurred $2.0 million in MEPP withdrawal charges.

Cost Reduction and Operating Efficiency Initiatives

In response to the economic downturn, the Company reacted quickly and effectively to mitigate the impact of declining sales. Between December 2008 and September 2009, the Company fully implemented $57 million of annualized expense reductions, which were in addition to $10 million of annualized savings in fiscal 2010 from ongoing efficiency initiatives.

Financing and Losses on the Extinguishment of Debt

In September 2009, the Company issued $400 million of 4.50% senior notes due September 15, 2014 (the 2014 Notes). Additionally, in March 2010, the Company issued $300 million of 2.85% senior notes due October 1, 2013 (the 2013 Notes). The net proceeds from both offerings were used to repay debt under the Company s Prior Credit Facility. Additionally, in March 2010, the Company signed a two year, $295 million securitization agreement replacing the previous $345 million agreement that was expiring.

In October 2009, the Company redeemed in full its $150 million 2004 Notes at a premium of 103.125% of the principal amount with borrowings under the Company s Prior Credit Facility. In conjunction with the redemption of the 2004 Notes, the Company recognized a loss on the early extinguishment of debt of $6.1 million. Also during fiscal 2010, the Company repurchased $154 million of its 2018 Notes at an average price of 106.4%. In conjunction with the repurchase of the 2008 Notes, the Company recognized losses on the early extinguishment of debt of $11.8 million. As a result of the redemption of the 2004 Notes and the repurchases of the 2018 Notes, the Company recognized total losses on the early debt extinguishment of $17.9 million. The losses reflected the redemption premiums as well as writing-off the associated unamortized debt issuance costs.

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INCOME STATEMENT COMMENTARY Fiscal Year Ended March 31, 2010 Compared to Fiscal Year Ended March 31, 2009

Net Sales

Net sales decreased 11% in fiscal 2010 compared to fiscal 2009 driven by a same-store sales decline of 14% partially offset by incremental sales of 3% contributed by acquisitions. Gas and rent same-store sales declined 10% and hardgoods same-store sales declined 20%. Same-store sales were driven by volume declines of 13% and a 1% price decline. Strategic products account for about 40% of revenues. In the aggregate, strategic products declined 6% on a same-store sales basis in fiscal 2010 compared to fiscal 2009 with growth in medical gases offset by declines in all other strategic product categories.

Net Sales (In thousands)	Year Ended March 31, 2010	2009	Decrease	
Distribution	$ 3,478,475	$ 3,930,400	$ (451,925)	-11%
All Other Operations	420,941	457,329	(36,388)	-8%
Intercompany eliminations	(24,263)	(26,250)	1,987	
	$ 3,875,153	$ 4,361,479	$ (486,326)	-11%

Distribution business segment sales decreased 11% compared to fiscal 2009 with a decline in same-store sales of 12%, slightly offset by incremental sales of 1% contributed by fiscal 2010 and fiscal 2009 acquisitions. The Distribution business segment s gas and rent same-store sales declined 8% driven entirely by volumes. Hardgoods same-store sales declined 20% driven by volume declines of 19% and a 1% pricing decline. Hardgoods as well as gas and rent volumes were negatively impacted by the general slowdown in economic activity and customers delaying or deferring capital projects.

Sales of strategic gas products sold through the Distribution business segment declined 4%. Among strategic gas products, bulk gas sales were down 5% due to the impact of production slowdowns in the metal fabrication and steel customer segments, as well as reduced activity from oil field service customers. The decline in bulk gas sales related to these customer segments was partially offset by growth in sales of bulk nitrogen for food-freezing applications. Sales of medical gases grew 2% as a result of new business signings, which were partially offset by slowing in overall demand for medical gases used in elective and non-critical medical procedures. Specialty gas sales declined 9% as a result of a general softening in demand in the chemicals processing industry as well as strong sales of high-value rare gases in fiscal 2009.

Sales of core industrial gases, which experienced the sharpest volume declines, were down 15% for fiscal 2010, while the related rental revenues were down only 4%. However, revenues from the Company s rental welder business experienced a 21% decline in same-store sales as compared to fiscal 2009.

Distribution hardgoods same-store sales declined 20% driven by volume declines of 19% and a 1% pricing decline. Sales of safety products decreased 9% in fiscal 2010 resulting from plant shutdowns, shift reductions and relatively high unemployment levels. The Company s Radnor® private label line was down 16% for fiscal 2010 driven by the overall drop in hardgoods volumes.

The All Other Operations business segment sales decreased 8% compared to fiscal 2009 with a 17% decline in same-store sales offset by incremental sales of 9% contributed by acquisitions, primarily the fiscal 2009 acquisition related to the refrigerants business. The decline in same-store sales reflects lower pricing for ammonia products, a decline in carbon dioxide and dry ice volumes, and reduced refrigerant volumes. After a significant run-up in the costs of ammonia products in the first half of fiscal 2009, ammonia costs from suppliers suddenly dropped in the fourth quarter of fiscal 2009, while pricing to customers initially remained stable. Progressing through fiscal 2010, pricing to customers has been under increasing pressure contributing to the same-store sales decline, while the cost of ammonia from suppliers has been rising. Reduced carbon dioxide volumes reflect weakness in the beverage carbonation customer segment. Dry ice volumes were impacted by a decline in the airline services customer segment and strong fiscal 2009 sales during the second quarter in the wake of major hurricanes. Refrigerants volume declined primarily due to mild summer weather in the eastern U.S. along with customers deferral of HVAC maintenance and conversion projects in light of the economic downturn.

Gross Profits (Excluding Depreciation)

Consolidated gross profits (excluding depreciation) decreased 8% principally due to a same-store sales decline offset by an expansion of gross profit margins (excluding depreciation). The consolidated gross margin (excluding depreciation) in fiscal 2010 increased 220 basis points to 55.4% compared to 53.2% in fiscal 2009 primarily driven by margin expansion in the Distribution business segment resulting from a favorable shift in sales mix.

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Gross Profits (Excluding Depreciation) (In thousands)	Year Ended March 31, 2010	2009	Decrease	
Distribution	$ 1,948,868	$ 2,122,407	$ (173,539)	-8%
All Other Operations	198,419	199,184	(765)	0%
	$ 2,147,287	$ 2,321,591	$ (174,304)	-8%

The Distribution business segment s gross profits (excluding depreciation) decreased 8% compared to fiscal 2009. The Distribution business segment s gross profit margin (excluding depreciation) was 56.0% versus 54.0% in fiscal 2009. The 200 basis point increase in the gross profit margin (excluding depreciation) largely reflects the favorable shift in product mix toward gas and rent, which carry higher gross profit margins (excluding depreciation) than hardgoods. As a percentage of the Distribution business segment s sales, gas and rent increased to 60.8% in fiscal 2010 as compared to 57.2% in fiscal 2009.

The All Other Operations business segment s gross profits (excluding depreciation) were consistent with fiscal 2009 as a result of lower same-store sales offset by acquisitions (primarily the fiscal 2009 acquisition in the refrigerants business) and margin expansion in the ammonia business. The All Other Operations business segment s gross profit margin (excluding depreciation) increased 350 basis points to 47.1% versus 43.6% in fiscal 2009. The year-over-year improvement in the All Other Operations business segment s gross profit margin (excluding depreciation) was driven by the margin improvement in the ammonia business. The improved ammonia margin reflects the impact of the fourth quarter of fiscal 2009 drop in the cost of ammonia and a lag in a corresponding drop in the selling price to customers. Throughout fiscal 2010, ammonia margins declined as customer pricing fell in line with product costs. Product mix also contributed to the margin improvement.

Operating Expenses

SD&A expenses declined $87 million (5%) as compared to fiscal 2009 resulting from a $120 million decline in operating costs partially offset by approximately $33 million of incremental operating costs associated with acquired businesses. The $120 million decrease in operating costs reflects lower variable costs due to the decline in sales and the benefits from the Company s cost reduction and operating efficiency initiatives. Also included in the fiscal 2010 SD&A expenses are $7.4 million in SAP implementation costs and $6.7 million related to withdrawals from MEPPs, which were not allocated to the business segments and are included within the other line item in the table below. Fiscal 2009 SD&A expenses included $5.8 million in SAP implementation costs and $2.0 million related to withdrawals from MEPPs. As a percentage of net sales, SD&A expense increased 230 basis points to 38.4% compared to 36.1% in fiscal 2009 reflecting the overall decline in sales and the shift in sales mix to gas and rent, which carry higher operating expenses in relation to sales and corresponding higher gross margins.

SD&A Expenses (In thousands)	Year Ended March 31, 2010	2009	Increase/(Decrease)	
Distribution	$ 1,348,022	$ 1,441,932	$ (93,910)	-7%
All Other Operations	127,250	126,149	1,101	1%
Other	14,033	7,847	6,186	
	$ 1,489,305	$ 1,575,928	$ (86,623)	-5%

During the fourth quarter of fiscal 2010, the Company incurred $23.4 million of legal and professional fees in response to Air Products unsolicited takeover attempt and accompanying litigation, which principally represented up-front accruals for the minimum obligations to the Company s advisors.

Depreciation expense of $213 million increased $15 million (7%) as compared to fiscal 2009. Acquired businesses added approximately $2 million to depreciation expense. The remaining increase primarily reflected the two new air separation units in New Carlisle, Indiana and Carrollton, Kentucky, which came on-line in late fiscal 2009 and early fiscal 2010, respectively. Depreciation expense for fiscal 2010 also reflects capital investments in revenue generating assets to support customer demand, such as cylinders, bulk tanks and rental welders, and infrastructure spending on cylinder fill plants and branch locations. Amortization expense of $22 million was $1 million (2%) lower than fiscal 2009 primarily due to lower amortization of acquired customer lists and non-compete agreements due to reduced acquisition activity.

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Operating Income

Consolidated operating income of $400 million decreased 24% in fiscal 2010 on lower sales and charges of $23.4 million related to the unsolicited takeover attempt, $6.7 million in MEPP withdrawal charges and costs of $7.4 million associated with the Company s SAP implementation, all of which were partially offset by gross profit margin (excluding depreciation) expansion and the benefits from the Company s cost reduction and operating efficiency initiatives. In fiscal 2009, the Company recognized $2.0 million of MEPP withdrawal charges and $5.8 million in costs related to the SAP implementation. The operating income margin decreased 170 basis points to 10.3% compared to 12.0% in fiscal 2009; of the decline, 80 basis points was the result of the costs related to the unsolicited takeover attempt and MEPP withdrawal charges.

Operating Income (In thousands)	**Year Ended March 31, 2010**	**2009**	**Decrease**	
Distribution	$ 384,584	$ 477,217	$ (92,633)	-19%
All Other Operations	52,482	55,498	(3,016)	-5%
Other	(37,468)	(7,847)	(29,621)	
	$ 399,598	$ 524,868	$ (125,270)	-24%

Operating income in the Distribution business segment decreased 19% in fiscal 2010. The Distribution business segment s operating income margin decreased 100 basis points to 11.1% compared to 12.1% in fiscal 2009. The operating income margin decline was driven primarily by lower sales and was partially offset by favorable mix-driven gross profit margin (excluding depreciation) expansion and the Company s cost reduction and operating efficiency initiatives that were implemented in response to the economic downturn.

Operating income in the All Other Operations business segment decreased 5% compared to fiscal 2009 mainly as a result of lower same-store sales partially offset by acquisition growth (primarily the fiscal 2009 acquisition in the refrigerants business). The business segment s operating income margin of 12.5% was 40 basis points higher than the operating income margin of 12.1% in fiscal 2009. The increase in operating income margin was driven principally by gross margin expansion in the ammonia business.

Interest Expense, Net, and Discount on Securitization of Trade Receivables

Interest expense, net, and the discount on securitization of trade receivables totaled $69 million representing a decrease of $26 million, or 28%, compared to fiscal 2009. The decrease resulted from lower weighted-average interest rates related to the Company s variable rate debt instruments, the Company s redemption of higher interest rate notes, as well as lower average debt levels from the pay down during fiscal 2010 of approximately $268 million of debt and borrowings under the trade receivables securitization.

The discount on the securitization of trade receivables represents the difference between the carrying value of the receivables and the proceeds from their sale. The amount of the discount varies on a monthly basis depending on the amount of receivables sold and market rates.

Losses on the Extinguishment of Debt

During fiscal 2010, the Company redeemed in full the $150 million of 2004 Notes at a price of 103.125% of the principal amount. Additionally, the Company repurchased approximately $154 million of its 2018 Notes at an average price of 106.4%. In conjunction with these transactions, the Company recognized losses on the early extinguishment of debt of $17.9 million. The losses related to the redemption premiums and the write-off of unamortized debt issuance costs.

Income Tax Expense

The effective income tax rate in fiscal 2010 was 37.5% of pre-tax earnings compared to 39.2% in fiscal 2009. The lower tax rate for fiscal 2010 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.

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Net Earnings

Net earnings were $196 million, or $2.34 per diluted share, compared to $261 million, or $3.12 per diluted share, in fiscal 2009. Net earnings for fiscal 2010 include costs related to the unsolicited takeover attempt of $23.4 million ($14.8 million after tax) or $0.18 per diluted share, losses related to the early extinguishment of debt of $17.9 million ($11.3 million after tax) or $0.14 per diluted share and charges related to withdrawals from MEPPs of $6.7 million ($4.1 million after tax) or $0.05 per diluted share, slightly offset by an income tax benefit of $2.2 million or $0.03 per diluted share.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Net cash provided by operating activities was $275 million in fiscal 2011 compared to $600 million in fiscal 2010 and $583 million in fiscal 2009. The reduction in net cash provided by operating activities during fiscal 2011 was principally driven by the new accounting treatment for the Company s Securitization Agreement, which resulted in a $295 million use of cash in operating activities and a corresponding source of cash in financing activities in the current year. On April 1, 2010, the Company adopted new accounting guidance which affected the presentation of its trade receivables securitization program. Under the new guidance, proceeds received under the securitization are treated as secured borrowings, which are classified as a financing activity on the Consolidated Statement of Cash Flows, whereas previously they were treated as proceeds from the sale of trade receivables, which were classified as an operating activity on the Consolidated Statement of Cash Flows. Furthermore, the new accounting treatment resulted in the recognition of both the trade receivables securitized under the program and the borrowings they collateralize on the Company s Consolidated Balance Sheet, which led to a $295 million increase in trade receivables and long-term debt as of April 1, 2010. Accordingly, $295 million in new borrowings under the Securitization Agreement were classified as sources of cash under financing activities on the Company s Consolidated Statement of Cash Flows. Prior to April 1, 2010, these borrowings were treated as proceeds from the sale of trade receivables and reflected net of collections on the Consolidated Statement of Cash Flows as operating activities. Additionally, the $295 million increase in trade receivables was classified as a use of cash from operating activities.

The Company s underlying business activities generated strong operating cash flows during fiscal 2011. Net earnings adjusted for non-cash and non-operating items provided cash of $598 million in fiscal 2011 versus $541 million in fiscal 2010 and $605 million in fiscal 2009. Adjusted cash from operations[*], which essentially removes the impact of the fiscal 2011 change in accounting principle noted above and cash expenditures related to the Air Products unsolicited takeover attempt in fiscal 2011 and fiscal 2010 from the Company s net cash provided by operating activities, was $617 million in the current year as compared to $648 million in the prior year. The fiscal 2011 decline in the adjusted cash from operations[*] reflected higher working capital requirements as a result of improving sales. Improving sales drove higher trade receivable and inventory levels as trade receivable collection rates and Days Sales Outstanding metrics improved slightly year over year, while inventory turns remained relatively consistent for both the current and prior year. Likewise, free cash flow[*] of $387 million in the current year decreased from $412 million in the prior year for principally the same reasons.

Net cash used in investing activities during fiscal 2011 totaled $262 million and primarily consisted of cash used for capital expenditures. Capital expenditures were 6.0% of sales in fiscal 2011 as compared to 6.5% of sales in fiscal 2010 and 8.1% in fiscal 2009. Capital expenditures in all three fiscal years reflected investments in revenue generating equipment, such as cylinders and bulk tanks, as well as the development of the Company s highly customized SAP system. Capital expenditures in fiscal 2009 also reflected the completion of major capital projects, such as the New Carlisle, Indiana air separation unit and the carbon dioxide plant in Deer Park, Texas. Capital spending in fiscal 2010 reflected the completion of the Carrollton, Kentucky air separation unit. Capital expenditures in fiscal 2012 are expected to remain at approximately 6.0% of sales. Cash used in investing activities decreased $61 million from fiscal 2010 and $348 million from fiscal 2009 as a result of lower capital expenditures and fewer acquisition-related activities. During fiscal 2011, the Company paid $21 million to acquire eight businesses and settle holdback liabilities. The largest of the businesses acquired was Conley Gas, Ltd., a supplier of pure gases to the specialty gas industry, with historical annual sales of approximately $9 million. In fiscal 2010, the Company made acquisition-related cash payments of $81 million primarily associated with the purchase of six businesses, the largest of which was Tri-Tech, a Florida-based industrial gas and welding supply distributor with approximately $31 million in historical annual sales. During fiscal 2009, the Company paid $274 million to acquire 14 businesses, the largest of which was Refron, Inc., a distributor of refrigerant gases with historical annual sales of $93 million, and to settle acquisition holdback liabilities.

Financing activities used cash of $3 million in fiscal 2011 and $278 million in fiscal 2010. Financing activities provided cash of $31 million in fiscal 2009. As noted in the Financial Instruments section below, during fiscal 2011, the Company engaged in refinancing activities, which extended its average debt maturity to 3.6 years at March 31, 2011. In addition to refinancing its Prior Credit Facility, the Company also issued $250 million of 3.25% senior notes during fiscal 2011. The Company also authorized and completed a share repurchase plan in its fiscal fourth quarter, purchasing 4.8 million shares of treasury stock for $300 million. The treasury stock purchases were financed under the Credit Facility. The change in accounting principle for the Securitization Agreement noted above was reflected in proceeds from borrowings, but had no impact on the Company s net cash position. Absent the change in accounting principle, the Company borrowed a net $36 million during fiscal 2011. During fiscal 2010, the Company redeemed in full its $150 million 6.25% senior notes and purchased a significant portion of its 7.125% senior subordinated notes. Also in fiscal 2010, the Company issued $400 million of 4.5% senior notes and $300 million of 2.85% senior notes, using the net proceeds from both offerings to pay down its Prior Credit Facility. The Company repaid a net $254 million of debt during fiscal 2010. During fiscal 2009, the Company issued $400 million of 7.125% senior subordinated notes using the proceeds to pay down its Prior Credit Facility. The Company also purchased 2.4 million treasury shares for $120 million and completed a share repurchase plan in fiscal 2009. The Company also increased its per share dividend payouts to stockholders by 33% in fiscal 2011 and by 36% in fiscal 2010.

Dividends

The Company paid its stockholders quarterly cash dividends of $0.22 per share at the end of the first quarter and $0.25 per share at end of the second and third quarters of fiscal 2011. In the fourth quarter of fiscal 2011, the Company paid dividends of $0.29 per share. On May 17, 2011, the Company s Board of Directors declared a cash dividend of $0.29 per share, which is payable on June 30, 2011 to the stockholders of record as of June 15, 2011. During fiscal 2010, the Company paid regular quarterly cash dividends of $0.18 per share at the end of each of the first three quarters and $0.22 in the fourth quarter. During fiscal 2009, the Company paid regular quarterly cash dividends of $0.12 per share at the end of each of the first two quarters and $0.16 per share in the third and fourth quarters. Future dividend declarations and associated amounts paid will depend upon the Company s earnings, financial condition, loan covenants, capital requirements and other factors deemed relevant by management and the Company s Board of Directors.

Financial Instruments

Senior Subordinated Note Redemption

During fiscal 2011, the Company repurchased $30 million of its 2018 Notes at an average price of 110.6%. Losses on the early extinguishment of the 2018 Notes were $3.6 million for the year ended March 31, 2011 and related to the redemption premiums and write-off of unamortized debt issuance costs. During fiscal 2010, the Company repurchased $155 million of its 2018 Notes and redeemed in full the $150 million of 2004 Notes. The Company recognized losses on the early extinguishment of debt of $17.9 million in fiscal 2010. The losses related to the redemption premiums and the write-off of unamortized debt issuance costs.

Senior Credit Facility

On September 13, 2010, the Company entered into its new four-year $750 million Credit Facility. The Credit Facility consists of a $650 million U.S. dollar revolving credit line and a $100 million (U.S. dollar equivalent) multi-currency revolving credit line. The maturity date of the revolving credit lines is September 13, 2014. Under circumstances described in the Credit Facility, the revolving credit line may be increased by an additional $325 million, provided that the multi-currency revolving credit line may not be increased by more than an additional $50 million.

In connection with the entry by the Company into the Credit Facility, on September 13, 2010, the Company terminated its Prior Credit Facility, a senior credit facility with an aggregate commitment of $1.7 billion. All obligations under the Prior Credit Facility (including the term loans) were repaid in full using proceeds of the Credit Facility and other funds. As a result of the termination of the Prior Credit Facility, the Company recorded a loss on the early extinguishment of debt of $0.6 million for the year ended March 31, 2011 related to the write-off of unamortized debt issuance costs.

As of March 31, 2011, the Company had $374 million of borrowings under the Credit Facility, including $331 million under the U.S. dollar revolver and $43 million under the multi-currency revolver. The Company also had outstanding letters of credit of $41 million issued under the Credit Facility. The U.S. dollar revolver borrowings bear interest at the London Interbank Offered Rate (LIBOR) plus 212.5 basis points. The multi-currency revolver bears interest based on a spread of 212.5 basis points over the Euro currency rate applicable to each foreign currency borrowing. As of March 31, 2011, the average effective interest rates on the U.S. dollar revolver and the multi-currency revolver were 2.31% and 2.87%, respectively.

The Company also maintains a committed revolving line of credit of up to 5.0 million (U.S. $7.1 million) to fund its expansion into France. These revolving credit borrowings are outside of the Company s Credit Facility. At March 31, 2011, French revolving credit borrowings were 2.9 million (U.S. $4.1 million). The variable interest rates on the French revolving credit borrowings are based on the Euro currency rate plus 212.5 basis points. As of March 31, 2011, the effective interest rate on the French revolving credit borrowings was 2.98%. The French revolving line of credit was amended in February 2011 to extend the maturity date to December 31, 2011 and increase the borrowing capacity.

At March 31, 2011, the Credit Facility s financial covenant did not restrict the Company s ability to borrow on the unused portion of the Credit Facility. The Credit Facility contains customary events of default, including nonpayment and breach of covenants. In the event of default, repayment of borrowings under the Credit Facility may be accelerated. The Company s Credit Facility also contains cross-default provisions whereby a default under the Credit Facility could result in defaults under the senior and senior subordinated notes discussed below.

Total Borrowing Capacity

As of March 31, 2011, $335 million remained unused under the Company s Credit Facility. The Company believes that it has sufficient liquidity from cash from operations and under its revolving credit facilities to meet its working capital, capital expenditure and other financial commitments. The financial covenant under the Company s Credit Facility requires the Company to maintain a leverage ratio not higher than 3.5. The leverage ratio is a contractually defined amount principally reflecting debt and, historically, the amounts outstanding under the Securitization Agreement divided by a contractually defined Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) for the trailing twelve-month period with pro forma adjustments for acquisitions. The financial covenant calculations of the Credit Facility include the pro forma results of acquired businesses. Therefore, total borrowing capacity is not reduced dollar-for-dollar with acquisition financing. The leverage ratio measures the Company s ability to meet current and future obligations. At March 31, 2011, the Company s leverage ratio was 2.4.

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

Money Market Loans

The Company has an agreement with a financial institution that provides access to short-term advances not to exceed $35 million. The agreement expires on December 1, 2011, but may be extended subject to renewal provisions contained in the agreement. The advances are generally overnight or for up to seven days. The amount, term and interest rate of an advance are established through mutual agreement with the financial institution when the Company requests such an advance. At March 31, 2011, there were no advances outstanding under the agreement.

The Company also has an agreement with another financial institution that provides access to additional short-term advances not to exceed $35 million. The advances may be for one to six months with rates at a fixed spread over the corresponding LIBOR. At March 31, 2011, there were no advances outstanding under the agreement.

Senior Notes

On September 30, 2010, the Company issued $250 million of 3.25% senior notes due October 1, 2015 (the 2015 Notes). The 2015 Notes were issued at a discount and yield 3.283%. The net proceeds from the sale of the 2015 Notes were used to reduce borrowings under the Company s revolving credit line under the Credit Facility. Interest on the 2015 Notes is payable semi-annually on April 1 and October 1 of each year. Additionally, the Company has the option to redeem the 2015 Notes prior to their maturity, in whole or in part, at 100% of the principal plus any accrued but unpaid interest and applicable make-whole payments.

At March 31, 2011, the Company had $400 million outstanding of the 2014 Notes. The 2014 Notes were issued at a discount and yield 4.527%. Interest on the 2014 Notes is payable semi-annually on March 15 and September 15 of each year. Additionally, the Company has the option to redeem the 2014 Notes prior to their maturity, in whole or in part, at 100% of the principal plus any accrued but unpaid interest and applicable make-whole payments.

At March 31, 2011, the Company had $300 million outstanding of the 2013 Notes. The 2013 Notes were issued at a discount and yield 2.871%. Interest on the 2013 Notes is payable semi-annually on April 1 and October 1 of each year. Additionally, the Company has the option to redeem the 2013 Notes prior to their maturity, in whole or in part, at 100% of the principal plus any accrued but unpaid interest and applicable make-whole payments.

The 2013, 2014 and 2015 Notes contain covenants that could restrict the incurrence of liens and limit sale and leaseback transactions.

Senior Subordinated Notes

At March 31, 2011, the Company had $215 million of its 2018 Notes outstanding. The 2018 Notes bear interest at a fixed annual rate of 7.125%, payable semi-annually on October 1 and April 1 of each year. The 2018 Notes have a redemption provision, which permits the Company, at its option, to call the 2018 Notes at scheduled dates and prices. The first scheduled optional redemption date is October 1, 2013 at a price of 103.563% of the principal amount.

During the year ended March 31, 2011, the Company incurred a one-time interest penalty payable to holders of the 2018 Notes in the amount of $2.6 million related to the late removal of the restrictive legend on these notes. The Company has classified these charges as interest expense.

The 2018 Notes contain covenants that could restrict the payment of dividends, the repurchase of common stock, the issuance of preferred stock, and the incurrence of additional indebtedness and liens.

Acquisition and Other Notes

The Company s long-term debt also includes acquisition and other notes, principally consisting of notes issued to sellers of businesses acquired, which are repayable in periodic installments. At March 31, 2011, acquisition and other notes totaled $9.9 million with an average interest rate of approximately 6% and an average maturity of approximately one year.

Trade Receivables Securitization

The Company participates in the Securitization Agreement with three commercial banks to which it sells qualifying trade receivables on a revolving basis. Effective April 1, 2010 under new accounting guidance, the Company s sale of qualified trade receivable is now accounted for as a secured borrowing under which qualified trade receivables collateralize amounts borrowed from the commercial banks. Trade receivables that collateralize the Securitization Agreement are held in a bankruptcy-remote special purpose entity, which is consolidated for financial reporting purposes. Qualified trade receivables in the amount of the outstanding borrowing under the Securitization Agreement are not available to the general creditors of the Company. The maximum amount of the Securitization Agreement is $295 million and it bears interest at approximately LIBOR plus 80 basis points. At March 31, 2011, the amount of outstanding borrowing under the Securitization Agreement has been classified as long-term debt on the Consolidated Balance Sheet. Amounts borrowed under the Securitization Agreement could fluctuate monthly based on the Company s funding requirements and the level of qualified trade receivables available to collateralize the Securitization Agreement. The Securitization Agreement expires in March 2013 and contains customary events of termination, including standard cross default provisions with respect to outstanding debt. The amount of outstanding borrowing under the Securitization Agreement at March 31, 2011 was $295 million.

Interest Rate Derivatives

The Company manages its exposure to changes in market interest rates. The Company s involvement with derivative instruments is limited to a) highly effective interest rate swap agreements used to manage well-defined interest rate risk exposures and b) treasury rate lock agreements used to fix the interest rate related to forecasted debt issuances. The Company monitors its positions and credit ratings of its counterparties and does not anticipate non-performance by the counterparties. Interest rate swap and treasury rate lock agreements are not entered into for trading purposes. The Company recognizes derivative instruments as either assets or liabilities at fair value on the Consolidated Balance Sheet. At March 31, 2011, the Company was party to a total of five interest rate swap agreements with an aggregate notional amount of $300 million.

The Company designates fixed interest rate swap agreements as cash flow hedges of interest payments on variable-rate debt associated with the Company s Securitization Agreement. For derivative instruments designated as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income (AOCI) and is reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative instruments representing hedge ineffectiveness are recognized in current earnings.

During fiscal 2011, fixed interest rate swaps with an aggregate notional amount of $250 million matured and at March 31, 2011, the Company was not party to any fixed interest rate swap agreements.

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For the year ended March 31, 2011, the fair value of the liability for the fixed interest rate swap agreements decreased and the Company recorded a corresponding adjustment to AOCI of $4.0 million, or $2.7 million after tax. For the year ended March 31, 2010, the fair value of the liability for the fixed interest rate swap agreements decreased and the Company recorded a corresponding adjustment to AOCI of $8.6 million, or $5.6 million after tax. The amount of gain or loss recorded in earnings as a result of hedge ineffectiveness related to the designated cash flow hedges was immaterial for the years ended March 31, 2011, 2010 and 2009.

In anticipation of the issuance of the 2015 Notes, the Company entered into a treasury rate lock agreement in July 2010, with a notional amount of $100 million, maturing on September 8, 2010. The treasury rate lock agreement was designated as a cash flow hedge of the semi-annual interest payments associated with the forecasted issuance of the 2015 Notes. When the treasury rate lock agreement matured, the Company incurred a loss of $2.6 million ($1.6 million after tax) which is reported as a component of AOCI and will be reclassified into earnings over the term of the 2015 Notes. For the year ended March 31, 2011, $258 thousand of the loss on the treasury rate lock was reclassified to interest expense. At March 31, 2011, the estimated loss recorded in AOCI on the treasury rate lock agreement that is expected to be reclassified into earnings within the next twelve months is $326 thousand, net of tax.

The Company also has variable interest rate swap agreements, which are designated as fair value hedges. For derivative instruments designated as fair value hedges, the gain or loss on the derivative as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in current earnings.

At March 31, 2011, the Company had five variable interest rate swaps outstanding with a notional amount of $300 million. These variable interest rate swaps effectively convert the Company s $300 million of fixed rate 2013 Notes to variable rate debt. At March 31, 2011, these swap agreements required the Company to make variable interest payments based on a weighted average forward rate of 2.17% and receive fixed interest payments from the counterparties based on a fixed rate of 2.85%. The maturity of these fair value swaps coincides with the maturity date of the Company s 2013 Notes in October 2013. During the year ended March 31, 2011, the fair value of the variable interest rate swaps increased by $5.7 million to an asset of $5.1 million and was recorded in other non-current assets. The corresponding increase in the carrying value of the 2013 Notes caused by the hedged risk was $5.6 million and was recorded in long-term debt. The Company records the gain or loss on the hedged item (i.e., the 2013 Notes) and the gain or loss on the variable interest rate swaps in interest expense. The net gain or loss recorded in earnings as a result of hedge ineffectiveness related to the designated fair value hedges was immaterial for the years ended March 31, 2011 and 2010.

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

OTHER

Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires management to make judgments, assumptions and estimates that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Note 1 to the Consolidated Financial Statements included under Item 8, Financial Statements and Supplementary Data, describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. Estimates are used for, but not limited to, determining the net carrying value of trade receivables, inventories, goodwill, other intangible assets, business insurance reserves and deferred income tax assets. Uncertainties about future events make these estimates susceptible to change. Management evaluates these estimates regularly and believes they are the best estimates, appropriately made, given the known facts and circumstances. For the three years ended March 31, 2011, there were no material changes in the valuation methods or assumptions used by management. However, actual results could differ from these estimates under different assumptions and circumstances. The Company believes the following accounting estimates are critical due to the subjectivity and judgment necessary to account for these matters, their susceptibility to change and the potential impact that different assumptions could have on operating performance.

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Trade Receivables

The Company maintains an allowance for doubtful accounts, which includes sales returns, sales allowances and bad debts. The allowance adjusts the carrying value of trade receivables to fair value based on estimates of accounts that will not ultimately be collected. An allowance for doubtful accounts is generally established as trade receivables age beyond their due dates. As past due balances age, higher valuation allowances are established lowering the net carrying value of receivables. The amount of valuation allowance established for each past due period reflects the Company s historical collections experience and current economic conditions and trends. The Company also establishes valuation allowances for specific problem accounts and bankruptcies. The amounts ultimately collected on past due trade receivables are subject to numerous factors including general economic conditions, the condition of the receivable portfolio assumed in acquisitions, the financial condition of individual customers, and the terms of reorganization for accounts emerging from bankruptcy. Changes in these conditions impact the Company s collection experience and may result in the recognition of higher or lower valuation allowances. Management evaluates the allowance for doubtful accounts monthly. Historically, bad debt expense reflected in the Company s financial results has generally been in the range of 0.3% to 0.5% of sales. The Company has a low concentration of credit risk due to its broad and diversified customer base across multiple industries and geographic locations, and its relatively low average order size. The Company s largest customer accounts for approximately 0.5% of total net sales.

Inventories

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

Goodwill and Other Intangible Assets

Goodwill and other intangible assets with indefinite useful lives are not amortized, but are instead tested for impairment at least annually and whenever events or circumstances indicate that it is more likely than not that they may be impaired. The Company has elected to perform its annual tests for indications of goodwill impairment as of October 31 of each year.

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

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

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

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

The Company believes the assumptions used in its discounted cash flow analysis are appropriate and result in reasonable estimates of the implied fair value of each reporting unit. However, the Company may not meet its sales growth and profitability targets, working capital needs and capital expenditures may be higher than forecast, changes in credit markets may result in changes to the Company s discount rate and general business conditions may result in changes to the Company s terminal value assumptions for its reporting units. The Company s October 31, 2010 annual assessment of the carrying value of goodwill indicated that the fair value of each reporting unit exceeded its carrying value by a substantial amount. Furthermore, a hypothetical 10% reduction in the fair value of each reporting unit would not indicate that goodwill associated with any reporting unit was potentially impaired.

Business Insurance Reserves

The Company has established insurance programs to cover workers compensation, business automobile and general liability claims. During fiscal 2011, 2010 and 2009, these programs had high deductible limits of $1 million per occurrence. For fiscal 2012, the high deductible limits will remain $1 million per occurrence. The Company reserves for its self-insured retention based on individual claim evaluations establishing loss estimates for known claims based on the current facts and circumstances. These known claims are then developed through actuarial computations, to reflect the expected ultimate loss for the known claims, as well as incurred but not reported claims. Actuarial computations use the Company s specific loss history, payment patterns and insurance coverage, plus industry trends and other factors to estimate the required reserve for all open claims by policy year and loss type. Reserves for the Company s self-insurance retention are evaluated monthly. Semi-annually, the Company obtains a third-party actuarial report to validate that the computations and assumptions used are consistent with actuarial standards. Certain assumptions used in the actuarial computations are susceptible to change. Loss development factors are influenced by items such as medical inflation, changes in workers compensation laws, and changes in the Company s loss payment patterns, all of which can have a significant influence on the estimated ultimate loss related to the Company s self-insured retention. Accordingly, the ultimate resolution of open claims may be for amounts more or less than the reserve balances. The Company s operations are spread across a significant number of locations, which helps to mitigate the potential impact of any given event that could give rise to an insurance-related loss. Over the last three years, business insurance expense has generally been in the range of 0.6% to 0.8% of sales.

Income Taxes

At March 31, 2011, the Company had deferred tax assets of $109.2 million (net of valuation allowances of $9.4 million), deferred tax liabilities of $782.0 million and a net $9.6 million of unrecognized tax benefits associated with uncertain tax positions (see Note 5 to the consolidated financial statements).

The Company estimates income taxes based on diverse legislative and regulatory structures that exist in various jurisdictions where the Company conducts business. Deferred income tax assets and liabilities represent tax benefits or obligations that arise from temporary differences due to differing treatment of certain items for accounting and income tax purposes. The Company evaluates deferred tax assets each period to ensure that estimated future taxable income will be sufficient in character (e.g., capital gain versus ordinary income treatment), amount and timing to result in their recovery. A valuation allowance is established to reduce the deferred income tax assets to their realizable value when management determines that it is more likely than not that a deferred tax asset will not be realized. Considerable judgments are required in establishing deferred tax valuation allowances and in assessing exposures related to tax matters. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences and carryforward deferred tax assets become deductible or utilized. Management considers the reversal of taxable temporary differences and projected future taxable income in making this assessment. As events and circumstances change, related reserves and valuation allowances are adjusted to income at that time. Based upon the level of historical taxable income and projections for future taxable income over the periods during which the deferred tax assets reverse, at March 31, 2011 management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances.

Unrecognized tax benefits represent income tax positions taken on income tax returns that have not been recognized in the consolidated financial statements. The Company s tax returns are subject to audit and local taxing authorities could challenge the Company s tax positions. The Company s practice is to review tax filing positions by jurisdiction and to record provisions for uncertain income tax positions, including interest and penalties when applicable. The Company does not anticipate significant changes in the amount of unrecognized income tax benefits over the

next year.

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Contractual Obligations

The following table presents the Company s contractual obligations as of March 31, 2011:

(In thousands)		Payments Due by Period			
Contractual Obligations:	**Total**	**Less than 1 Year [a]**	**1 to 3 Years [a]**	**3 to 5 Years [a]**	**More than 5 Years [a]**
Long-term debt [1]	$ 1,848,519	$ 9,868	$ 598,447	$ 1,024,684	$ 215,520
Estimated interest payments on long-term debt [2]	273,653	62,609	117,138	55,529	38,377
Estimated receipts on interest rate swap agreements [3]	(5,086)		(5,086)		
Non-compete agreements [4]	17,507	4,717	7,700	4,674	416
Letters of credit [5]	40,859	40,859			
Operating leases [6]	268,656	82,363	109,646	51,154	25,493
Purchase obligations:					
Liquid bulk gas supply agreements [7]	675,192	116,420	217,155	194,552	147,065
Liquid carbon dioxide supply agreements [8]	184,504	18,975	31,540	26,307	107,682
Ammonia supply commitments [9]	4,265	3,121	1,144		
Other purchase commitments [10]	1,449	1,449			
Construction commitments [11]	28,935	25,253	3,682		
Total Contractual Obligations	**$ 3,338,453**	**$ 365,634**	**$ 1,081,366**	**$ 1,356,900**	**$ 534,553**

[a] The Less than 1 Year column relates to obligations due in fiscal 2012. The 1 to 3 Years column relates to obligations due in fiscal years ending March 31, 2013 and 2014. The 3 to 5 Years column relates to obligations due in fiscal years ending March 31, 2015 and 2016. The More than 5 Years column relates to obligations due in fiscal years ending March 31, 2017 and beyond.

[1] Aggregate long-term debt instruments are reflected in the Consolidated Balance Sheet as of March 31, 2011. Long-term debt includes capital lease obligations, which were not material and, therefore, did not warrant separate disclosure.

[2] The future interest payments on the Company s long-term debt obligations were estimated based on the current outstanding principal reduced by scheduled maturities in each period presented and interest rates as of March 31, 2011. The actual interest payments may differ materially from those presented above based on actual amounts of long-term debt outstanding and actual interest rates in future periods.

[3] Receipts under interest rate swap agreements result from changes in market interest rates compared to contractual rates and payments to be exchanged between the parties to the agreements. The estimated receipts in future periods were determined based on forward LIBOR rates as of March 31, 2011. Actual receipts may differ materially from those presented above based on actual interest rates in future periods.

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

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

(6) The Company s operating leases at March 31, 2011 include approximately $183 million in fleet vehicles under long-term operating leases. The Company guarantees a residual value of $27 million related to its leased vehicles.

(7) In addition to the gas volumes supplied by Airgas Merchant Gases, the Company purchases industrial, medical and specialty gases pursuant to requirements contracts from national and regional producers of industrial gases. The Company has a long-term take-or-pay supply agreement, in effect through August 31, 2017, with Air Products to supply the Company with bulk liquid nitrogen, oxygen and argon. Additionally, the Company purchases helium gas from Air Products under long-term supply agreements. Based on the volume of fiscal 2011 purchases, the Air Products supply agreements represent approximately $53 million annually in liquid bulk gas purchases.
The Company also has long-term take-or-pay supply agreements with Linde AG to purchase oxygen, nitrogen, argon and, helium. The agreements expire at various dates through July 2019 and represent approximately $49 million in annual bulk gas purchases. Additionally, the Company has long-term take-or-pay supply agreements to purchase oxygen, nitrogen and argon from other major producers. Annual purchases under these contracts are approximately $14 million and they expire at various dates through June 2024.

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The purchase commitments for future periods contained in the table above reflect estimates based on fiscal 2011 purchases. The supply agreements noted above contain periodic adjustments based on certain economic indices and market analysis. The Company believes the minimum product purchases under the agreements are within the Company s normal product purchases. Actual purchases in future periods under the supply agreements could differ materially from those presented in the table due to fluctuations in demand requirements related to varying sales levels as well as changes in economic conditions.

(8) The Company is a party to long-term take-or-pay supply agreements for the purchase of liquid carbon dioxide with approximately 15 suppliers that expire at various dates through 2044. The purchase commitments for future periods contained in the table above reflect estimates based on fiscal 2011 purchases. The Company believes the minimum product purchases under the agreements are within the Company s normal product purchases. Actual purchases in future periods under the carbon dioxide supply agreements could differ materially from those presented in the table due to fluctuations in demand requirements related to varying sales levels as well as changes in economic conditions. Certain of the liquid carbon dioxide supply agreements contain market pricing subject to certain economic indices.

(9) The Company purchases ammonia from a variety of sources and is obligated to purchase approximately $3.1 million annually under these contracts.

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

(11) Construction commitments represent an outstanding commitment to a customer to construct an on-site air separation unit in Clarksville, Tennessee.

Reconciliations of Non-GAAP Financial Measures (Unaudited)

* Free Cash Flow and Adjusted Cash from Operations

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

	Years Ended March 31,	
(Amounts in thousands)	**2011**	**2010**
Net cash provided by operating activities	$ 275,301	$ 600,047
Adjustments to cash provided by operating activities:		
Cash used by the securitization of trade receivables	295,000	16,400
Stock issued for employee stock purchase plan	14,997	15,428
Tax benefit realized from the exercise of stock options	8,444	15,444
Cash expenditures related to unsolicited takeover attempt	23,427	963
Adjusted cash from operations	**617,169**	**648,282**
Capital expenditures	(256,030)	(252,828)
Adjustments to capital expenditures:		
Proceeds from sales of plant and equipment	15,844	14,466
Operating lease buyouts	9,893	1,687
Adjusted capital expenditures	**(230,293)**	**(236,675)**
Free cash flow	**$ 386,876**	**$ 411,607**

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.

Accounting Pronouncements Issued But Not Yet Adopted

In October 2009, the Financial Accounting Standards Board (FASB) issued ASU No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements - a consensus of the FASB Emerging Issues Task Force* (ASU 2009-13), which addresses the allocation of revenue in arrangements containing multiple deliverables. Specifically, ASU 2009-13 modifies existing GAAP by providing new guidance concerning (1) the determination of whether an arrangement involving multiple deliverables contains more than one unit of accounting, and (2) the manner in which arrangement consideration should be allocated to such deliverables. The guidance requires the use of an entity s best estimate of the selling price of a deliverable if vendor specific objective evidence or third-party evidence of the selling price cannot be determined. Additionally, ASU 2009-13 eliminates the use of the residual method of allocating consideration when vendor specific objective evidence or third-party evidence of the selling price is known for some, but not all, of the delivered items in a multiple element arrangement. Finally, ASU 2009-13 requires expanded qualitative and quantitative disclosures in the financial statements. ASU 2009-13 is effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted. Upon adoption, the guidance may be applied either prospectively from the beginning of the fiscal year for new or materially modified arrangements, or it may be applied retrospectively. The Company currently has contracts in place that contain multiple deliverables, principally product supply agreements for gases and container rental. The Company treats the deliverables in these arrangements under current GAAP as separate units of accounting with selling prices derived from Company specific or third-party evidence. The Company adopted the new guidance, prospectively, on April 1, 2011. The new guidance is not expected to significantly modify the accounting for these types of arrangements.

In December 2010, the FASB issued ASU No. 2010-28, *Intangibles - Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts - a consensus of the FASB Emerging Issues Task Force* (ASU 2010-28), which provides additional guidance on when Step 2 of the goodwill impairment test must be performed. The guidance clarifies that for reporting units with zero or negative carrying amounts, Step 2 must be performed if it is more likely than not that a goodwill impairment exists based on the evaluation of certain qualitative factors. ASU 2010-28 is effective for fiscal years and interim periods within those years beginning after December 15, 2010, with early adoption prohibited. The Company adopted the new guidance on April 1, 2011 with no impact on its consolidated financial statements. Future goodwill impairment tests will follow the requirements of the new guidance.

In December 2010, the FASB issued ASU No. 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations - a consensus of the FASB Emerging Issues Task Force* (ASU 2010-29), which provides clarification on disclosure requirements and amends current guidance to require entities to disclose pro forma revenue and earnings of the combined entity as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. Qualitative disclosures describing the nature and amount of any material, nonrecurring pro forma adjustments directly attributable to the business combinations included in the reported pro forma revenue and earnings are also required. ASU 2010-29 is effective for business combinations with acquisition dates on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted. The Company adopted ASU 2010-29 on April 1, 2011. Pro forma disclosures for future acquisitions will follow the new guidance.

Forward-Looking Statements

This report contains statements that are forward looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to, statements regarding: the Company s intention to negotiate its withdrawal from the MEPPs provided for in three remaining CBAs that provide for such plans in fiscal 2012 and the Company s estimate of $5 million in withdrawal liabilities to be incurred upon successful negotiation of all remaining plans; the Company s plan to complete its phased, multi-year rollout of the SAP platform by the end of the third quarter of fiscal 2013; the benefits to be derived from the SAP implementation, including the Company s estimate of an aggregate of $75 million to $125 million in incremental operating income on an annual run-rate basis upon full implementation; the Company s expectation to be at the run-rate of the mid-point of the target operating income benefit range by December 2013; the Company s expectation of earnings of $0.82 to $0.87 per diluted share for the first quarter ending June 30, 2011 and earnings per diluted share of $3.58 to $3.73 for fiscal 2012, including restructuring charges and implementation costs and depreciation expense associated with its SAP implementation and excluding any potential MEPP withdrawal charges; the Company s belief as to the benefits to be derived from the reorganization of its divisional structure into four business support centers; the Company s expectation as to the long-term growth profiles of its strategic products; the Company s expectation that it can mitigate the financial impact of calcium carbide supply constraints; the Company s expectation that its overall effective tax rate for fiscal 2012 will range from 38.0% to 39.0% of pre-tax earnings; the Company s belief that it has sufficient liquidity from cash from operations and under its revolving credit facilities to meet its working capital, capital expenditure and other financial commitments; the Company s belief that it can obtain financing on reasonable terms; the Company s future dividend declarations; the Company s ability to manage its exposure to interest rate risk through the use of interest rate derivatives; the performance of counterparties under interest rate derivative agreements; the Company s expectation as to the amount of losses to be reclassified from accumulated other comprehensive income into earnings within the next twelve months; the estimate of future interest payments on the Company s long-term debt obligations; the estimate of future receipts under interest rate swap agreements; and the Company s exposure to foreign currency exchange fluctuations.

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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. The Company inte 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 the Company or any other person that the results expressed therein will be achieved. The Company assumes 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 predicted in any forward-looking statement include, but are not limited to: the Company s inability to meet its earnings estimates resulting from lower sales, decreased selling prices, higher product costs and/or higher operating expenses than that forecasted by the Company; weakening of the economy resulting in weakening demand for the Company s products; weakening operating and financial performance of the Company s customers, which can negatively impact the Company s sales and the Company s ability to collect its accounts receivable; changes in the environmental regulations that affect the Company s sales of specialty gases; higher or lower overall tax rates in fiscal 2012 than that estimated by the Company resulting from changes in tax laws, changes in reserves and other estimates; increases in debt in future periods and the impact on the Company s ability to pay and/or grow its dividend as a result of loan covenant and other restrictions; a decline in demand from markets served by the Company; adverse customer response to the Company s strategic product sales initiatives; a lack of cross-selling opportunities for the Company s strategic products; a lack of specialty gas sales growth due to a downturn in certain markets; the negative effect of an economic downturn on strategic product sales and margins; the inability of strategic products to diversify against cyclicality; supply shortages of certain gases and the resulting inability of the Company to meet customer gas requirements; customers acceptance of current prices and of future price increases; adverse changes in customer buying patterns; a rise in product costs and/or operating expenses at a rate faster than the Company s ability to increase prices; higher or lower capital expenditures than that estimated by the Company; limitations on the Company s borrowing capacity dictated by the Credit Facility; fluctuations in interest rates; the Company s ability to continue to access credit markets on satisfactory terms; the impact of tightened credit markets on the Company s customers; the extent and duration of current economic trends in the U.S. economy; higher than expected implementation costs of the SAP system and the reorganization of its divisional structure; conversion problems related to the SAP system that disrupt the Company s business and negatively impact customer relationships; the inability to retain employees to be affected by the reorganization prior to its completion; the impact on the Company s operations of the explosion at a key calcium carbide supplier and the resulting shortage of calcium carbide; the Company s ability to successfully identify, consummate and integrate acquisitions to achieve anticipated acquisition synergies; the Company s success in continuing its cost reduction program; the inability to manage interest rate exposure; higher interest expense than that estimated by the Company due to changes in debt levels or increases in LIBOR; unanticipated non-performance by counterparties related to interest rate derivatives; the effects of competition on products, pricing and sales growth; changes in product prices from gas producers and name-brand manufacturers and suppliers of hardgoods; changes in customer demand resulting in the inability to meet minimum product purchases under long-term supply agreements and the inability to negotiate alternative supply arrangements; costs associated with the construction of an air separation unit in Clarksville, Tennessee; 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 the Company s participation in or withdrawal from MEPPs for union employees of the Company; the effect of catastrophic events and political and economic uncertainties associated with current world events; and the effects of, and changes in, the economic, monetary, tax and fiscal policies, laws and regulations, inflation and monetary fluctuations, both on a national and international basis. The Company does not undertake to update any forward-looking statement made herein or that may be made from time to time by or on behalf of the Company.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The Company manages its exposure to changes in market interest rates. The interest rate exposure arises primarily from the interest payment terms of the Company s borrowing agreements. Interest rate derivatives are used to adjust the interest rate risk exposures that are inherent in its portfolio of funding sources. The Company also uses treasury rate lock agreements to hedge the risk associated with the interest rates paid on forecasted debt issuances. The Company has not established, and will not establish, any interest rate risk positions for purposes other than managing the risk associated with its portfolio of funding sources or anticipated funding sources. The counterparties to interest rate derivatives are major financial institutions. The Company has established counterparty credit guidelines and only enters into transactions with financial institutions with long-term credit ratings of at least a single A rating by one of the major credit rating agencies. In addition, the Company monitors its position and the credit ratings of its counterparties, thereby minimizing the risk of non-performance by the counterparties.

The table below summarizes the Company s market risks associated with debt obligations, interest rate swaps and the trade receivables securitization at March 31, 2011. For debt obligations and the trade receivables securitization, the table presents cash flows related to payments of principal and interest by fiscal year of maturity. For interest rate swaps, the table presents the notional amounts underlying the agreements by year of maturity. The notional amounts are used to calculate contractual payments to be exchanged and are not actually paid or received. Fair values were computed using market quotes, if available, or based on discounted cash flows using market interest rates as of the end of the period.

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(In millions)	Fiscal Year of Maturity 2012	2013	2014	2015	2016	Thereafter	Total	Fair Value
Fixed Rate Debt:								
Acquisition notes and other	$ 5.8	$ 2.9	$ 0.5	$ 0.5	$ 0.1	$ 0.1	$ 9.9	$ 10.1
Interest expense	0.4	0.2	0.1				0.7	
Average interest rate	6.15%							