

AIRGAS INC
Form 10-Q
August 06, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: **June 30, 2010**

Commission file number: **1-9344**

AIRGAS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

56-0732648
(I.R.S. Employer
Identification No.)

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259 North Radnor-Chester Road, Suite 100
Radnor, PA
(Address of principal executive offices)

19087-5283
(ZIP code)

(610) 687-5253

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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 No

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) 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

Shares of common stock outstanding at August 4, 2010: 83,666,869 shares

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AIRGAS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended	
	June 30,	
	2010	2009
Net Sales	\$ 1,052,656	\$ 981,991
Costs and Expenses:		
Cost of products sold (excluding depreciation)	475,102	438,939
Selling, distribution and administrative expenses	390,549	378,744
Costs related to unsolicited takeover attempt	3,787	0
Depreciation	54,265	51,583
Amortization	6,202	4,816
Total costs and expenses	929,905	874,082
Operating Income	122,751	107,909
Interest expense, net	(13,319)	(18,367)
Discount on securitization of trade receivables	0	(1,615)
Losses on the extinguishment of debt	(2,941)	0
Other income (expense), net	(610)	1,205
Earnings before income taxes	105,881	89,132
Income taxes	(41,082)	(34,316)
Net Earnings	\$ 64,799	\$ 54,816
Net Earnings Per Common Share:		
Basic earnings per share	\$ 0.78	\$ 0.67
Diluted earnings per share	\$ 0.76	\$ 0.66
Weighted Average Shares Outstanding:		
Basic	83,457	81,618
Diluted	85,281	83,287

See accompanying notes to consolidated financial statements.

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

	(Unaudited) June 30, 2010	March 31, 2010
ASSETS		
Current Assets		
Cash	\$ 57,890	\$ 47,001
Trade receivables, less allowances for doubtful accounts of \$26,242 and \$25,359 at June 30, 2010 and March 31, 2010, respectively (Notes 2 and 6)	504,512	186,804
Inventories, net	344,644	333,961
Deferred income tax asset, net	50,185	48,591
Prepaid expenses and other current assets	79,985	94,978
Total current assets	1,037,216	711,335
Plant and equipment at cost	3,791,373	3,774,208
Less accumulated depreciation	(1,366,479)	(1,346,212)
Plant and equipment, net	2,424,894	2,427,996
Goodwill	1,106,881	1,109,276
Other intangible assets, net	207,011	212,752
Other non-current assets	38,827	34,573
Total assets	\$ 4,814,829	\$ 4,495,932
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable, trade	\$ 147,249	\$ 157,566
Accrued expenses and other current liabilities	357,221	307,822
Current portion of long-term debt	9,589	10,255
Total current liabilities	514,059	475,643
Long-term debt, excluding current portion (Notes 2 and 6)	1,711,630	1,499,384
Deferred income tax liability, net	658,944	652,389
Other non-current liabilities	69,231	72,972
Commitments and contingencies		
Stockholders Equity		
Preferred stock, 20,030 shares authorized, no shares issued or outstanding at June 30, 2010 and March 31, 2010		
Common stock, par value \$0.01 per share, 200,000 shares authorized, 86,375 and 86,253 shares issued at June 30, 2010 and March 31, 2010, respectively	864	863
Capital in excess of par value	582,475	568,421
Retained earnings	1,379,186	1,332,759
Accumulated other comprehensive income	1,374	3,442
Treasury stock, 2,834 and 3,027 shares at cost at June 30, 2010 and March 31, 2010, respectively	(102,934)	(109,941)

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Total stockholders equity	1,860,965	1,795,544
Total liabilities and stockholders equity	\$ 4,814,829	\$ 4,495,932

See accompanying notes to consolidated financial statements.

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

(In thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 64,799	\$ 54,816
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation	54,265	51,583
Amortization	6,202	4,816
Deferred income taxes	5,500	15,641
Loss on sales of plant and equipment	636	252
Stock-based compensation expense	10,269	9,914
Losses on the extinguishment of debt	2,941	0
Changes in assets and liabilities, excluding effects of business acquisitions:		
Securitization of trade receivables (Note 2)	(295,000)	(15,900)
Trade receivables, net	(22,768)	16,986
Inventories, net	(10,671)	23,375
Prepaid expenses and other current assets	15,990	5,603
Accounts payable, trade	(6,509)	(8,660)
Accrued expenses and other current liabilities	43,519	6,039
Other non-current assets	1,293	1,190
Other non-current liabilities	(670)	(3,396)
Net cash (used in) provided by operating activities	(130,204)	162,259
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(61,121)	(67,312)
Proceeds from sales of plant and equipment	3,338	2,510
Business acquisitions and holdback settlements	(2,474)	(2,863)
Other, net	66	(1,433)
Net cash used in investing activities	(60,191)	(69,098)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings (Note 2)	406,739	88,553
Repayment of debt	(202,688)	(163,977)
Financing costs	(854)	0
Premium paid on redemption of senior subordinated notes	(2,650)	0
Proceeds from the exercise of stock options	5,232	2,123
Stock issued for the Employee Stock Purchase Plan	3,580	3,888
Tax benefit realized from the exercise of stock options	1,952	1,334
Dividends paid to stockholders	(18,372)	(14,701)
Change in cash overdraft and other	8,345	2,163
Net cash provided by (used in) financing activities	201,284	(80,617)
Change in cash	\$ 10,889	\$ 12,544
Cash Beginning of period	47,001	47,188

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Cash	End of period	\$	57,890	\$	59,732
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See accompanying notes to consolidated financial statements.

Table of Contents**AIRGAS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)****(1) BASIS OF PRESENTATION**

The consolidated financial statements include the accounts of Airgas, Inc. and its subsidiaries (Airgas or the Company). Intercompany accounts and transactions are eliminated in consolidation. The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). These consolidated financial statements do not include all disclosures required for annual financial statements. These consolidated financial statements should be read in conjunction with the more complete disclosures contained in the Company s audited consolidated financial statements for the fiscal year ended March 31, 2010.

The preparation of financial statements in accordance with GAAP requires the use of estimates. The consolidated financial statements reflect, in the opinion of management, reasonable estimates and all adjustments necessary to present fairly the Company s results of operations, financial position and cash flows for the periods presented. The interim operating results are not necessarily indicative of the results to be expected for the entire year.

Prior Period Adjustments

Certain reclassifications were made to the Consolidated Statements of Earnings for the prior period, as well as the related notes, 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 SAP implementation. For the three months ended June 30, 2009, the reclassifications increased net sales by \$2.7 million, decreased cost of products sold (excluding depreciation) by \$0.9 million and increased selling, distribution and administrative expenses by \$3.6 million. The Company does not consider these reclassifications to be material to its results of operations. Consolidated operating income and net earnings for the prior period were not impacted by the reclassifications.

(2) ACCOUNTING AND DISCLOSURE CHANGES***(a) Recently adopted accounting pronouncements***

On April 1, 2010, the Company adopted Accounting Standards Update (ASU) 2009-16, *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets* (ASU 2009-16), which affected the accounting treatment of its trade receivables securitization program. The Company currently 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 both June 30, 2010 and March 31, 2010. 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 of both the trade receivables securitized under the program and the borrowings they collateralize on the Consolidated Balance Sheet, which led to a \$295 million increase in trade receivables and long-term debt at June 30, 2010. Additionally, new borrowings under the Securitization Agreement are classified as financing activities on the Company s Consolidated Statement of Cash Flows. Prior to April 1, 2010, they 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. With respect to the Company s Consolidated Statement of Earnings, the amounts previously recorded within the line item Discount on securitization of trade receivables, which represented the difference between the proceeds from the sale and the carrying value of the receivables under the Securitization Agreement, 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. Additionally, the Company s debt covenants were not impacted by the balance sheet recognition of the borrowings as a result of the new accounting guidance, as borrowings under the Securitization Agreement were already factored into the debt covenant calculations.

Prior to the adoption of ASU 2009-16, the funding transactions under the Securitization Agreement were accounted for as sales of trade receivables. The Company retained a subordinated interest in the trade receivables sold, which was recorded at the trade receivables previous carrying value. Subordinated retained interests of approximately \$142 million, net of an allowance for doubtful accounts of \$23 million, were included in trade receivables in the accompanying Consolidated Balance Sheet at March 31, 2010. Under the previous accounting treatment, management calculated the fair value of the retained interest based on management s best estimate of the undiscounted expected future cash

collections on the trade receivables, with changes in the fair value recognized as bad debt expense.

Table of Contents**AIRGAS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

On April 1, 2010, the Company adopted ASU No. 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (ASU 2009-17). ASU 2009-17 established new standards that changed the consolidation model for variable interest entities (VIEs), including (1) changes in considerations as to whether an entity is a VIE, (2) a qualitative rather than quantitative assessment to identify the primary beneficiary of a VIE, (3) an ongoing rather than event-driven assessment of the VIE's primary beneficiary, and (4) the elimination of the qualified special purpose entity scope exception. The new guidance did not result in the deconsolidation of the Company's existing VIE.

(b) Accounting pronouncements not yet adopted

In October 2009, the Financial Accounting Standards Board 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, and the new guidance is not expected to significantly modify the accounting for these types of arrangements. The Company is continuing to evaluate the effects that ASU 2009-13 may have on its consolidated financial statements.

(3) INVENTORIES, NET

Inventories, net, consist of:

(In thousands)	June 30, 2010	March 31, 2010
Hardgoods	\$ 242,616	\$ 225,832
Gases	102,028	108,129
	\$ 344,644	\$ 333,961

Hardgoods inventories determined using the LIFO inventory method totaled \$34 million at June 30, 2010 and \$32 million at March 31, 2010. The balance of the hardgoods inventories is valued using the FIFO and average-cost inventory methods. If the hardgoods inventories valued under the LIFO method had been valued using the FIFO method, the carrying value of hardgoods inventory would have been \$10.5 million higher at June 30, 2010 and \$10.3 million higher at March 31, 2010. Substantially all of the inventories are finished goods.

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Goodwill is the excess of cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed in a purchase business combination. The valuations of goodwill and other intangible assets from recent acquisitions are based on preliminary estimates of fair value and are subject to revision as the Company finalizes appraisals and other analyses. Changes in the carrying amount of goodwill for the three months ended June 30, 2010 were as follows:

(In thousands)	Distribution Business Segment	All Other Operations Business Segment	Total
Balance at March 31, 2010	\$ 922,718	\$ 186,558	\$ 1,109,276
Acquisitions ⁽¹⁾	(1,098)	1	(1,097)
Other adjustments, including foreign currency translation	(1,239)	(59)	(1,298)
Balance at June 30, 2010	\$ 920,381	\$ 186,500	\$ 1,106,881

⁽¹⁾ Adjustments made to prior year acquisitions.

Other intangible assets amounted to \$207 million and \$213 million, net of accumulated amortization of \$62 million and \$56 million, at June 30, 2010 and March 31, 2010, respectively. These intangible assets primarily consist of customer relationships, which are amortized over the estimated benefit period which ranges from 7 to 17 years, and non-competition agreements, which are amortized over the term of the agreements. The determination of the estimated benefit period associated with customer relationships is based on the analysis of historical customer sales attrition information and other customer-related factors at the date of acquisition. There are no expected residual values related to these intangible assets. The Company evaluates the estimated benefit period and recoverability of its intangible assets when facts and circumstances indicate that the lives may not be appropriate and/or the carrying value of the asset may not be recoverable. If the carrying value is not recoverable, impairment is measured as the amount by which the carrying value exceeds its estimated fair value. Fair value is generally estimated based on either appraised value or other valuation techniques. Estimated future amortization expense by fiscal year is as follows: remainder of fiscal 2011 - \$17.4 million; 2012 - \$22.0 million; 2013 - \$21.1 million; 2014 - \$18.8 million; 2015 - \$17.3 million and \$110.4 million thereafter.

(5) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities include:

(In thousands)	June 30, 2010	March 31, 2010
Accrued payroll and employee benefits	\$ 83,646	\$ 86,320
Business insurance reserves	44,380	42,414
Income taxes ^(a)	35,333	526
Taxes other than income taxes	20,571	18,916
Cash overdraft	56,819	48,474
Deferred rental revenue	25,717	25,585

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Accrued costs related to unsolicited takeover attempt (Note 16)	24,777	22,472
Other accrued expenses and current liabilities	65,978	63,115
	\$ 357,221	\$ 307,822

(a) At March 31, 2010, the Company was in a net U.S. federal income tax refund position which was reflected as a current asset. With respect to the business insurance reserves above, the Company had corresponding insurance receivables of \$11.6 million at June 30, 2010 and \$10.6 million at March 31, 2010, which are included within Prepaid expenses and other current assets on the Company's Consolidated Balance Sheets. The insurance receivables represent the balance of probable claim losses in excess of the Company's self-insured retention for which the Company is fully insured.

Table of Contents**AIRGAS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(6) INDEBTEDNESS**

Long-term debt consists of:

(In thousands)	June 30, 2010	March 31, 2010
Revolving credit borrowings - U.S.	\$ 159,000	\$ 198,500
Revolving credit borrowings - Multi-currency	31,178	31,514
Revolving credit borrowings - Canadian	9,343	10,333
Revolving credit borrowings - France	2,080	1,351
Trade receivables securitization	295,000	
Term loans	285,000	307,500
Senior notes, net of discount	704,796	698,963
Senior subordinated notes	220,446	245,446
Acquisition and other notes	14,376	16,032
Total long-term debt	1,721,219	1,509,639
Less current portion of long-term debt	(9,589)	(10,255)
Long-term debt, excluding current portion	\$ 1,711,630	\$ 1,499,384

Senior Subordinated Note Redemption

During the quarter ended June 30, 2010, the Company repurchased \$25.0 million of its 7.125% senior subordinated notes (the 2008 Notes) maturing October 1, 2018 at an average price of 110.6% of the principal. Losses on the early extinguishment of debt were \$2.9 million (\$1.9 million after tax) for the quarter ended June 30, 2010 and related to the redemption premiums and write-off of unamortized debt issuance costs.

Senior Credit Facility

The Company maintains a senior credit facility (the Credit Facility) with a syndicate of lenders. At June 30, 2010, the Credit Facility permitted the Company to borrow up to \$991 million under a U.S. dollar revolving credit line, up to \$75 million (U.S. dollar equivalent) under a multi-currency revolving credit line, and up to C\$40 million (U.S. \$38 million) under a Canadian dollar revolving credit line. The Credit Facility also contains a term loan provision through which the Company borrowed \$600 million with scheduled repayment terms. The term loans were repayable in quarterly installments of \$22.5 million through June 30, 2010. The quarterly installments increase to \$71.2 million from September 30, 2010 to June 30, 2011. Principal payments due over the next twelve months on the term loans are classified as Long-term debt in the Company's Consolidated Balance Sheets based on the Company's ability and intention to refinance the payments with borrowings under its long-term revolving credit facilities. As principal amounts under the term loans are repaid, no additional borrowing capacity is created under the term loan provision. The Credit Facility will mature on July 25, 2011. However, the Company anticipates entering into a similar long-term credit facility to replace the maturing facility prior to September 30, 2010.

As of June 30, 2010, the Company had approximately \$485 million of borrowings under the Credit Facility: \$159 million under the U.S. dollar revolver, \$285 million under the term loans, \$31 million (in U.S. dollars) under the multi-currency revolver and C\$10 million (U.S. \$9 million) under the Canadian dollar revolver. The Company also had outstanding letters of credit of \$42 million issued under the Credit Facility. The U.S. dollar revolver borrowings and the term loans bear interest at the London Interbank Offered Rate (LIBOR) plus 50 basis points. The multi-currency revolver bears interest based on a spread of 50 basis points over the Euro currency rate applicable to each foreign currency

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borrowing. The Canadian dollar borrowings bear interest at the Canadian Bankers' Acceptance Rate plus 50 basis points. As of June 30, 2010, the average effective interest rates on the U.S. dollar revolver, the term loans, the multi-currency revolver and the Canadian dollar revolver were 0.81%, 1.03%, 0.99% and 1.29%, respectively.

The Company also maintains a committed revolving line of credit of up to 3.0 million (U.S. \$3.7 million) to fund its expansion into France. These revolving credit borrowings are outside of the Company's Credit Facility. At June 30, 2010, French revolving credit borrowings were 1.7 million (U.S. \$2.1 million). The variable interest rates on the French revolving credit borrowings are based on the Euro currency rate plus 50 basis points. As of June 30, 2010, the effective interest rate on the French revolving credit borrowings was 0.93%.

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AIRGAS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

At June 30, 2010, the financial covenants of the Credit Facility 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. As of June 30, 2010, approximately \$862 million remained unused under the Company's Credit Facility.

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, 2010, 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 June 30, 2010, there were no advances outstanding under the agreement.

Senior Notes

At June 30, 2010, the Company had \$400 million of 4.5% senior notes (the 2009 Notes) outstanding. The 2009 Notes were issued at a discount and mature on September 15, 2014 with an effective yield of 4.527%. Interest on the 2009 Notes is payable semi-annually on March 15 and September 15 of each year. Additionally, the Company has the option to redeem the 2009 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 June 30, 2010, the Company had \$300 million of 2.85% senior notes (the 2010 Notes) outstanding. The 2010 Notes were issued at a discount and mature on October 1, 2013 with an effective yield of 2.871%. Interest on the 2010 Notes is payable semi-annually on April 1 and October 1 of each year, commencing on October 1, 2010. Additionally, the Company has the option to redeem the 2010 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.

Senior Subordinated Notes

At June 30, 2010, the Company had \$220 million of its 2008 Notes outstanding with a maturity date of October 1, 2018. The 2008 Notes bear interest at a fixed annual rate of 7.125%, payable semi-annually on October 1 and April 1 of each year. The 2008 Notes have a redemption provision, which permits the Company, at its option, to call the 2008 Notes at scheduled dates and prices. The first scheduled optional redemption date is October 1, 2013 at a price of 103.563% of the principal amount.

The 2008, 2009 and 2010 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 June 30, 2010, acquisition and other notes totaled \$14.4 million with an average interest rate of approximately 6% and an average maturity of approximately two years.

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 receivables 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

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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 95 basis points. At June 30, 2010, 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 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 2012 and contains customary events of

Table of Contents**AIRGAS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

termination, including standard cross default provisions with respect to outstanding debt. The amount of outstanding borrowing under the Securitization Agreement at June 30, 2010 was \$295 million.

Aggregate Long-term Debt Maturities

The aggregate maturities of long-term debt at June 30, 2010 are as follows:

(In thousands)	Debt Maturities ⁽¹⁾
June 30, 2011	\$ 9,589
March 31, 2012	783,769
March 31, 2013	1,450
March 31, 2014	300,518
March 31, 2015	400,472
Thereafter	220,624
	\$ 1,716,422

⁽¹⁾ The Company has the ability and intention of refinancing current maturities related to the term loans under its Credit Facility with its long-term revolving credit line. Therefore, principal payments due in the twelve months ending June 30, 2011 on term loans have been reflected as long-term in the aggregate maturity schedule.

Outstanding borrowings under the Securitization Agreement at June 30, 2010 are reflected as maturing at the agreement's expiration in March 2012.

The 2009 and 2010 Notes are reflected in the debt maturity schedule at their maturity value rather than their carrying value, which is net of a discount of \$408 thousand and \$198 thousand, respectively, at June 30, 2010. The 2010 Notes also include additional carrying value of \$5.4 million at June 30, 2010 related to the Company's fair value hedges - see Note 7 for additional disclosure.

(7) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company manages its exposure to changes in market interest rates. The Company's involvement with derivative instruments is limited to highly effective interest rate swap agreements used to manage well-defined interest rate risk exposures. The Company monitors its positions and credit ratings of its counterparties and does not anticipate non-performance by the counterparties. Interest rate swap agreements are not entered into for trading purposes. The Company recognizes certain derivative instruments as either assets or liabilities at fair value on the Consolidated Balance Sheet. At June 30, 2010, the Company was party to a total of twelve interest rate swap agreements with an aggregate notional amount of \$550 million.

Cash Flow Hedges

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

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At June 30, 2010, the Company had seven fixed interest rate swap agreements outstanding with a notional amount of \$250 million. These swaps effectively convert \$250 million of variable interest rate debt associated with the Company's Credit Facility to fixed rate debt. At June 30, 2010, these swap agreements required the Company to make fixed interest payments based on a weighted average effective rate of 3.21% and receive variable interest payments from the counterparties based on a weighted average variable rate of 0.96%. The remaining terms of these swap agreements range from three to six months. For the three months ended June 30, 2010, the fair value of the liability for the fixed interest rate swap agreements decreased and the Company recorded a corresponding adjustment to Accumulated other comprehensive income of \$1.9 million, or \$1.3 million after tax. For the three months ended June 30, 2009, the fair value of the liability for the fixed interest rate swap agreements decreased and the Company recorded a corresponding adjustment to Accumulated other comprehensive income of \$4.5 million, or \$2.9 million after tax.

Table of Contents**AIRGAS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

The estimated net amount of existing losses recorded in Accumulated other comprehensive income at June 30, 2010 that is expected to be reclassified into earnings within the next twelve months is \$1.3 million, net of estimated tax benefits of \$704 thousand. The amount of gain or loss recognized in current earnings as a result of hedge ineffectiveness related to the designated cash flow hedges is immaterial for the three months ended June 30, 2010 and 2009.

Fair Value Hedges

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 June 30, 2010, the Company had five variable interest rate swaps outstanding with a notional amount of \$300 million. These variable interest rates swaps effectively convert the Company's \$300 million of fixed rate 2010 Notes to variable rate debt. At June 30, 2010, these swap agreements required the Company to make variable interest payments based on a weighted average forward rate of 2.30% 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 2010 Notes in October 2013. During the three months ended June 30, 2010, the fair value of the variable interest rate swaps increased by \$5.9 million to an asset of \$5.3 million and was recorded in Other non-current assets. The corresponding increase in the carrying value of the 2010 Notes caused by the hedged risk was \$5.8 million and was recorded in Long-term debt. The Company records the gain or loss on the hedged item (the 2010 Notes) and the gain or loss on the variable interest rate swaps in interest expense. Accordingly, the gain from the hedge was \$122 thousand for the three months ended June 30, 2010 and was reflected as a reduction to interest expense. At June 30, 2009, the Company had no outstanding variable interest rate swaps.

Tabular Disclosure

The following tables reflect the fair values of derivative instruments on the Company's Consolidated Balance Sheets as well as the effect of derivative instruments on the Company's earnings and stockholders' equity.

Fair Value of Derivatives Designated as Hedging Instruments

(In thousands)	June 30, 2010		March 31, 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swaps:				
Fixed interest rate swaps	Other non-current liabilities	(\$2,012)	Other non-current liabilities	(\$ 3,962)
Variable interest rate swaps	Other non-current assets	\$5,291	Other non-current liabilities	(\$ 625)

Table of Contents**AIRGAS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)*****Effect of Derivative Instruments on Earnings and Stockholders' Equity***

(In thousands) Derivatives in Cash Flow	Amount of Gain Recognized in OCI on Derivatives Three Months Ended June 30,	
Hedging Relationships	2010	2009
Interest rate swaps	\$ 1,950	\$ 4,489
Tax expense	(683)	(1,571)
Net effect	\$ 1,267	\$ 2,918

(In thousands) Location of Loss	Amount of Loss Reclassified from AOCI into Pre-tax Income Three Months Ended June 30,	
Reclassified from AOCI into Pre- tax Income for Derivatives in Cash	2010	2009
Flow Hedging Relationships		
Interest expense, net	\$ 1,845	\$ 4,870

(In thousands) Derivatives in Fair Value	Location of Gain (Loss) Recognized in Pre-tax Income	Amount of Gain (Loss) Recognized in Pre-Tax Income Three Months Ended June 30, 2010	
Hedging Relationships			
Change in fair value of variable interest rate swaps	Interest expense, net	\$	5,916
Change in carrying value of 2010 Notes	Interest expense, net		(5,794)
Net effect	Interest expense, net	\$	122

(8) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date.

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Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable, directly or indirectly through corroboration with observable market data at the measurement date.

Level 3 inputs are unobservable inputs that reflect management's best estimate of the assumptions (including assumptions about risk) that market participants would use in pricing the asset or liability at the measurement date.

The carrying value of cash, trade receivables, other current receivables, trade payables and other current liabilities (e.g., deposit liabilities, cash overdrafts, etc.) approximate fair value.

Table of Contents**AIRGAS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

Assets and liabilities measured at fair value on a recurring basis at June 30, 2010 and March 31, 2010 are categorized in the tables below based on the lowest level of significant input to the valuation.

(In thousands)	Balance at June 30, 2010	Quoted prices in active markets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets:				
Deferred compensation plan assets	\$ 7,495	\$ 7,495	\$	\$
Derivative assets - variable interest rate swap agreements	5,291		5,291	
Total assets measured at fair value on a recurring basis	\$ 12,786	\$ 7,495	\$ 5,291	\$
Liabilities:				
Deferred compensation plan liabilities	\$ 7,495	\$ 7,495	\$	\$
Derivative liabilities - fixed interest rate swap agreements	2,012		2,012	
Total liabilities measured at fair value on a recurring basis	\$ 9,507	\$ 7,495	\$ 2,012	\$
(In thousands)	Balance at March 31, 2010	Quoted prices in active markets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets:				
Subordinated retained interest in trade receivables sold under the Company's trade receivables securitization	\$ 142,310	\$	\$	\$ 142,310
Deferred compensation plan assets	7,596	7,596		
Total assets measured at fair value on a recurring basis	\$ 149,906	\$ 7,596	\$	\$ 142,310
Liabilities:				
Deferred compensation plan liabilities	\$ 7,596	\$ 7,596	\$	\$
Derivative liabilities - fixed interest rate swap agreements	3,962		3,962	
Derivative liabilities - variable interest rate swap agreements	625		625	
Total liabilities measured at fair value on a recurring basis	\$ 12,183	\$ 7,596	\$ 4,587	\$

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

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

Derivative liabilities and assets - interest rate swap agreements The Company has both fixed and variable interest rate swap agreements, all with highly rated counterparties. The fixed interest rate swaps are designated as cash flow hedges and effectively convert portions of the

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Company's variable rate debt to fixed rate debt. The Company's variable interest rate swaps are designated as fair value hedges and effectively convert the Company's fixed rate 2010 Notes to variable rate debt. The swap agreements are valued using an income approach that relies on observable market inputs such as interest rate yield curves and treasury spreads (Level 2). Expected future cash flows are converted to a present value amount based upon market expectations of the changes in these interest rate yield curves. The fair values of the Company's interest rate swap agreements are included within Other non-current assets and Other non-current liabilities on the Consolidated Balance Sheets. See Note 7 for additional derivatives disclosures.

The carrying value of debt, which is reported in the Company's Consolidated Balance Sheets, generally reflects the cash proceeds received upon its issuance, net of subsequent repayments. The fair value of the Company's variable interest rate revolving credit borrowings and term loans disclosed in the table below were estimated based on observable forward yield curves and unobservable credit spreads management believes a market participant would assume for these facilities under market conditions as of the balance sheet date. The fair value of the fixed rate notes disclosed below were determined based on quoted prices from the

Table of Contents**AIRGAS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

broker/dealer market, observable market inputs for similarly termed treasury notes adjusted for the Company's credit spread and unobservable inputs management believes a market participant would use in determining imputed interest for obligations without a stated interest rate. The fair value of the securitized receivables approximate carrying value.

(In thousands)	Carrying Value at June 30, 2010	Fair Value at June 30, 2010	Carrying Value at March 31, 2010	Fair Value at March 31, 2010
Revolving credit borrowings	\$ 201,601	\$ 199,585	\$ 241,698	\$ 239,281
Term loans	285,000	282,150	307,500	304,425
2008 Notes	220,446	235,877	245,446	269,706
2009 Notes	399,592	418,237	399,568	412,542
2010 Notes	305,204	307,792	299,395	299,126
Trade receivables securitization	295,000	295,000		
Acquisition and other notes	14,376	14,999	16,032	16,814
Total debt	\$ 1,721,219	\$ 1,753,640	\$ 1,509,639	\$ 1,541,894

(9) STOCKHOLDERS' EQUITY

Changes in stockholders' equity were as follows:

(In thousands of shares)	Shares of Common Stock \$0.01 Par Value	Shares of Treasury Stock
Balance at March 31, 2010	86,253	3,027
Common stock issuance ^(a)	122	
Reissuance of treasury stock for stock option exercises		(193)
Balance at June 30, 2010	86,375	2,834

(In thousands)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders Equity
Balance at March 31, 2010	\$ 863	\$ 568,421	\$ 1,332,759	\$ 3,442	\$ (109,941)	\$ 1,795,544
Comprehensive income:						
Net earnings			64,799			64,799
Foreign currency translation adjustment				(3,335)		(3,335)
Net change in fair value of fixed interest rate swap agreements				1,950		1,950
Net tax expense of comprehensive income items				(683)		(683)

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Total comprehensive income							62,731 ^(d)
Common stock issuances and reissuances from treasury stock							
employee benefit plans ^(b)	1	1,804			7,007		8,812
Tax benefit from stock option exercises		1,952					1,952
Dividends paid on common stock (\$0.22 per share)				(18,372)			(18,372)
Stock-based compensation ^(c)		10,298					10,298
Balance at June 30, 2010	\$ 864	\$ 582,475	\$ 1,379,186	\$	1,374	\$ (102,934)	\$ 1,860,965

^(a) Issuance of common stock for purchases through the employee stock purchase plan.

Table of Contents**AIRGAS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

- (b) Issuance of common stock and reissuance of treasury stock for stock option exercises and purchases through the employee stock purchase plan.
- (c) The Company recognized compensation expense with a corresponding amount recorded to capital in excess of par value.
- (d) The Company's comprehensive income was \$63 million and \$62 million for the three months ended June 30, 2010 and June 30, 2009, respectively. Comprehensive income consists of net earnings, foreign currency translation adjustments, the net change in the fair value of fixed interest rate swaps and the net tax expense or benefit of other comprehensive income items. Net tax expense or benefit of comprehensive income items pertains to the Company's fixed interest rate swap agreements only, as foreign currency translation adjustments relate to permanent investments in foreign subsidiaries. The net change in the fair value of fixed interest rate swaps reflects valuation adjustments for changes in interest rates, as well as cash settlements with the counterparties. The table below presents the gross and net changes in and the balances within each component of Accumulated other comprehensive income for the three months ended June 30, 2010.

(In thousands)	Foreign Currency Translation Adjustment	Interest Rate Swap Agreements	Total Accumulated Other Comprehensive Income
Balance March 31, 2010	\$ 6,099	\$ (2,657)	\$ 3,442
Foreign currency translation adjustments	(3,335)		(3,335)
Change in fair value of fixed interest rate swap agreements		3,795	3,795
Reclassification adjustments to income		(1,845)	(1,845)
Net change in fair value of fixed interest rate swap agreements		1,950	1,950
Net tax expense of comprehensive income items		(683)	(683)
Net change after tax of comprehensive income items	(3,335)	1,267	(2,068)
Balance June 30, 2010	\$ 2,764	\$ (1,390)	\$ 1,374

(10) STOCK-BASED COMPENSATION

The Company recognizes stock-based compensation expense for its stock option plans and employee stock purchase plan. The following table summarizes stock-based compensation expense recognized by the Company for the three months ended June 30, 2010 and 2009:

(In thousands)	Three Months Ended June 30,	
	2010	2009
<u>Stock-based compensation expense related to:</u>		
Stock option plans	\$ 8,789	\$ 8,333
Employee stock purchase plan - options to purchase stock	1,480	1,581
	10,269	9,914
Tax benefit	(3,445)	(3,274)

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Stock-based compensation expense, net of tax	\$ 6,824	\$ 6,640
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Fair Value

The Company utilizes the Black-Scholes option pricing model to determine the fair value of stock options. The weighted-average grant date fair value of stock options granted during the three months ended June 30, 2010 and 2009 was \$22.72 and \$14.41, respectively.

Table of Contents**AIRGAS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)*****Summary of Stock Option Activity***

The following table summarizes the stock option activity during the three months ended June 30, 2010:

	Number of Stock Options (In thousands)	Weighted-Average Exercise Price
Outstanding at March 31, 2010	6,707	\$ 36.15
Granted	936	\$ 62.23
Exercised	(193)	\$ 27.11
Forfeited	(43)	\$ 49.23
Outstanding at June 30, 2010	7,407	\$ 39.61
Vested or expected to vest at June 30, 2010	7,126	\$ 38.99
Exercisable at June 30, 2010	4,713	\$ 31.99

A total of 2.9 million shares of common stock were available for issuance under the Amended and Restated 2006 Equity Incentive Plan at June 30, 2010.

As of June 30, 2010, \$41.7 million of unrecognized compensation expense related to non-vested stock options is expected to be recognized over a weighted-average vesting period of 2.0 years.

Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan (the "ESPP") encourages and assists employees in acquiring an equity interest in the Company. The ESPP is authorized to issue up to 3.5 million shares of Company common stock, of which 322 thousand shares were available for issuance at June 30, 2010.

Compensation expense is measured based on the fair value of the employees' option to purchase shares of common stock at the grant date and is recognized over the future periods in which the related employee service is rendered. The fair value per share of employee options to purchase shares under the ESPP was \$16.01 and \$12.52 for the three months ended June 30, 2010 and 2009, respectively. The fair value of the employees' option to purchase shares of common stock was estimated using the Black-Scholes model.

The following table summarizes the activity of the ESPP during the three months ended June 30, 2010:

	Number of Purchase Options (In thousands)	Weighted-Average Exercise Price
Outstanding at March 31, 2010	122	\$ 28.53
Granted	297	\$ 52.73
Exercised	(122)	\$ 28.53

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Outstanding at June 30, 2010	297	\$	52.73
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(11) EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net earnings by the weighted average number of shares of the Company's common stock outstanding during the period. Outstanding shares consist of issued shares less treasury stock. Diluted earnings per share is calculated by dividing net earnings by the weighted average common shares outstanding adjusted for the dilutive effect of common stock equivalents related to stock options and the Company's ESPP.

Outstanding stock options that are anti-dilutive are excluded from the Company's diluted earnings per share computation. There were approximately 0.9 million and 2.9 million outstanding stock options that were anti-dilutive for the three months ended June 30, 2010 and 2009, respectively.

Table of Contents**AIRGAS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

The table below presents the computation of basic and diluted weighted average common shares outstanding for the three months ended June 30, 2010 and 2009:

(In thousands)	Three Months Ended	
	June 30,	
	2010	2009
Weighted average common shares outstanding:		
Basic	83,457	81,618
Incremental shares from assumed exercises of stock options and options under the ESPP	1,824	1,669
Diluted	85,281	83,287

(12) COMMITMENTS AND CONTINGENCIES***Litigation***

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. In addition, the Company is the target of an unsolicited takeover attempt commenced by Air Products and Chemicals, Inc. (Air Products). 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 seeks, among other things, an order declaring that members of the Company's Board breached their fiduciary duties by refusing to negotiate with Air Products. The Company and its directors believe that the claims made by Air Products are without merit and intend to defend against them vigorously.

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 have now been consolidated, allege, among other things, that the members of the Airgas Board have failed to fulfill 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. The plaintiffs seek equitable relief, as well as an award of compensatory damages, costs and attorneys' fees. The Company and its directors believe that the claims made by the stockholder plaintiffs are without merit and intend to defend against them vigorously.

As disclosed in Note 16 Unsolicited Takeover Attempt, the Company has incurred substantial legal and professional fees related to this unsolicited takeover attempt and associated litigation through June 30, 2010. A significant portion of these fees represent up-front accruals for the minimum obligations to the Company's advisors. The Company expects to incur additional costs in the future in connection with the unsolicited takeover attempt, proxy contest and the related litigation.

(13) SUMMARY BY BUSINESS SEGMENT

Business segment information for the Company's Distribution and All Other Operations business segments is presented below for the three months ended June 30, 2010 and 2009. Corporate operating expenses are generally allocated to each business segment based on sales dollars. However, the legal and professional fees incurred as a result of Air Products' unsolicited takeover attempt were not allocated to the Company's business segments, and are reflected in the Eliminations and Other column below:

Table of Contents**AIRGAS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

(In thousands)	Three Months Ended June 30, 2010				Three Months Ended June 30, 2009			
	Distribution	All Other Ops.	Eliminations and Other	Total	Distribution	All Other Ops.	Eliminations	Total
Gas and rent	\$ 556,447	\$ 126,912	\$ (7,544)	\$ 675,815	\$ 532,982	\$ 111,328	\$ (5,620)	\$ 638,690
Hardgoods	375,393	1,453	(5)	376,841	341,609	1,696	(4)	343,301
Total net sales	931,840	128,365	(7,549)	1,052,656	874,591	113,024	(5,624)	981,991
Cost of products sold (excluding depreciation)	414,438	68,213	(7,549)	475,102	384,290	60,273	(5,624)	438,939
Selling, distribution and administrative expenses	357,885	32,664		390,549	348,383	30,361		378,744
Cost related to unsolicited takeover attempt			3,787	3,787				
Depreciation	50,633	3,632		54,265	47,927	3,656		51,583
Amortization	5,040	1,162		6,202	4,243	573		4,816
Operating income	\$ 103,844	\$ 22,694	\$ (3,787)	\$ 122,751	\$ 89,748	\$ 18,161	\$	\$ 107,909

(14) SUPPLEMENTAL CASH FLOW INFORMATION**Cash Paid for Interest and Taxes**

Cash paid for interest and income taxes was as follows:

(In thousands)	Three Months Ended June 30,	
	2010	2009
Interest paid	\$ 13,935	\$ 24,773
Discount on securitization		1,615
Income taxes (net of refunds) ^(a)	(23,832)	(6,635)

^(a) During the three months ended June 30, 2010 and 2009, the Company applied for and received federal income tax refunds of \$26 million and \$10 million, respectively.

Significant Non-cash Investing and Financing Transactions

During the three months ended June 30, 2010 and 2009, the Company purchased \$1.3 million and \$0.9 million, respectively, of rental welders, which were financed directly by a vendor. The vendor financing was reflected as debt on the respective Consolidated Balance Sheets. Future cash payments in settlement of the debt will be reflected in the Consolidated Statement of Cash Flows when paid.

(15) BENEFIT PLANS

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Historically, the Company has participated in a number of multi-employer pension plans (MEPP) providing defined benefits to union employees under the terms of collective bargaining agreements (CBAs). Contributions have been made to the plans in accordance with negotiated CBAs. The plans generally provide retirement benefits to participants based on their service to contributing employers.

In connection with the renewal of certain CBAs, the Company negotiated its 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, if any. The ultimate amount of the withdrawal liability assessed by the MEPP is impacted by a number of factors, including investment returns, benefit levels, interest rates, and continued participation by the Company and other employers in the MEPP. During the three months ended June 30, 2010, the Company negotiated the withdrawal from MEPPs under two CBAs. The Company recognized charges

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AIRGAS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

related to the withdrawal from these plans of \$3.2 million for the three months ended June 30, 2010. There were no withdrawal charges for the three months ended June 30, 2009. MEPP withdrawal liabilities amounted to \$16.1 million at June 30, 2010 and \$12.9 million at March 31, 2010. These estimates are subject to change based on future market conditions, employer contributions and benefit levels that will impact the ultimate withdrawal liability.

Over the remainder of fiscal 2011 and fiscal 2012, the Company intends to negotiate its withdrawal from the MEPPs provided for in its three remaining CBAs that provide for such plans. These CBAs cover approximately 30 employees and, assuming a complete withdrawal from these MEPPs, the Company estimates the additional withdrawal liability to be approximately \$3 million as of June 30, 2010. Though the most recent plan data available from the remaining MEPPs was used in computing this estimate, it is subject to change based on future market conditions, employer contributions and benefit levels that will impact the ultimate withdrawal liability should the Company successfully negotiate the withdrawal from the MEPPs provided for in the remaining CBAs.

(16) UNSOLICITED TAKEOVER ATTEMPT

In February 2010, Air Products made public an unsolicited proposal to acquire the Company and subsequently commenced a \$60 per share cash tender offer for all outstanding shares of common stock of the Company. After careful consideration and consultation with Airgas' financial and legal advisors, the Airgas Board, by unanimous vote at a meeting on February 20, 2010, determined that the consideration to be received pursuant to the tender offer is inadequate and not in the best interests of Airgas or Airgas' stockholders. On July 8, 2010, Air Products revised its tender offer to \$63.50 per share in cash. After careful consideration at meetings on July 15 and July 20, 2010 and consultation with Airgas' financial and legal advisors, the Airgas Board unanimously determined that the consideration to be received pursuant to the revised tender offer is inadequate and not in the best interests of Airgas or Airgas' stockholders. Air Products has also initiated a proxy contest to elect three directors to Airgas' Board and to amend certain provisions of the Company's By-Laws. During the three months ended June 30, 2010, the Company incurred \$3.8 million of legal and professional fees related to Air Products' unsolicited takeover attempt. The Company expects to incur additional costs in the future in connection with Air Products' unsolicited takeover attempt.

(17) SUBSEQUENT EVENT

On July 21, 2010, the Company announced that its Board of Directors declared a regular quarterly cash dividend of \$0.25 per share, an increase of 14% over the previous quarterly dividend of \$0.22 per share. The dividend is payable September 30, 2010 to stockholders of record as of September 15, 2010.

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AIRGAS, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
OVERVIEW

Airgas, Inc. and its subsidiaries (Airgas or the Company) had net sales for the quarter ended June 30, 2010 (current quarter) of \$1.05 billion compared to \$982 million for the quarter ended June 30, 2009 (prior year quarter), an increase of 7%. Total same-store sales increased 6%, with hardgoods up 8% and gas and rent up 5%. Acquisitions contributed 1% sales growth in the quarter. The same-store sales growth for the current quarter was principally volume related, with sales volumes up 5% and pricing up 1%. The increase in sales volumes reflects improvement in most of the Company's customer segments and geographies, led by manufacturing, while the increase in pricing reflects only one month of a broad-based price increase on gas, rent and hardgoods effective June 1, 2010.

Company management regularly reviews sales results not only in a year-over-year manner, but also on a sequential basis. Management also reviews sales results in terms of sales per selling day (daily sales), a metric commonly used in operating the business. Daily sales increased 5% sequentially from the quarter ended March 31, 2010 (prior quarter) to the current quarter, marking the third consecutive quarter of sequential daily sales growth. Both gas and rent as well as hardgoods improved sequentially on a daily sales basis, with gas and rent up 6% and hardgoods up 4% for the current quarter. Net sales for the current quarter increased 7% sequentially from the prior quarter driven by an incremental selling day and the sequential increase in daily sales.

Operating income margin increased 70 basis points to 11.7% in the current quarter compared to 11.0% in the prior year quarter. The increase in the current quarter's operating income margin was driven by operating leverage on sales growth, partially offset by \$3.8 million (\$2.4 million after tax) or \$0.03 per diluted share in costs related to an unsolicited takeover attempt and \$3.2 million (\$2.0 million after tax) or \$0.02 per diluted share in multi-employer pension plan (MEPP) withdrawal charges. The costs related to the unsolicited takeover attempt and the MEPP withdrawal charges accounted for a 60 basis point reduction in operating income margin during the current quarter. Net earnings per diluted share rose 15% to \$0.76 in the current quarter versus \$0.66 in the prior year quarter. The results primarily reflect higher operating income (including the negative impact of the above mentioned unsolicited takeover attempt costs and MEPP withdrawal charges) and lower borrowing costs, partially offset by losses on the extinguishment of debt of \$2.9 million (\$1.9 million after tax) or \$0.02 per diluted share.