AIRGAS INC
Form 10-K
June 14, 2004

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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, 2004**
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 $.01 per share	New York Stock Exchange

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

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

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

The aggregate market value of the 65,011,985 shares of voting stock held by non-affiliates of the Registrant was approximately $1.5 billion computed by reference to the closing price of such stock on the New York Stock Exchange on June 9, 2004. 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 June 9, 2004 was 74,196,401.

DOCUMENTS INCORPORATED BY REFERENCE

The Company s Proxy Statement for the Annual Meeting of Stockholders to be held August 4, 2004 is partially incorporated by reference into Part III. Those portions of the Proxy Statement included in response to Item 402(k) and Item 402(l) of Regulation S-K are not incorporated by reference into Part III.

AIRGAS, INC.

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PART I

ITEM 1. BUSINESS.

GENERAL

Airgas, Inc. and subsidiaries (Airgas or the Company) is the largest U.S. distributor of industrial, medical and specialty gases (delivered in packaged or cylinder form), and welding, safety and related products (hardgoods). Airgas also produces dry ice, liquid carbon dioxide, nitrous oxide, process chemicals and specialty gases for distribution throughout the United States. Airgas integrated network of over 800 locations includes branches, retail stores, packaged gas fill plants, specialty gas labs, production facilities and distribution centers. Airgas also distributes its products and services to its diversified customer base through e-Business, catalog and telesales channels. Sales were $1.90 billion, $1.79 billion, and $1.64 billion in fiscal years 2004, 2003, and 2002, respectively.

At December 31, 2003, the Company elected to adopt Financial Accounting Standards Board Interpretation No. 46R, *Consolidation of Variable Interest Entities,* (FIN 46R) with respect to its joint venture, National Welders Supply Company, Inc. (National Welders) and consolidated this formerly unconsolidated affiliate. Since June 1996, the Company has participated in the joint venture and has used the equity method of accounting to report the Company s proportionate share of the joint venture s operating results. Consequently, the consolidation of National Welders had no impact on the net earnings of the Company. In addition, the consolidation did not change the fact that the liabilities of the joint venture are non-recourse to the Company and the cash flows, in excess of a management fee paid by National Welders, are not available to the Company. Through the nine months ended December 31, 2003, the Company recognized $4.4 million of Equity in Earnings of Unconsolidated Affiliates related to National Welders. With the prospective adoption permitted by FIN 46R (prior periods not restated), the fourth fiscal quarter operating results of the joint venture were reflected broadly across the income statement with minority interest expense reflecting the preferred stockholders proportionate share of the joint venture s operating results. For the fourth quarter of fiscal 2004, National Welders contributed $39.2 million to sales, $3.4 million to operating income, $291 thousand of minority interest expense and $1.2 million in net earnings.

The Company has two operating segments, Distribution and All Other Operations. For the purpose of disclosing operating results by business segment, the Company renamed its Gas Operations segment as All Other Operations and disclosed the operating results of National Welders with the results of business units previously reported under that segment. These business units produce and distribute dry ice, carbon dioxide, nitrous oxide and specialty gases. The operating results of the Company s two air separation plants and its six national specialty gas labs are also reported under this segment. The National Welders joint venture structure, which limits the Company s control over the National Welders operations and cash flows, is the primary factor that led the Company to conclude that National Welders is most appropriately reflected in the All Other Operations segment. The business units reflected in the All Other Operations segment individually do not meet the materiality thresholds to be reported as separate business segments.

On April 2, 2004, the Company announced that it signed a definitive asset purchase agreement to acquire most of the U.S. packaged gas business of The BOC Group, Inc. (BOC) in a transaction valued up to $200 million. The transaction is expected to close July 30, 2004 and includes approximately 120 locations in 21 states involved in the distribution of packaged industrial, medical and specialty gases, as well as welding hardgoods. In fiscal 2003, the packaged gas business of BOC, subject to the acquisition, generated approximately $240 million in sales of which approximately 65% was gas and rent. The acquired operations will be integrated with the existing business units of the Company s Distribution segment.

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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 24 to the Company s Consolidated Financial Statements under Item 8, Financial Statements and Supplementary Data. Descriptions of the operating segments are as follows:

DISTRIBUTION

The Distribution segment accounts for approximately 90% of consolidated sales and reflects the distribution of industrial, medical and specialty gases, process chemicals and hardgoods.

Principal Products and Services

The Distribution segment s principal products and services include packaged and small bulk gases, gas cylinder and welding equipment rental, process chemicals and hardgoods. Gas sales include industrial, medical and specialty gases such as: nitrogen, oxygen, argon, helium, acetylene, carbon dioxide, nitrous oxide, hydrogen, welding gases, ultra high purity grades and special application blends. Rent is derived from gas cylinders, cryogenic liquid containers, bulk storage tanks, tube trailers and through the rental of welding equipment. Gas and rent represented approximately 52%, 53%, and 47% of the Distribution segment s sales in each of the fiscal years 2004, 2003 and 2002, respectively. Hardgoods consist of welding supplies and equipment, safety products, and industrial tools and supplies. In each of the fiscal years 2004, 2003, and 2002, hardgoods sales represented approximately 48%, 47%, and 53% of the Distribution segment s sales, respectively (see Note 24 of the Company s Consolidated Financial Statements for additional information regarding segment sales).

Principal Markets and Methods of Distribution

The Company believes that the market for industrial, medical and specialty gases in the United States is approximately $9.4 billion annually. The industry has three principal modes of distribution: on-site supply, bulk or merchant supply, and cylinder supply. In the U.S. market, on-site supply accounts for approximately 25% of sales, bulk or merchant supply accounts for approximately 35% of sales, and cylinder supply accounts for the remaining 40% or $3.8 billion in sales. Airgas market focus has been on the packaged gas segment of the market, which generally consists of customers who purchase gases in cylinders and in less than truck load bulk quantities. Generally, packaged gas distributors also distribute welding products. The Company believes the U.S. market for welding products to be approximately $4.0 billion annually.

Airgas is the largest distributor of packaged gases and welding products in the United States, with approximately a 19% market share. The Company s competitors in this market are approximately 900 independent distributors that serve approximately 50% of the market through a fragmented distribution network. Large distributors, including vertically integrated gas producers such as Praxair, Inc. (Praxair), Liquid Air Corporation of America (Air Liquide), and BOC, serve the remaining 31% of the packaged gas market. The acquisition of the BOC packaged gas business described above will not affect BOC s on-site and most of its bulk supply business in the U.S. The Company also sells safety equipment. The United States market for safety equipment is approximately $6 billion, of which Airgas share is approximately 4%.

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Customer Base

The Company s customer base is broad and includes many major industries. The Company estimates the following industry segments account for the indicated percentages of the Company s total sales:

Industrial Manufacturing (26%);

Repair & Maintenance (23%);

Medical (11%);

Construction (9%);

Wholesale Trade (6%);

Retail (5%);

Food Products (5%);

Transportation and Utilities (5%);

Petrochemical (4%);

All Other (6%).

Suppliers

The Company purchases industrial, medical and specialty gases pursuant to requirements contracts from national and regional producers of industrial gases. In February 2002, the Company entered into a 15-year take-or-pay supply agreement under which Air Products and Chemicals, Inc. (Air Products) supplies at least 35% of the Company s bulk liquid nitrogen, oxygen and argon requirements, exclusive of the volumes purchased under the BOC supply agreement noted below. Additionally, the Company purchases helium from Air Products under the terms of the supply agreement. Effective December 1, 2002, the Company entered into a 3-year take-or-pay supply agreement with BOC to purchase liquid nitrogen, oxygen and argon. With the BOC acquisition, both the Company and BOC will also sign new reciprocal long-term supply agreements. The Company will become the supplier for a substantial portion of BOC s resale packaged gas needs. BOC will supply the Company with approximately 85% of the liquid bulk gases volumes transferred to the Company in the acquisition. Both the Air Products and BOC supply agreements contain market pricing subject to certain economic indices and market analysis. Furthermore, the Company believes the minimum product purchases under the agreements are well within the Company s normal product purchases.

The Company also manufactures certain gases, including acetylene, nitrous oxide, nitrogen, oxygen and argon. The Company believes that, if a contractual arrangement with any supplier of gases or other raw materials was terminated, it would be able to locate alternative sources of supply without disruption of service. 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 arrange comparable alternative supply arrangements.

ALL OTHER OPERATIONS

The All Other Operations segment produces and distributes certain gas products, principally dry ice, carbon dioxide, nitrous oxide and specialty gases. The Company also operates five air separation plants that produce oxygen, nitrogen and argon which are sold to on-site customers and to the Distribution segment. A description of the businesses included in the All Other Operations segment follows:

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Dry Ice

The Company is a producer and distributor of dry ice. With 14 dry ice plants (converting liquid carbon dioxide into dry ice), the Company has the largest network of conversion plants in the United States. Customers include food processors, food service, pharmaceutical and biotech industries, wholesale trade and grocery and other retail outlets. The dry ice business generally experiences a higher level of sales during the warmer months. The Company s carbon dioxide requirements are purchased from the vertically integrated producers of carbon dioxide and from internal production sources.

Carbon Dioxide

The Company is a producer and distributor of liquid carbon dioxide. Carbon dioxide is a byproduct of other chemical processes, typically the production of ammonia or ethanol. Carbon dioxide can also be extracted from natural wells. The Company s requirements are met by nine Company-owned production facilities including a newly constructed plant in Hopewell VA, a 50%-owned joint venture, and long-term supply contracts with vertically integrated gas producers. The Company believes the United States bulk supply market for liquid carbon dioxide is approximately $500 million annually. The largest customer segments include chemical producers and manufacturers of foods and beverages. The Company s market share is approximately 14%, making it the third largest marketer of liquid carbon dioxide in the United States. However, the Company is heavily concentrated in the southeastern United States and maintains a 36% market share in that region.

Specialty and Other Gases

The Company operates six national specialty gas labs and a specialty gas equipment center. The national specialty gas labs are full-scale testing and blending facilities. They blend various special application gas mixtures, ultra high purity grade gases, multi-component hydrocarbon blended EPA protocol gases, and vehicle emission standard gases. Gas mixtures are used in process control, final product qualification and emissions monitoring. Specialty gases and specialty gas equipment produced by these facilities are primarily sold to the Distribution segment (see Note 24 of the Company s Consolidated Financial Statements for disclosure related to inter-segment sales). The third-party customer base for these products consists primarily of governmental entities and environmental-related businesses, manufacturers of electronics, petroleum refiners, and pharmaceutical companies. These operations also provide quality management and technical support to 45 regional labs, which are operated by the Distribution segment and one lab operated by National Welders. The national and regional labs perform testing and certification services for gas purity. Nearly half of the Company s labs are certified to the ISO 9001:2000 standard for quality management in the manufacture and sale of specialty gases.

Nitrous Oxide

The Company is a manufacturer of nitrous oxide gas. Nitrous oxide is used as an anesthetic in the medical and dental fields, as a propellant in the packaged food business and is utilized in the manufacturing process of certain electronics industries. The Company s market focus includes bulk customers as well as sales to the Distribution segment. The Company purchases the raw materials utilized in its nitrous oxide production pursuant to contracts with major manufacturers and suppliers.

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National Welders Supply Company, Inc.

Effective December 31, 2003 as a result of adopting FIN 46R, the Company consolidated National Welders, whose results through December 31, 2003 were reflected as equity in the earnings of unconsolidated affiliates below operating income. National Welders is a producer and distributor of industrial gases based in Charlotte, North Carolina. The joint venture has significant production capabilities with its three air separation plants, two acetylene plants and a specialty gas lab. It also distributes packaged gases and welding products through its 46 branch stores. The ownership interests in the joint venture consist of voting common stock and voting, redeemable preferred stock. The Company owns 100% of the joint venture s common stock, which represents a 50% voting interest. The Company does not hold a majority voting interest in the joint venture and, therefore, historically used the equity method to account for its interest in the joint venture. In fiscal 2005, the consolidation of National Welders is expected to contribute approximately $100 million in additional revenue. However, the new presentation is not expected to have a material impact on earnings.

Suppliers

The Company believes that if a contractual arrangement with any All Other Operations segment supplier was terminated, it would not have a material adverse effect on operations. However, two of the Company s 14 dry ice production facilities are located on property owned by BOC. If the current arrangements with BOC were terminated, the Company s dry ice production capabilities may be reduced.

AIRGAS GROWTH STRATEGIES

The Company s primary objective is to maximize shareholder value by driving market-leading sales growth through leveraging its national distribution infrastructure. To meet this objective, the Company is focusing on:

- Customer service strategies focused on growing our business with small and medium-sized core customers;

- A new medical strategy with the formation of the Airgas Puritan Medical division within each regional distribution company offering an integrated portfolio of bulk and cylinder gases, medical equipment and services to hospitals, home healthcare providers and offices of medical professionals;

- Opportunities in niche markets including bulk, medical and specialty gases, as well as safety products;

- The expansion of sales to customers with multiple locations (i.e, Strategic Accounts);

- The promotion of programs to help customers manage their supply chain for gases, equipment and safety products (i.e., Outlook Services); and

- Acquisitions in its core packaged gas business to complement and expand its distribution network of locations.

These strategic objectives are primarily designed to create a strong and stable platform to drive market-leading sales growth.

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 2004 were not material.

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INSURANCE

The Company has established insurance programs to cover workers compensation, business automobile, general and product liability claims. These programs have self-insured retention of $500 thousand per occurrence and an additional annual aggregate limit of $1.7 million of claims in excess of $500 thousand. The Company accrues estimated losses using actuarial models and assumptions based on the Company s historical loss experience. National Welders is also self-insured for workers compensation claims. Workers compensation claims are self-insured up to $250 thousand per person annually with an aggregate liability of $575 thousand. Provisions for expected future claim payments are accrued based on estimates of the aggregate liability for claims incurred plus an estimate for incurred but not reported claims using historical experience.

EMPLOYEES

On March 31, 2004, the Company employed approximately 9,700 employees (including 800 employees employed by National Welders) of whom less than 5% were covered by collective bargaining agreements. Through the fiscal 2005 acquisition of the U.S. packaged gas operations of BOC, the Company intends to offer employment to more than 1,000 BOC employees aligned with those operations. 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 registered trademarks: Airgas, Red-D-Arc, RED-D-ARC WELDERENTAL, Gold Gas, SteelMIX, Outlook, Ny-Trous+, Powersource, and RADNOR branded products. The Company als trademarks for AluMIX, StainMIX, Freshblend, Walk-O2-Bout, AcuGrav, SightSense, and SoundSense. T 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 (1)	54	Chairman of the Board and Chief Executive Officer
Glenn M. Fischer	53	President and Chief Operating Officer
Roger F. Millay	46	Senior Vice President and Chief Financial Officer
Robert A. Dougherty	46	Senior Vice President and Chief Information Officer
Gordon L. Keen, Jr.	59	Senior Vice President Law and Corporate Development
Michael L. Molinini	53	Senior Vice President Hardgoods
Patrick M. Visintainer	40	Senior Vice President Sales
Dwight T. Wilson	48	Senior Vice President Human Resources
Alfred B. Crichton	56	Division President West
B. Shaun Powers	52	Division President East
Ted R. Schulte	53	Division President Gas Operations
Dean A. Bertolino	35	Vice President, General Counsel and Secretary

Robert M. McLaughlin	47	Vice President and Controller

(1) Member of the Board of Directors

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Mr. McCausland has been Chairman of the Board and Chief Executive Officer of the Company since May 1987. Mr. McCausland has also served as President from June 1986 to August 1988, from April 1993 to November 1995, and from April 1997 to January 1999. Mr. McCausland also serves as a director of the Fox Chase Cancer Center, the Independence Seaport Museum, the International Oxygen Manufacturers Association, Inc. and the Eisenhower Exchange Fellowships, Inc.

Mr. Fischer has been President and Chief Operating Officer since November 2000. Prior to joining Airgas, Mr. Fischer served as President of BOC Gases - North America from 1997 to 2000 and as Executive Vice President of BOC Gases - Americas from 1995 to 1997.

Mr. Millay has been Senior Vice President and Chief Financial Officer since November 1999. Prior to joining Airgas, Mr. Millay served as Senior Vice President and Chief Financial Officer of Transport International Pool, a division of General Electric Capital Corporation, from May 1995 to October 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 August 1998 to December 2000 and as Director of Information Systems from November 1993 to July 1998 of Subaru of America, Inc.

Mr. Keen has been Senior Vice President Law and Corporate Development since April 1997. Prior to that time, Mr. Keen served as Vice President - Corporate Development from January 1992 to March 1997.

Mr. Molinini has been Senior Vice President Hardgoods since August 2000. Prior to that time, Mr. Molinini served as Vice President Hardgoods Operations from August 1999 to July 2000 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. since 1991.

Mr. Visintainer has been Senior Vice President Sales since January 1999. Prior to that time, Mr. Visintainer served as Vice President Sales and Marketing from February 1998 to December 1998 and as President of one of the Company s subsidiaries from April 1996 to January 1998. Until March 1996, he was employed by BOC Gases and served in various field positions including National Sales Manager Industrial/Specialty Gases and National Accounts Manager.

Mr. Wilson was appointed Senior Vice President Human Resources in 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. Crichton has been Division President West since February 1993. Prior to that time, Mr. Crichton served in various leadership positions since joining the Company in 1988 and has more than 30 years of experience in the industrial gas industry.

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.

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Mr. Schulte has been Division President Gas Operations since February 2003. Prior to that time, Mr. Schulte served as Senior Vice President Gas Operations from August 2000 to January 2003, as Vice President Gas Operations from November 1998 to July 2000 and as President of Airgas Carbonic from November 1997 to October 1998. Prior to joining Airgas, Mr. Schulte served as Senior Vice President of Energetic Solutions, the U.S. subsidiary of ICI Explosives, from June 1997 to October 1997 and as Vice President Industrial Gas Sales of Arcadian Corporation from 1992 through June 1997.

Mr. Bertolino has been Vice President and General Counsel since December 2001, and Secretary since July 2002. Prior to joining Airgas, Mr. Bertolino served as Assistant General Counsel of The BOC Group, Inc. from 1999 to 2001 and as an Associate with the law firm of Brown & Wood, LLP from 1994 to 1999.

Mr. McLaughlin has been Vice President and Controller since joining Airgas in June 2001. 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.

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 in which they are filed or furnished to the SEC.

ITEM 2. PROPERTIES.

The principal executive offices of the Company are located in leased space in Radnor, Pennsylvania.

The Company s Distribution segment operates a network of multiple use facilities consisting of approximately 600 branch stores, 45 regional gas laboratories, 18 acetylene manufacturing facilities, 5 regional distribution centers, 200 cylinder fill plants and various customer call centers. The Distribution segment conducts business in 46 states. The Company owns approximately 28% of these facilities. The remaining facilities are primarily leased from third parties. A limited number of facilities are leased from employees and are on terms consistent with commercial rental rates prevailing in the surrounding rental market.

The Company s All Other Operations segment consists of businesses, located throughout the United States, which operate multiple use facilities consisting of 86 branch locations, 11 liquid carbon dioxide and 14 dry ice production facilities, 5 air separation plants, 6 national specialty gas laboratories, and 4 nitrous oxide production facilities. The Company owns approximately 36% of these facilities. The remaining facilities are leased from third parties.

During fiscal 2004, the Company s production facilities operated at approximately 79% of capacity based on an average daily production shift of 14 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.

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ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended March 31, 2004.

PART II

ITEM 5. MARKET FOR THE COMPANY S COMMON STOCK AND RELATED STOCKHOLDER MATTERS.

The Company s common stock (the 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:

	High	Low
Fiscal 2004		
First Quarter	$20.61	$16.75
Second Quarter	19.44	17.64
Third Quarter	21.55	18.20
Fourth Quarter	24.35	19.85
Fiscal 2003		
First Quarter	$19.68	$15.72
Second Quarter	16.97	12.68
Third Quarter	17.25	11.87
Fourth Quarter	18.98	15.50

The closing sale price of the Company s common stock as reported by the New York Stock Exchange on June 9, 2004, was $22.69 per share. As of June 9, 2004, there were approximately 14,000 stockholders of record of the Company s common stock.

On May 13, 2003, the Company s Board of Directors declared the first quarterly cash dividend in the Company s history of $.04 per share, which was paid to stockholders on June 30, 2003. At the end of each quarter during fiscal 2004, the Company paid its stockholders regular quarterly cash dividends of $0.04 per share. In addition, on May 25, 2004, the Company s Board of Directors declared a regular quarterly cash dividend of $0.045 per share payable June 30, 2004 to stockholders of record as of June 15, 2004. 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 6. SELECTED FINANCIAL DATA.

Selected financial data for the Company are 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.

(In thousands, except per share amounts):

	Years Ended March 31,				
	2004 (1)	**2003 (2)**	**2002 (3)**	**2001 (4)**	**2000 (5)**
Operating Results:					
Net sales	$1,895,468	$1,786,964	$1,636,047	$1,628,901	$1,542,334
Depreciation and amortization (6)	87,956	79,844	72,945	86,754	89,308
Special charges (recoveries), net	(776)	2,694		3,643	(2,829)
Operating income	167,780	155,882	125,033	107,949	106,731
Interest expense, net	42,357	46,375	47,013	60,207	57,560
Discount on securitization of trade receivables	3,264	3,326	4,846	1,303	
Other income (expense), net	625	(645)	1,382	242	17,862
Income taxes	47,514	41,199	29,806	20,718	31,551
Cumulative effect of a change in accounting principle			(59,000)		(590)
Net earnings (loss)	80,192	68,105	(10,415)	28,223	38,283
Basic earnings (loss) per share	$ 1.10	$ 0.97	$ (0.15)	$ 0.43	$ 0.55
Diluted earnings (loss) per share	$ 1.07	$ 0.94	$ (0.15)	$ 0.42	$ 0.54
Dividends per common share declared and paid (7)	$ 0.16	$	$	$	$
Balance Sheet Data:					
Working capital	$ 84,361	$ 61,686	$ 82,212	$ 53,690	$ 189,194
Total assets	1,931,079	1,700,243	1,717,057	1,581,290	1,739,331
Current portion of long-term debt	6,140	2,229	2,456	72,945	20,071
Long-term debt	682,698	658,031	764,124	620,664	857,422
Deferred income tax liability, net	257,031	209,140	198,173	161,176	160,808
Other non-current liabilities	20,789	27,243	30,343	22,446	28,998
Stockholders equity	691,901	596,933	503,086	496,849	472,507
Capital expenditures	93,749	67,969	58,297	65,910	65,211

(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, the results

for fiscal 2004 include a fourth quarter special charge recovery of $776 thousand ($480 thousand after tax) reflecting lower estimates of the ultimate cost of prior years restructuring activities. Fiscal 2004 results also include the fourth quarter consolidation of the National Welders joint venture in accordance with FIN 46R. National Welders contributed $39.2 million of sales and $3.4 million of operating income in fiscal 2004. As of March 31, 2004, National Welders also contributed current assets of $30 million, total assets of $140 million, current liabilities of $21 million, and non-current liabilities of $119 million (including a minority interest liability of $36 million).

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(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, the results for fiscal 2003 include special and other charges of $2.9 million ($2.2 million after tax) primarily consisting of a restructuring charge ($2.7 million) related to the integration of the business acquired from Air Products and costs related to the consolidation of certain hardgoods procurement functions.

(3) 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, the results for fiscal 2002 include: (a) a non-cash after-tax charge of $59 million representing the cumulative effect of a change in accounting principle associated with the adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets,* (b) a litigation settlement charge of $8.5 million ($5.7 million after tax), and (c) a net non-recurring gain of $1.9 million ($120 thousand after tax) related to divestitures and a write-down of a business held for sale to its net realizable value.

(4) The results for fiscal 2001 include: (a) net special charges of $3.6 million ($2.3 million after tax), (b) litigation charges, net, of $5.8 million ($3.6 million after tax), and (c) asset impairments associated with two equity affiliates of $700 thousand after-tax. Working capital in fiscal 2001 decreased compared to fiscal 2000 partially attributable to a trade receivables securitization program entered into during fiscal 2001 and the classification of $50 million of medium-term notes maturing September 2001 as a component of Current Liabilities. Cash proceeds of approximately $73.2 million from the securitization program were used to reduce long-term debt.

(5) The results for fiscal 2000 include: (a) special charge recoveries of $2.8 million ($1.7 million after tax), (b) divestiture gains of $17.5 million ($8.6 million after tax), (c) a litigation charge of $7.5 million ($4.8 million after tax), (d) an inventory write-down of $3.8 million ($2.2 million after tax), and (e) an after-tax charge of $590 thousand representing a change in accounting principle.

(6) Fiscal 2004, 2003 and 2002 exclude the amortization of goodwill in accordance with SFAS 142.

(7) On May 13, 2003, the Company s Board of Directors declared the first quarterly cash dividend in the Company s history of $.04 per share, which was paid to stockholders on June 30, 2003. At the end of each quarter during fiscal 2004, the Company paid its stockholders regular quarterly cash dividends of $0.04 per share. In addition, on May 25, 2004, the Company s Board of Directors declared a regular quarterly cash dividend of $0.045 per share payable June 30, 2004 to stockholders of record as of June 15, 2004. 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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AIRGAS, INC. AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 7.

RESULTS OF OPERATIONS: 2004 COMPARED TO 2003

OVERVIEW

The Company s net sales for the fiscal year ended March 31, 2004 (fiscal 2004) were $1.90 billion compared to $1.79 billion in the prior year (fiscal 2003). Sales growth of $109 million was driven by acquisitions, same-store sales growth and the December 31, 2003 consolidation of National Welders. During fiscal 2004, the Company completed five acquisitions with combined annual sales of approximately $59 million. Strategic product sales initiatives related to medical, bulk and specialty gases, and strategic accounts, contributed to a 1% increase in total same-store sales. Sales growth was achieved despite weakness in the manufacturing and industrial markets during much of fiscal 2004. While same-store sales were flat through the first nine months of fiscal 2004, they began rebounding in the fourth quarter led by sales of hardgoods, which increased significantly (9%) as the industrial marketplace began to show signs of an economic recovery. Gas and rent sales also showed improvement (2%) in the fiscal fourth quarter. Over the past several years, the Company has embarked on several programs to strengthen its infrastructure in anticipation of continued growth. As a result, management believes that the Company is well positioned to take advantage of a rebounding industrial economy.

Fiscal 2004 net earnings were $80.2 million, or $1.07 per diluted share, compared to $68.1 million, or $0.94 per diluted share, in fiscal 2003.

As discussed in the Income Statement Commentary below, fiscal 2004 results were affected by the following:

- insurance-related losses of $2.8 million ($1.7 million after tax), or $0.02 per diluted share, representing the Company s self-insurance retention associated with fire-related losses;

- a $1.7 million, or $0.02 per diluted share, non-recurring insurance gain recognized by National Welders; and

- a special charge recovery of $776 thousand ($480 thousand after tax), or $0.01 per diluted share, reflecting lower estimates of the ultimate cost of prior years restructuring activities.

Fiscal 2003 results were affected by the following:

- special and other charges totaling $2.9 million ($2.2 million after-tax), or $0.03 per diluted share, primarily consisting of a restructuring charge ($2.7 million) related to the integration of the business acquired from Air Products and Chemicals, Inc. (Air Products) in fiscal 2002 and costs related to the consolidation of certain hardgoods procurement functions.

On April 2, 2004, the Company announced that it signed a definitive asset purchase agreement to acquire most of the U.S. packaged gas business of The BOC Group, Inc. (BOC) in a transaction valued up to $200 million. The transaction is expected to close July 30, 2004 and includes approximately 120 locations in 21 states involved in the distribution of packaged industrial, medical and specialty gases, as well as welding hardgoods. In fiscal 2003, the packaged gas business of BOC, subject to the acquisition, generated approximately $240 million in sales of which approximately 65% was gas and rent. The acquired operations will be integrated with the existing business units of the Company s Distribution segment.

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At December 31, 2003, the Company elected to adopt Financial Accounting Standards Board Interpretation No. 46R, *Consolidation of Variable Interest Entities,* (FIN 46R) with respect to its joint venture, National Welders Supply Company, Inc. (National Welders) and consolidated this formerly unconsolidated affiliate. Since June 1996, the Company has participated in the joint venture and has used the equity method of accounting to report the Company s proportionate share of the joint venture s operating results. Consequently, the consolidation of National Welders had no impact on the net earnings of the Company. In addition, the consolidation did not change the fact that the liabilities of the joint venture are non-recourse to the Company and the cash flows, in excess of a management fee paid by National Welders, are not available to the Company. Through the nine months ended December 31, 2003, the Company recognized $4.4 million of Equity in Earnings of Unconsolidated Affiliates related to National Welders. With the prospective adoption permitted by FIN 46R (prior periods not restated), the fourth fiscal quarter operating results of the joint venture were reflected broadly across the income statement with minority interest expense reflecting the preferred stockholders proportionate share of the joint venture s operating results. For the fourth quarter of fiscal 2004, National Welders contributed $39.2 million to sales, $3.4 million to operating income, $291 thousand of minority interest expense and $1.2 million in net earnings.

The Company generated significant cash flow in fiscal 2004, which enabled the Company to finance acquisitions and capital expenditures and to repay debt. In addition, the Company s strong cash flow fundamentals enabled it to pay its first quarterly cash dividend in the Company s history of $0.04 per share on June 30, 2003. Subsequently, at the end of each quarter during fiscal 2004, the Company paid its stockholders regular quarterly cash dividends of $0.04 per share. In addition, on May 25, 2004, the Company announced that its Board of Directors declared a regular quarterly cash dividend of $0.045 per share, representing a 13% increase compared to the prior year quarterly dividend. The dividend is payable June 30, 2004 to stockholders of record as of June 15, 2004.

Looking forward, fiscal 2005 appears to hold significant opportunities for the Company. The BOC acquisition will be the largest acquisition in the Company s history. The process of integrating BOC s packaged gas business into the Company s distribution network will provide both challenges and opportunities. The Company anticipates that the economic recovery will continue during fiscal 2005. Given these factors, the Company estimates that fiscal 2005 net earnings will be approximately $1.21 to $1.27 per diluted share, which includes up to $0.02 per diluted share accretion from the BOC acquisition. Additionally, in the first quarter of fiscal 2005, the Company estimates that it will earn $0.27 to $0.31 per diluted share, which includes modest dilution from pre-integration expenses associated with the BOC acquisition. The fiscal 2005 range of estimated net earnings anticipates a continued supportive sales environment with gas and rent sales rising throughout the year. Actual fiscal 2005 net earnings may be impacted by a number of factors including the pace of the economic recovery, the sales mix of gas and rent versus hardgoods, the interest rate environment, and the costs to integrate the BOC acquisition.

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INCOME STATEMENT COMMENTARY

Net Sales

Net sales increased 6% in fiscal 2004 compared to fiscal 2003 driven primarily by acquisitions, same-store sales growth of 1% and the consolidation of National Welders. The Company estimates same-store sales 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. These pro-forma adjustments used in calculating the same-store sales metric are not reflected in the table below. The intercompany eliminations represent sales from All Other Operations to the Distribution segment.

(In thousands)	2004	2003	Increase	
Distribution	$1,702,471	$1,642,076	$ 60,395	4%
All Other Operations	235,926	183,849	52,077	28%
Intercompany eliminations	(42,929)	(38,961)	(3,968)	
	$1,895,468	$1,786,964	$108,504	6%

The Distribution segment s principal products include industrial, medical and specialty gases; process chemicals; equipment rental and hardgoods. Industrial, medical and specialty gases and process chemicals are distributed in cylinders or 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 supplies and equipment, safety products, and industrial tools and supplies.

Distribution segment sales increased $60.4 million (4%) driven by acquisitions and growth in same-store sales. The Company estimates that business acquisitions contributed $39.3 million to sales in fiscal 2004. Same-store sales growth of $21.1 million (1%) resulted from increases in hardgoods sales of $12.9 million (1%) and gas and rent sales of $8.2 million (1%). Through the first nine months of fiscal 2004, Distribution same-store sales were negative, driven by lower sales of hardgoods reflecting weakness in the industrial and manufacturing sectors of the economy. However, same-store sales of hardgoods increased significantly (9%) in the fiscal fourth quarter as the industrial marketplace began to show signs of an economic recovery. Gas and rent sales also showed improvement (2%) in the fiscal fourth quarter. Same-store sales of safety products increased a strong 6% during fiscal 2004 as the Company continued its cross-selling strategy of marketing safety products to its broad base of customers. In addition, safety sales were helped by a new channel migration program that utilizes telemarketing to sell safety products to several thousand low volume customers.

The Company has followed a strategy of focusing on opportunities in niche markets to facilitate sales growth. The strategy focuses on products and markets that are expected to grow at a faster rate than the overall economy. These growth initiatives relate to sales of strategic products, including medical and specialty gases, gases sold in bulk and micro-bulk containers, safety products, and sales to strategic account customers. During fiscal 2004, these sales initiatives contributed to sales growth of gas and rent, which helped mitigate weakness in the industrial economy. Medical gas and rent revenues increased 8% to $146 million versus the prior year reflecting volume gains. Sales growth of specialty gases fell short of expectations, driven by pricing pressure and sluggish demand associated with economic conditions. Bulk gas and rent revenues grew 8% to $107 million reflecting higher volumes as well as the promotion of the Company s micro-bulk program. The micro-bulk program is designed to service niche customers who require higher volumes of gases than can be provided efficiently through the use of gases packaged in cylinders. Sales to strategic account customers (sales to large customers with multiple locations) increased 3% to $255 million in fiscal 2004. Rental revenue was also favorably impacted by a 7% increase in welding equipment rentals and sales associated with the Company s continued expansion of its rental welder fleet.

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The All Other Operations segment consists of producers and distributors of gas products, principally of dry ice, carbon dioxide, nitrous oxide and specialty gases. The segment also includes the Company s National Welders joint venture, which was consolidated effective December 31, 2003. All Other Operations sales, net of intercompany sales eliminations, increased $48.1 million (33%), principally from the consolidation of National Welders, same-store sales growth and an acquisition during fiscal 2004. National Welders contributed sales of $39.2 million in the fourth quarter and fiscal year. Had National Welders been consolidated for all of fiscal 2004, it would have contributed sales of $147 million. Same-store sales growth of 5% was principally the result of higher sales volumes of liquid carbon dioxide reflecting the additional source of product from the Hopewell, Virginia plant that began operations in January 2003. Same-store sales growth associated with liquid carbon dioxide was partially offset by lower sales of dry ice. Sales of dry ice were negatively impacted during fiscal 2004 by significant pricing pressure related to additional competition in the market. The acquisition of a dry ice business in April 2003 also contributed sales of $2.2 million in fiscal 2004.

Gross Profits

Gross profits do not reflect depreciation expense and distribution costs. As disclosed in Note 1 to the Consolidated Financial Statements, the Company reflects distribution costs as elements of Selling, Distribution and Administrative Expenses and recognizes depreciation on all its property, plant and equipment on the income statement line item Depreciation. Some companies may report certain or all of these costs as elements of their Cost of Products Sold. Consequently, gross profits discussed below may not be comparable to those of other entities.

Gross profits increased 5%, while the gross profit margin decreased 30 basis points to 52.1% in fiscal 2004 compared to 52.4% in fiscal 2003.

(In thousands)	2004	2003	Increase	
Distribution	$857,031	$835,756	$21,275	3%
All Other Operations	129,756	100,892	28,864	29%
	$986,787	$936,648	$50,139	5%

The Distribution segment s gross profits increased $21.3 million (3%) compared to the prior year. Distribution s gross profit margin of 50.3% in fiscal 2004 decreased 60 basis points from 50.9% in fiscal 2003. The lower gross profit margin primarily resulted from a shift in sales mix away from higher margin gas and rent sales and towards lower margin sales of hardgoods. Acquisitions of two distributors of safety products also contributed to the shift in mix. The Distribution segment s sales consisted of 51.8% gas and rent compared to 52.6% in fiscal 2003.

All Other Operations gross profits increased $28.9 million (29%) compared to the prior year. Higher gross profits primarily reflect the consolidation of National Welders, higher sales volumes of liquid carbon dioxide sourced from the new Hopewell, Virginia plant and an acquisition. The consolidation of National Welders contributed gross profits of $22 million. The gross profit margin of 55% was flat compared to 54.9% in the prior year. The fourth quarter consolidation of National Welders had an insignificant impact on the gross profit margin. Had National Welders been consolidated for all of fiscal 2004, the impact on the All Other Operations segment s gross profit margin would also not have been significant.

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Operating Expenses

Selling, distribution and administrative expenses (SD&A) consist of labor and overhead associated with the purchasing, marketing and distribution 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. SD&A expenses increased $33.6 million (5%) compared to the prior year principally from the consolidation of National Welders, higher distribution-related expenses, costs contributed by acquired businesses and fire-related losses. The consolidation of National Welders contributed $16 million to the increase in SD&A expenses. The increase in distribution-related expenses of approximately $5 million was primarily driven by higher fuel, repair and maintenance costs. Higher fuel costs were directly related to the increase in oil prices during fiscal 2004. Acquired businesses contributed approximately $13 million to the increase in SD&A expenses. During fiscal 2004, the Company sustained fire-related losses at certain of its plants of $2.8 million, which represented the Company s self-insurance retention. The prior year included costs of $2.7 million associated with the integration of the packaged gas business acquired from Air Products in February 2002. Acquisition integration expenses were not significant during fiscal 2004. As a percentage of net sales, SD&A expenses decreased 40 basis points to 38.7% compared to 39.1% in the prior year.

Depreciation expense of $82.6 million in fiscal 2004 increased $9.1 million (12%) compared to $73.5 million in fiscal 2003. The increase reflects depreciation on the current and prior year s capital investments in revenue producing assets, including the Hopewell carbon dioxide plant, bulk and micro-bulk tanks and medical cylinders. The fourth quarter consolidation of National Welders also contributed $2.6 million to the increase in depreciation expense.

Amortization expense of $5.4 million in fiscal 2004 decreased $1 million compared to $6.4 million in fiscal 2003. The decrease in amortization expense was primarily attributable to the expiration of certain non-compete agreements.

Special Charges (Recoveries)

In fiscal 2004, a special charge recovery of $776 thousand consisted of lower estimates of the ultimate cost of prior years restructuring charges. The special charge recovery was included in the Distribution segment and represented a change in estimate related to facility exit costs.

In fiscal 2003, a special charge of $2.7 million incurred by the Distribution segment consisted of a restructuring charge related to the integration of the business acquired from Air Products and costs related to the consolidation of certain hardgoods procurement functions. The special charge included facility exit costs associated with the closure of certain facilities and employee severance. The facilities exited and the affected employees were part of the Company s existing operations prior to the acquisition of the Air Products business.

Operating Income

Operating income increased 8% in fiscal 2004 compared to fiscal 2003. The operating income margin increased 20 basis points to 8.9% from 8.7% in the prior year.

(In thousands)	2004	2003	Increase	
Distribution	$136,449	$130,534	$ 5,915	5%
All Other Operations	31,331	25,348	5,983	24%

$167,780	$155,882	$11,898	8%

The Distribution segment s operating income margin of 8% in fiscal 2004 was consistent with 7.9% in fiscal 2003. The fiscal 2004 operating income margin reflects the lower gross profit margin, described above, effectively offset by lower operating expenses as a percentage of sales.

The All Other Operations segment s operating income margin decreased 50 basis points to 13.3% compared to 13.8% in fiscal 2003. The decrease in the operating income margin primarily resulted from higher operating expenses as a percentage of sales driven by the consolidation of National Welders. National Welders has a higher cost structure compared to the other businesses included in the segment. Had National Welders been consolidated for all of fiscal 2004, the operating income margin would have been 11.5%.

Interest Expense and Discount on Securitization of Trade Receivables

Interest expense, net, and the discount on securitization of trade receivables totaled $45.6 million representing a decrease of $4.1 million
(-8%) compared to the prior fiscal year. The decrease in interest expense resulted from lower average outstanding debt levels and lower weighted-average interest rates associated with the Company s variable rate debt. The Company s interest expense and average outstanding debt levels were lower despite the July 1, 2003 consolidation of a grantor trust associated with an operating lease and the December 31, 2003 consolidation of National Welders.

The Company participates in a securitization agreement with two commercial banks to sell up to $175 million of qualifying trade receivables. The amount of outstanding receivables under the agreement was $162.6 million and $158.9 million at March 31, 2004 and 2003, respectively. Net proceeds from the sale of trade receivables were used to reduce borrowings under the Company s revolving credit facilities. The discount on the