# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

# FORM 10-Q

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

For the quarterly period ended: December 31, 2001

*Commission file number: 1-9344*

# AIRGAS, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 56-0732648 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| 259 North Radnor-Chester Road, Suite 100<br>Radnor, PA | 19087-5283 |
| (Address of principal executive offices) | (ZIP code) |

(610) 687-5253

(Registrant's telephone number, including area code)

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

Common Stock outstanding at February 12, 2002: 69,765,715 shares



**AIRGAS, INC.**

**FORM 10-Q**
December 31, 2001

EDGARpro 2002. EDGAR Online, Inc.

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## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements**

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

| | Three Months Ended December 31, 2001 | Three Months Ended December 31, 2000 | Nine Months Ended December 31, 2001 | Nine Months Ended December 31, 2000 |
|---|---|---|---|---|
| Net sales | | | | |
| Distribution | $ 357,769 | $ 359,721 | $1,108,428 | $1,105,519 |
| Gas Operations | 34,664 | 35,249 | 111,662 | 108,546 |
| Total net sales | 392,433 | 394,970 | 1,220,090 | 1,214,065 |
| Costs and expenses | | | | |
| Cost of products sold (excluding depreciation) | | | | |
| Distribution | 181,824 | 190,319 | 574,577 | 591,718 |
| Gas Operations | 11,966 | 12,458 | 39,496 | 39,342 |
| Selling, distribution and administrative expenses | 149,529 | 145,112 | 453,483 | 426,780 |
| Depreciation | 16,051 | 15,686 | 47,497 | 48,000 |
| Amortization | 1,869 | 5,153 | 6,220 | 17,894 |
| Total costs and expenses | 361,239 | 368,728 | 1,121,273 | 1,123,734 |
| Operating income | | | | |
| Distribution | 25,711 | 22,038 | 80,069 | 74,761 |
| Gas Operations | 5,483 | 4,204 | 18,748 | 15,570 |
| Total operating income | 31,194 | 26,242 | 98,817 | 90,331 |
| Interest expense, net | (12,448) | (15,597) | (35,211) | (47,668) |
| Discount on securitization of trade receivables | (1,063) | (137) | (4,047) | (137) |
| Other income, net | 1,971 | 352 | 1,793 | 809 |
| Equity in earnings of unconsolidated affiliates | 645 | 455 | 2,875 | 2,306 |
| Earnings before income taxes and the cumulative effect of a change in accounting principle | 20,299 | 11,315 | 64,227 | 45,641 |
| Income taxes | 8,454 | 4,639 | 24,378 | 18,746 |
| Earnings before the cumulative effect of a change in accounting principle | 11,845 | 6,676 | 39,849 | 26,895 |
| Cumulative effect of a change in accounting principle | -- | -- | (59,000) | -- |
| Net earnings (loss) | $ 11,845 | $ 6,676 | $ (19,151) | $ 26,895 |
| Basic earnings per share: | | | | |
| Earnings per share before the cumulative effect of a change in accounting principle | $ .17 | $ .10 | $ .59 | $ .41 |
| Cumulative effect per share of a change in accounting principle | -- | -- | (.87) | -- |
| Net earnings (loss) per share | $ .17 | $ .10 | $ (.28) | $ .41 |
| Diluted earnings per share: | | | | |
| Earnings per share before the cumulative effect of a change in accounting principle | $ .17 | $ .10 | $ .57 | $ .40 |
| Cumulative effect per share of a change in accounting principle | -- | -- | (.85) | -- |
| Net earnings (loss) per share | $ .17 | $ .10 | $ (.28) | $ .40 |
| Weighted average shares outstanding | | | | |
| Basic | 68,300 | 66,500 | 67,900 | 65,700 |
| Diluted | 70,300 | 67,200 | 69,400 | 67,000 |

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

| | (Unaudited) December 31, 2001 | March 31, 2001 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Trade receivables, less allowances for doubtful accounts of $8,917 at December 31, 2001 and $7,402 at March 31, 2001 | $ 62,818 | $ 143,129 |
| Inventories, net | 154,534 | 155,024 |
| Deferred income tax asset, net | 10,394 | 10,143 |
| Prepaid expenses and other current assets | 23,572 | 25,549 |
| Total current assets | 251,318 | 333,845 |
| Plant and equipment, at cost | 1,102,109 | 1,073,252 |
| Less accumulated depreciation | (404,722) | (368,606) |
| Plant and equipment, net | 697,387 | 704,646 |
| Goodwill | 384,099 | 440,057 |
| Other intangible assets, net | 23,771 | 29,668 |
| Investments in unconsolidated affiliates | 64,028 | 63,262 |
| Other non-current assets | 25,421 | 9,812 |
| Total assets | $1,446,024 | $1,581,290 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable, trade | $ 60,560 | $ 76,337 |
| Accrued expenses and other current liabilities | 122,558 | 130,873 |
| Current portion of long-term debt | 7,793 | 72,945 |
| Total current liabilities | 190,911 | 280,155 |
| Long-term debt, excluding current portion | 572,116 | 620,664 |
| Deferred income taxes, net | 169,029 | 161,176 |
| Other non-current liabilities | 30,210 | 22,446 |
| Commitments and contingencies | -- | -- |
| Stockholders' Equity | | |
| Preferred stock, no par value, 20,000 shares authorized, no shares issued or outstanding at December 31, 2001 and March 31, 2001 | -- | -- |
| Common stock, par value $.01 per share, 200,000 shares authorized, 74,868 and 74,361 shares issued at December 31, 2001 and March 31, 2001, respectively | 749 | 744 |
| Capital in excess of par value | 192,369 | 188,629 |
| Retained earnings | 336,445 | 355,596 |
| Accumulated other comprehensive loss | (5,656) | (1,153) |
| Treasury stock, 547 and 516 common shares at cost at December 31, 2001 and March 31, 2001, respectively | (4,289) | (3,982) |
| Employee benefits trust, 4,756 and 5,701 common shares at cost at December 31, 2001 and March 31, 2001, respectively | (35,860) | (42,985) |
| Total stockholders' equity | 483,758 | 496,849 |

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

| | Nine Months Ended December 31, 2001 | Nine Months Ended December 31, 2000 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net earnings (loss) | $ (19,151) | $ 26,895 |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 53,717 | 65,894 |
| Deferred income taxes | 9,574 | 11,550 |
| Equity in earnings of unconsolidated affiliates | (2,875) | (2,306) |
| Net gain on divestitures | (1,916) | (751) |
| (Gains) losses on sales of plant and equipment | 278 | (158) |
| Stock issued for employee stock purchase plan | 5,463 | 4,194 |
| Cumulative effect of a change in accounting principle | 59,000 | -- |
| Other non-cash charges | 1,068 | -- |
| Changes in assets and liabilities, excluding effects of business acquisitions and divestitures: | | |
| Securitization of trade receivables | 65,400 | 71,659 |
| Trade receivables, net | 14,229 | 1,615 |
| Inventories, net | 1,270 | (3,458) |
| Prepaid expenses and other current assets | 1,719 | 4,024 |
| Accounts payable, trade | (15,777) | (19,836) |
| Accrued expenses and other current liabilities | 4,378 | 4,717 |
| Other assets and liabilities, net | 240 | (4,420) |
| Net cash provided by operating activities | 176,617 | 159,619 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (41,340) | (47,878) |
| Proceeds from sales of plant and equipment | 2,909 | 2,227 |
| Proceeds from divestitures | 10,200 | 7,506 |
| Business acquisitions, net of cash acquired | (11,268) | (2,139) |
| Business acquisitions, holdback settlements | -- | (2,284) |
| Dividends and fees from unconsolidated affiliates | 2,217 | 2,713 |
| Other, net | 886 | 2,257 |
| Net cash used in investing activities | (36,396) | (37,598) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from borrowings | 420,005 | 111,000 |
| Repayment of debt | (540,151) | (219,207) |
| Purchase of treasury stock | -- | (11,214) |
| Financing costs | (8,753) | -- |
| Proceeds from exercise of stock options | 2,517 | 1,003 |
| Cash overdraft | (13,839) | (3,603) |
| Net cash used in financing activities | (140,221) | (122,021) |
| Change in Cash | $ -- | $ -- |
| Cash - beginning of period | -- | -- |
| Cash - end of period | $ -- | $ -- |
| Cash paid during the period for: | | |
| Interest | $ 31,114 | $ 45,048 |
| Income taxes, net of refunds | $ 18,329 | $ 2,679 |

See accompanying notes to consolidated financial statements.

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

(1) BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Airgas, Inc. and its subsidiaries (the "Company"). Unconsolidated affiliates are accounted for on the equity method and consist of 20 - 50% owned operations where control does not exist or is considered temporary. Prior to the adoption of Statement of Financial Accounting Standards No. 142 as of April 1, 2001 (see Note 2), the excess of the cost of these affiliates over the Company's share of their net assets at the acquisition date was being amortized over 40 years. Intercompany accounts and transactions are eliminated in consolidation.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These statements do not include all disclosures required for annual financial statements. These financial statements should be read in conjunction with the more complete disclosures contained in the Company's audited consolidated financial statements for the fiscal year ended March 31, 2001.

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

Certain reclassifications have been made to previously issued financial statements to conform to the current presentation.

(2) ACCOUNTING CHANGES

**SFAS 133**

On April 1, 2001, the Company adopted the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Certain Hedging Activities, as amended by SFAS No. 137 and 138. SFAS 133 requires all derivatives to be recorded on the balance sheet at fair value. In accordance with the transition provisions of SFAS 133, on April 1, 2001, the Company recorded the cumulative effect of this accounting change as a liability and a deferred loss of $6.7 million in the accumulated other comprehensive income (loss) component of stockholder's equity to recognize, at fair value, interest rate swap agreements that are designated as cash flow hedging instruments. Additionally, the Company recorded an asset and adjusted the carrying value of the hedged portion of its fixed rate debt by $6 million to recognize, at fair value, interest rate swap agreements that are designated as fair value hedging instruments.

**SFAS 141**

Effective July 1, 2001, the Company adopted SFAS No. 141, Business Combinations. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. The adoption of SFAS 141 did not have an impact on the results of operations, financial position or liquidity of the Company.



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

(2) ACCOUNTING CHANGES - (Continued)

**Cumulative Effect of a Change in Accounting Principle**

In July 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangible Assets. As allowed under the Standard, the Company has adopted SFAS 142 retroactively to April 1, 2001. SFAS 142 requires goodwill and intangible assets with indefinite useful lives to no longer be amortized, but instead be tested for impairment at least annually.

With the adoption of SFAS 142, the Company reassessed the useful lives and residual values of all acquired intangible assets to make

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any necessary amortization period adjustments. Based on that assessment, no adjustments were made to the amortization period or residual values of other intangible assets. Additionally, certain reclassifications were made to previously issued financial statements to conform to the presentation required by SFAS 142 (see Note 10).

SFAS 142 provides a six-month transitional period from the effective date of adoption for the Company to perform an assessment of whether there is an indication that goodwill is impaired. To the extent that an indication of impairment exists, the Company must perform a second test to measure the amount of the impairment. The Company determined the implied fair value of each of its reporting units using a discounted cash flow analysis and compared such values to the respective reporting units' carrying amounts. This evaluation indicated that goodwill recorded in the Distribution segment associated with its industrial tool reporting unit was impaired as of April 1, 2001. Conditions that contributed to the goodwill impairment included the deterioration of the industrial and machine tool markets since the acquisition of the businesses in this reporting unit and difficulty in achieving expected cross-selling synergies. The resulting business performance made it difficult to justify further investment to achieve the growth originally forecast for the business. Accordingly, the Company recognized a $59 million non-cash charge, recorded as of April 1, 2001, as the cumulative effect of a change in accounting principle for the write-down of goodwill to its fair value. The impaired goodwill was not deductible for taxes, and as a result, no tax benefit was recorded in relation to the charge.

SFAS 142 also requires goodwill to be tested annually and between annual tests if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company has elected to perform its annual tests for indications of goodwill impairment as of October 31 of each year. As of October 31, 2001, the Company's annual assessment of each of its reporting units indicated that goodwill was not impaired. In connection with the pending disposition of Kendeco, Inc., a business included in the industrial tool reporting unit (see Note 3), the Company performed an interim test for impairment of the reporting unit's remaining goodwill at December 31, 2001. The test indicated that the total reporting unit's remaining goodwill was not impaired.

Below represents the pro forma amounts, excluding the cumulative effect of a change in accounting principle of $59 million, assuming that the application of the change in accounting principle was applied retroactively to April 1, 2000 (see Note 10):

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| Net earnings | $ 11,845 | $ 9,926 | $ 39,849 | $ 37,249 |
| Basic earnings per share | $ .17 | $ .15 | $ .59 | $ .57 |
| Diluted earnings per share | $ .17 | $ .15 | $ .57 | $ .56 |



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

(3) ACQUISITIONS AND DIVESTITURES

In September 2001, the Company acquired six retail distributor locations from Air Liquide America Corporation ("Air Liquide"). The acquisition added to the Company's national distribution network and strengthened the Company's presence in the southwestern United States. The purchase price of $11 million was within a range of forecasted cash flow multiples that the Company has typically paid for similar gas distribution businesses and resulted in goodwill of approximately $7 million. The operations have annual sales of approximately $10 million. Pro forma results are not considered to be materially different from the reported results. The acquired operations have been included in the Distribution segment since the date of acquisition.

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In October 2001, in a separate transaction, the Company sold two of its nitrous oxide production facilities to Air Liquide. Proceeds from the sale of approximately $10 million were used to reduce borrowings under the Company's revolving credit facilities. The Company recognized a gain on the transaction of $7.4 million, $4.7 million after-tax, in the "Other income, net" line of the consolidated statement of earnings. The nitrous oxide facilities generated approximately $7 million in annual sales and were included in the Gas Operations segment. The Company has retained its remaining four nitrous oxide production facilities to meet its requirements as a major producer and distributor of nitrous oxide.

During the quarter ended December 31, 2001, the Company recorded a loss of $1.9 million in "Other income, net" for an indemnity claim related to a prior period divestiture. The Company is also in the process of negotiating an agreement to sell Kendeco, Inc, an industrial tool business in its Distribution segment. In December 2001, the carrying values of the net assets of Kendeco were reduced by $3.6 million to their net realizable value of $3.5 million based on the estimated selling price less cost to sell. This charge is reflected in the "Other income, net" line of the consolidated statement of earnings. Due to a difference in the book and tax basis of the net assets, only a minimal tax benefit was recognized in relation to the charge. Kendeco, Inc. generated sales of approximately $21 million in fiscal years 2001 and 2000.

**Subsequent Acquisition**

On January 3, 2002, the Company announced an agreement to purchase the majority of Air Products and Chemicals, Inc.'s ("Air Products") U.S. packaged gas business for cash of $236 million. The transaction is expected to close during the fourth quarter of fiscal 2002. The acquisition would include approximately 100 facilities in 30 states associated with the filling and distribution of cylinders, liquid dewars, tube trailers, and other containers of industrial gases and non-electronic specialty gases, and the retail selling of welding hardgoods, including customer service centers, warehouses, and other related assets. For the twelve months ended September 30, 2001, the assets to be acquired generated approximately $223 million in revenues, and employed nearly 1,100 people. Approximately 76% of the revenues were from gas sales and cylinder rent, with the remainder from welding hardgoods and supplies. The transaction will be financed entirely with senior bank debt (see Note 8).

Separately, Air Products agreed to sell its packaged gas operations in the Carolinas and southern Virginia to National Welders Supply Company, Inc., a joint venture of the Company. These Air Products operations include 9 sites, which generated $17 million in revenues in fiscal 2001 and employ about 100 people.





(4) EARNINGS PER SHARE

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

The table below reconciles basic weighted average common shares outstanding to diluted weighted average common shares outstanding for the three and nine months ended December 31, 2001 and 2000:

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| (In thousands) | Three Months Ended December 31, 2001 | 2000 | Nine Months Ended December 31, 2001 | 2000 |
|---|---|---|---|---|
| Weighted average common shares outstanding: | | | | |
| Basic | 68,300 | 66,500 | 67,900 | 65,700 |
| Stock options and warrants | 2,000 | 700 | 1,500 | 500 |
| Contingently issuable shares | -- | -- | -- | 800 |
| Diluted | 70,300 | 67,200 | 69,400 | 67,000 |

Contingently issuable shares represented the issuance of Company common stock in connection with a prior year acquisition.

(5) TRADE RECEIVABLES SECURITIZATION

The Company participates in a securitization agreement with two commercial banks to sell up to $150 million of certain qualifying trade receivables. As collections reduce the previously sold interests, new receivables may be sold up to $150 million. During the nine months ended December 31, 2001, the Company sold, net of its retained interest, $1.32 billion of trade receivables and remitted to the bank conduits, pursuant to a servicing agreement, $1.18 billion in collections on those receivables. The net proceeds were used to reduce borrowings under the Company's revolving credit facilities. The amount of outstanding receivables under the agreement was approximately $139 million at December 31, 2001 and $73 million at March 31, 2001.

The transaction has been accounted for as a sale under the provisions of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Under the securitization agreement, eligible trade receivables are sold to bank conduits through a bankruptcy-remote special purpose entity, which is consolidated for financial reporting purposes. The difference between the proceeds from the sale and the carrying value of the receivables is recognized as "Discount on securitization of trade receivables" in the accompanying Consolidated Statements of Earnings and varies on a monthly basis depending on the amount of receivables sold and market interest rates. The Company retains a subordinated interest in the receivables sold. The subordinated retained interest of approximately $43 million and $26 million at December 31, 2001 and March 31, 2001, respectively, is recorded at the receivables' previous carrying value in "Trade receivables" on the accompanying Consolidated Balance Sheets. In accordance with a servicing agreement, the Company will continue to service, administer and collect the trade receivables on behalf of the bank conduits. The servicing fees charged to the bank conduits approximate the costs of collections.



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

(6) INVENTORIES

Inventories consist of:

| (In thousands) | (Unaudited) December 31, 2001 | March 31, 2001 |
|---|---|---|
| Finished goods | $154,349 | $154,385 |
| Raw materials | 185 | 639 |
| | $154,534 | $155,024 |

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Net inventories determined by the LIFO inventory method totaled $16.1 million and $19.1 million at December 31, 2001 and March 31, 2001, respectively. If the FIFO inventory method had been used for these inventories, they would have been $1.5 million higher at both December 31, 2001 and March 31, 2001.

(7) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities include:

| (In thousands) | (Unaudited) December 31, 2001 | March 31, 2001 |
|---|---|---|
| Cash overdraft | $ 10,606 | $ 24,445 |
| Accrued payroll and employee benefits | 28,559 | 24,989 |
| Insurance reserves | 19,937 | 15,596 |
| Accrued interest expense | 15,456 | 6,539 |
| Restructuring reserves | 3,562 | 5,157 |
| Other accrued expenses and current liabilities | 44,438 | 54,147 |
| | $122,558 | $130,873 |

The cash overdraft is attributable to the float of the Company's outstanding checks. The increase in accrued interest expense relates to the Company's 9.125% senior subordinated notes (the "Notes") issued in July 2001. The first interest payment on the Notes is due in April 2002. The restructuring reserves were established in conjunction with the cost reduction plan initiated in the fourth quarter of fiscal 2001. The decrease in the restructuring reserves is due to cash payments related to severance paid to employees and the exiting of facilities.





(8) DEBT REFINANCING, NOTE ISSUANCE AND ACQUISITION FINANCING

**Debt Refinancing**

On July 30, 2001, the Company refinanced its existing revolving credit facilities due December 5, 2002 with new bank credit facilities (the "new credit facilities") under a credit agreement with a syndicate of lenders. The new credit facilities consist of revolving credit facilities totaling $367.5 million and $50 million Canadian (US $32 million), including letters of credit. The new credit facilities will mature on July 30, 2006. At December 31, 2001, the Company had borrowings under the new credit facilities of approximately $112 million and $37 million Canadian (US $24 million). The Company also had commitments under letters of credit supported by the new credit facilities of approximately $44 million. Based on restrictions related to certain leverage ratios, the Company had additional borrowing capacity under the new credit facilities of approximately $193 million at December 31, 2001. The variable interest rates of the U.S. and Canadian revolving credit facilities are based on LIBOR and Canadian Bankers' acceptance rates, respectively. At December 31, 2001, the effective interest rates on borrowings under the new credit facilities were 3.66% on U.S. borrowings and 2.51% on Canadian borrowings. Certain of the Company's domestic subsidiaries guarantee borrowings under the new credit facilities and Canadian subsidiaries also guarantee Canadian borrowings. Should the Company's long-term senior unsecured debt ratings be reduced by one level, the Company will be required to pledge 100% of the stock of the domestic guarantors and 65% of the stock of the Canadian guarantors for the benefit of the syndicate of lenders. If the Company's long-term senior unsecured debt ratings are reduced by two or more levels, the Company will be required to grant a security interest in substantially all of the tangible and intangible assets of the Company for the benefit of the syndicate of lenders. The new credit facilities also contain covenants, which include the maintenance of certain leverage ratios, a fixed charge ratio, and potential restrictions on certain additional borrowings, the payment of dividends and the repurchase of common stock.

**Note Issuance**

On July 30, 2001, concurrent with the refinancing of its revolving credit facilities, the Company issued $225 million of senior

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subordinated notes (the "Notes") with a maturity date of October 1, 2011. The Notes bear interest at a fixed annual rate of 9.125%, payable semi-annually on April 1 and October 1 of each year with the first interest payment due on April 1, 2002. The Notes were sold in accordance with the provisions of Rule 144A of the Securities Act of 1933 (the "Securities Act"). In October 2001, the Company exchanged the Notes for substantially similar notes that are registered with the Securities and Exchange Commission in accordance with the Securities Act. No gain or loss was recognized as a result of the exchange. The notes contain covenants that could restrict the payment of dividends, the issuance of preferred stock, and the incurrence of additional indebtedness and liens. The notes are guaranteed on a subordinated basis by each of the domestic guarantors under the new credit facilities (see Note 14).

**Acquisition Financing**

On January 3, 2002, the Company announced an agreement to purchase the majority of Air Products and Chemicals, Inc.'s U.S. packaged gas business for cash of $236 million. The transaction is expected to close during the fourth quarter of fiscal 2002. In anticipation of the transaction, the Company amended its revolving credit facilities to permit the acquisition and extend the period for compliance under current leverage ratios to September 30, 2002. In addition, the Company obtained commitments from a syndicate of lenders for an additional $100 million term loan with a maturity date of July 30, 2006. The term loan bears a variable interest rate based on LIBOR plus a spread, which is related to the Company's credit rating. The additional term loan along with the Company's existing revolving credit facilities will enable Company to finance the entire transaction with senior bank debt. The Company expects that the closing of the acquisition may result in a reduction of its credit rating, which will increase the cost of borrowing on its revolving credit facilities by 25 basis points.





(9) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

At December 31, 2001, the Company had a notional amount of $180 million in fixed interest rate swap agreements that effectively convert a corresponding amount of variable interest rate borrowings under the revolving credit facilities and operating leases to fixed interest rate instruments. The scheduled maturities of these cash flow hedging instruments at December 31, 2001 are fiscal 2002, $12 million; fiscal 2003, $128 million; and fiscal 2005, $40 million. Through the nine months ended December 31, 2001, the Company recorded a net change in the fair value of the fixed interest rate swap agreements of $112 thousand to accumulated other comprehensive income (loss). The net additional interest payments made under these swap agreements during the quarter were recognized in interest expense. Over the next 12 months, the Company expects to reclassify approximately $4.1 million of the deferred loss from accumulated other comprehensive income (loss) to interest expense as swap agreements mature.

At December 31, 2001, the Company also had a notional amount of $155 million in variable interest rate swap agreements that effectively converts a corresponding amount of fixed rate medium-term and senior subordinated notes to variable rate debt. The fair value of these variable interest rate swap agreements and the increased carrying value of the hedged portions of the medium-term and senior subordinated notes at December 31, 2001 was $6.5 million. There is no ineffectiveness associated with the Company's variable interest rate swap agreements, and therefore, changes in the fair value of the swap agreements are completely offset by changes in the fair value of the hedged portions of the medium-term and senior subordinated notes.





(10) GOODWILL AND OTHER INTANGIBLE ASSETS

As described in Note 2, the Company adopted SFAS 142 as of April 1, 2001. The following table reconciles the prior year's reported operating income, equity in earnings of unconsolidated affiliates, earnings before the cumulative effect of a change in accounting principle and net income to their respective pro forma balances adjusted to exclude goodwill amortization expense, which is no longer amortized under the provisions of SFAS 142. Current period results, adjusted for a cumulative effect of a change in accounting principle, are presented for comparative purposes.

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| (In thousands, except per share amounts) | Three Months Ended December 31, 2001 | Three Months Ended December 31, 2000 | Nine Months Ended December 31, 2001 | Nine Months Ended December 31, 2000 |
|---|---|---|---|---|
| Operating income: | | | | |
| Distribution segment | $25,711 | $22,038 | $ 80,069 | $ 74,761 |
| Gas Operations segment | 5,483 | 4,204 | 18,748 | 15,570 |
| Total reported operating income | 31,194 | 26,242 | 98,817 | 90,331 |
| Add back: Distribution goodwill amortization | -- | 3,110 | -- | 9,227 |
| Add back: Gas Operations goodwill amortization | -- | 538 | -- | 1,605 |
| Add back: Total goodwill amortization | -- | 3,648 | -- | 10,832 |
| Adjusted Distribution operating income | 25,711 | 25,148 | 80,069 | 83,988 |
| Adjusted Gas Operations operating income | 5,483 | 4,742 | 18,748 | 17,175 |
| Adjusted total operating income | $31,194 | $29,890 | $ 98,817 | $101,163 |
| Equity in earnings of unconsolidated affiliates: | | | | |
| Reported equity in earnings of unconsolidated affiliates | $ 645 | $ 455 | $ 2,875 | $ 2,306 |
| Add back: equity method goodwill amortization | -- | 426 | -- | 1,278 |
| Adjusted equity in earnings of unconsolidated affiliates | $ 645 | $ 881 | $ 2,875 | $ 3,584 |
| Earnings before the cumulative effect of a change in accounting principle: | | | | |
| Reported earnings before the cumulative effect of a change in accounting principle | $11,845 | $ 6,676 | $ 39,849 | $ 26,895 |
| Add back: goodwill amortization after tax | -- | 3,250 | -- | 10,354 |
| Adjusted earnings before the cumulative effect of a change in accounting principle | $11,845 | $ 9,926 | $ 39,849 | $ 37,249 |
| Net income: | | | | |
| Reported net income (loss) | $11,845 | $ 6,676 | $(19,151) | $ 26,895 |
| Add back: goodwill amortization after tax | -- | 3,250 | -- | 10,354 |
| Cumulative effect of a change in accounting principle | -- | -- | 59,000 | -- |
| Adjusted net income | $11,845 | $ 9,926 | $ 39,849 | $ 37,249 |
| Basic earnings per share: | | | | |
| Reported net income (loss) | $ .17 | $ .10 | $ (.28) | $ .41 |
| Goodwill amortization after tax | -- | .05 | -- | .16 |
| Cumulative effect of a change in accounting principle | -- | -- | .87 | -- |
| Adjusted net income | $ .17 | $ .15 | $ .59 | $ .57 |
| Diluted earnings per share: | | | | |
| Reported net income (loss) | $ .17 | $ .10 | $ (.28) | $ .40 |
| Goodwill amortization after tax | -- | .05 | -- | .16 |
| Cumulative effect of a change in accounting principle | -- | -- | .85 | -- |
| Adjusted net income | $ .17 | $ .15 | $ .57 | $ .56 |





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(10) GOODWILL AND OTHER INTANGIBLE ASSETS - (Continued)

Changes in the carrying amount of goodwill for the nine months ended December 31, 2001, were as follows:

| (In thousands) | Distribution Segment | Gas Operations Segment | Total |
|---|---|---|---|
| Balance at March 31, 2001 | $364,943 | $75,114 | $440,057 |
| Acquisitions | 7,153 | -- | 7,153 |
| Divestitures | (3,144) | (801) | (3,945) |
| Cumulative effect of a change in accounting principle | (59,000) | -- | (59,000) |
| Foreign currency translation and other adjustments | (136) | (30) | (166) |
| Balance at December 31, 2001 | $309,816 | $74,283 | $384,099 |

Other intangible assets amounted to $23.8 million (net of accumulated amortization of $75.7 million) and $29.7 million (net of accumulated amortization of $73.1 million) at December 31, 2001 and March 31, 2001, respectively. These intangible assets primarily consist of non-compete agreements entered into in connection with business combinations and are amortized over the term of the agreements, principally five years. There are no expected residual values related to these intangible assets. Estimated future amortization expense by fiscal year is as follows ($ in millions):
2002 - $1.7; 2003 - $5.6; 2004 - $4.8; 2005 - $3.3; 2006 - $2.2 and $6.2 thereafter.

(11) STOCKHOLDERS' EQUITY

Changes in stockholders' equity were as follows:

| (In thousands of shares) | Shares of Common Stock $.01 Par Value | Treasury Stock | Employee Benefits Trust |
|---|---|---|---|
| Balance-March 31, 2001 | 74,361 | 516 | 5,701 |
| Common stock issuance (a) | 507 | -- | -- |
| Purchase of treasury stock | -- | 31 | -- |
| Reissuance of stock from Trust (c) | -- | -- | (945) |
| Balance-December 31, 2001 | 74,868 | 547 | 4,756 |

(a) Issuance of common stock for stock option exercises.
(c) Reissuance of common stock from the Employee Benefits Trust for employee benefit programs.



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(11) STOCKHOLDERS' EQUITY - (Continued)

| (In thousands of dollars) | Common Stock | Capital in Excess of Par Value | Retained Earning | Accumulated Other Comprehensive Loss | Treasury Stock | Employee Benefits Trust | Compre-hensive Income |
|---|---|---|---|---|---|---|---|
| Balance-March 31, 2001 | $744 | $188,629 | $355,596 | $(1,153) | $(3,982) | $(42,985) | $ -- |
| Net earnings (loss) | -- | -- | (19,151) | -- | -- | -- | (19,151) |
| Common stock issuance (a) | 5 | 2,512 | -- | -- | -- | -- | -- |
| Foreign currency translation adjustments | -- | -- | -- | (75) | -- | -- | (75) |
| Purchase of treasury stock | -- | -- | -- | -- | (307) | -- | -- |
| Cumulative effect of a change in accounting principle (b) | -- | -- | -- | (6,664) | -- | -- | (6,664) |
| Net change in fair value of interest rate swap agreements | -- | -- | -- | (112) | -- | -- | (112) |
| Reissuance of common stock from Trust (c) | -- | (1,663) | -- | -- | -- | 7,125 | -- |
| Issuance of warrants (d) | -- | 1,068 | -- | -- | -- | -- | -- |
| Net tax benefit of comprehensive income items | -- | -- | -- | 2,348 | -- | -- | 2,348 |
| Tax benefit from stock option exercises | -- | 1,823 | -- | -- | -- | -- | -- |
| Balance-December 31, 2001 | $749 | $192,369 | $336,445 | $(5,656) | $(4,289) | $(35,860) | $(23,654) |

(a) Issuance of common stock for stock option exercises.
(b) Recognition of the cumulative effect of a change in accounting principle related to the adoption of SFAS 133 in the period (see Notes 2 and 9).
(c) Reissuance of common stock from the Employee Benefits Trust for employee benefit programs.
(d) The Company granted warrants to purchase 324,000 shares of the Company's common stock to an outside consulting firm for services rendered during the nine months ended December 31, 2001. The warrants have a term of three years from the date of grant and have exercise prices in excess of market value on the date of grant ranging from $11.98 to $18.78 per share. The aggregate value of the warrants on the dates of grant, as determined by the Black-Scholes pricing model, was $1.1 million, which the Company expensed during the nine months ended December 31, 2001.

2001 Employee Stock Purchase Plan

On August 2, 2001, the Company's stockholders approved the 2001 Employee Stock Purchase Plan (the "2001 Plan"). The 2001 Plan is authorized to issue up to 1.5 million shares of Company common stock and contains essentially the same terms and conditions as the Company's previous 1998 Employee Stock Purchase Plan.





(12) COMMITMENTS AND CONTINGENCIES

**Litigation**

In July 1996, Praxair, Inc. ("Praxair") filed suit against the Company in the Circuit Court of Mobile County, Alabama. The complaint alleged tortious interference with business or contractual relations with respect to Praxair's Right of First Refusal contract with the majority shareholders of National Welders Supply Company, Inc. ("National Welders") in connection with the Company's formation of a joint venture with National Welders. In June 1998, Praxair filed a motion to dismiss its own action in Alabama and commenced another action in the Superior Court of Mecklenburg County, North Carolina, alleging substantially the same tortious interference by the Company. The North Carolina action also alleges breach of contract against National Welders and certain shareholders of National Welders and unfair trade practices and conspiracy against all the defendants. In the North Carolina action, Praxair seeks compensatory damages in excess of $10 thousand, punitive damages and other unspecified relief. The Company anticipates that additional discovery and pretrial motions will be completed by the end of May 2002, and that a trial on the merits will begin in July 2002. The Company believes that Praxair's North Carolina claims are without merit and intends to defend vigorously against such claims.

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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.

(13) SUMMARY BY BUSINESS SEGMENT

Information related to the Company's operations by business segment for the three months ended December 31, 2001 and 2000 follows:

| (In thousands) | Three Months Ended December 31, 2001 | | | Three Months Ended December 31, 2000 | | |
|---|---|---|---|---|---|---|
| | Distribution | Gas Operations | Combined | Distribution | Gas Operations | Combined |
| Gas and rent | $ 172,196 | $ 34,031 | $ 206,227 | $ 158,888 | $ 33,874 | $ 192,762 |
| Hardgoods | 185,573 | 633 | 186,206 | 200,833 | 1,375 | 202,208 |
| Total net sales | 357,769 | 34,664 | 392,433 | 359,721 | 35,249 | 394,970 |
| Intersegment sales | -- | 7,421 | 7,421 | -- | 7,661 | 7,661 |
| Gross profit, excluding depreciation | 175,945 | 22,698 | 198,643 | 169,402 | 22,791 | 192,193 |
| Gross profit margin | 49.2% | 65.5% | 50.6% | 47.1% | 64.7% | 48.7% |
| Operating income | 25,711 | 5,483 | 31,194 | 22,038 | 4,204 | 26,242 |
| Earnings before income taxes | 17,467 | 2,832 | 20,299 | 9,733 | 1,582 | 11,315 |
| Assets | 1,253,293 | 192,731 | 1,446,024 | 1,416,950 | 219,128 | 1,636,078 |



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(13) SUMMARY BY BUSINESS SEGMENT - (Continued)

Information related to the Company's operations by business segment for the nine months ended December 31, 2001 and 2000 follows:

| (In thousands) | Nine Months Ended December 31, 2001 | | | Nine Months Ended December 31, 2000 | | |
|---|---|---|---|---|---|---|
| | Distribution | Gas Operations | Combined | Distribution | Gas Operations | Combined |
| Gas and rent | $ 517,488 | $ 109,813 | $ 627,301 | $ 477,792 | $ 105,588 | $ 583,380 |
| Hardgoods | 590,940 | 1,849 | 592,789 | 627,727 | 2,958 | 630,685 |
| Total net sales | 1,108,428 | 111,662 | 1,220,090 | 1,105,519 | 108,546 | 1,214,065 |
| Intersegment sales | -- | 24,671 | 24,671 | -- | 23,973 | 23,973 |
| Gross profit, excluding depreciation | 533,851 | 72,166 | 606,017 | 513,801 | 69,204 | 583,005 |
| Gross profit margin | 48.2% | 64.6% | 49.7% | 46.5% | 63.8% | 48.0% |
| Operating income | 80,069 | 18,748 | 98,817 | 74,761 | 15,570 | 90,331 |
| Earnings before income taxes and cumulative effect of an accounting change | 53,819 | 10,408 | 64,227 | 37,618 | 8,023 | 45,641 |
| Assets | 1,253,293 | 192,731 | 1,446,024 | 1,416,950 | 219,128 | 1,636,078 |

As a result of adopting SFAS 142 effective April 1, 2001, the financial results for the three and nine month periods ended December 31, 2001 do not reflect goodwill amortization expense (see Note 2). See Note 10 for a reconciliation of prior period financial results as

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reported to financial results adjusted to exclude goodwill amortization expense.

(14) CONDENSED CONSOLIDATING FINANCIAL INFORMATION OF SUBSIDIARY GUARANTORS

As described in Note 8, on July 30, 2001, the Company refinanced its revolving credit facilities and issued $225 million of Notes. The obligations of the Company under the Notes are guaranteed by the Company's domestic subsidiaries that guarantee the Company's new credit facilities (the "Guarantors"). The guarantees are made on a joint and several basis. The Company's joint venture operations, Canadian holdings and bankruptcy remote special purpose entity (the "Non- guarantors") are not guarantors of the Notes. The claims of creditors of Non-guarantor subsidiaries have priority over the rights of the Company to receive dividends or distributions from such subsidiaries. Presented below is condensed consolidating financial information for the Company, the Guarantors and the Non-guarantors as of December 31, 2001 and March 31, 2001 and for the nine months ended December 31, 2001 and 2000. On August 31, 2001, two Non-guarantor entities were merged into the parent. These entities were holding companies through which the Company managed its operations in Poland and Thailand. The operations in Poland and Thailand were divested in fiscal 2000. The net assets of the two Non-guarantor entities in the amount of $42.7 million were transferred to the parent.





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Condensed Consolidating Balance Sheet
December 31, 2001

| (In thousands) | Parent | Guarantors | Non-Guarantors | Elimination Entries | Consolidated |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Current Assets | | | | | |
| Trade receivables, net | $ -- | $ 4,703 | $ 58,115 | $ -- | $ 62,818 |
| Intercompany receivable/(payable) | 170 | (22,189) | 22,019 | -- | -- |
| Inventories, net | -- | 151,155 | 3,379 | -- | 154,534 |
| Deferred income tax asset, net | 6,298 | 4,096 | -- | -- | 10,394 |
| Prepaid expenses and other current assets | 1,074 | 19,073 | 3,425 | -- | 23,572 |
| Total current assets | 7,542 | 156,838 | 86,938 | -- | 251,318 |
| Plant and equipment, net | 12,313 | 665,275 | 19,799 | -- | 697,387 |
| Goodwill | -- | 374,087 | 10,012 | -- | 384,099 |
| Other intangible assets, net | 905 | 22,866 | -- | -- | 23,771 |
| Investments in unconsolidated affiliates | 58,058 | 5,970 | -- | -- | 64,028 |
| Investments in subsidiaries | 1,125,741 | -- | -- | (1,125,741) | -- |
| Intercompany receivable/(payable) | (134,038) | 178,523 | (44,485) | -- | -- |
| Other non-current assets | 21,733 | 2,653 | 1,035 | -- | 25,421 |
| Total assets | $1,092,254 | $1,406,212 | $ 73,299 | $(1,125,741) | $1,446,024 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Current Liabilities | | | | | |
| Accounts payable, trade | $ 169 | $ 59,045 | $ 1,346 | $ -- | $ 60,560 |
| Accrued expenses and other current liabilities | 62,832 | 58,588 | 1,138 | -- | 122,558 |
| Current portion of long-term debt | -- | 7,712 | 81 | -- | 7,793 |
| Total current liabilities | 63,001 | 125,345 | 2,565 | -- | 190,911 |
| Long-term debt, excluding current portion | 539,108 | 9,327 | 23,681 | -- | 572,116 |
| Deferred income tax liability, net | 194 | 161,324 | 7,511 | -- | 169,029 |
| Other non-current liabilities | 6,193 | 24,017 | -- | -- | 30,210 |
| Commitments and contingencies | -- | -- | -- | -- | -- |
| Stockholders' Equity | | | | | |
| Preferred stock, no par value | -- | -- | -- | -- | -- |
| Common stock, par value $.01 per share | 749 | -- | -- | -- | 749 |
| Capital in excess of par value | 192,369 | 725,451 | 8,224 | (733,675) | 192,369 |
| Retained earnings | 336,445 | 361,053 | 32,241 | (393,294) | 336,445 |
| Accumulated other comprehensive loss | (5,656) | (305) | (923) | 1,228 | (5,656) |
| Treasury stock | (4,289) | -- | -- | -- | (4,289) |
| Employee benefits trust | (35,860) | -- | -- | -- | (35,860) |
| Total stockholders' equity | 483,758 | 1,086,199 | 39,542 | (1,125,741) | 483,758 |
| Total liabilities and stockholders' equity | $1,092,254 | $1,406,212 | $ 73,299 | $(1,125,741) | $1,446,024 |



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Condensed Consolidating Balance Sheet
March 31, 2001

| (In thousands) | Parent | Guarantors | Non-Guarantors | Elimination Entries | Consolidated |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Current Assets | | | | | |
| Trade receivables, net | $ -- | $ 111,081 | $ 32,048 | $ -- | $ 143,129 |
| Intercompany receivable/(payable) | 170 | (14,183) | 14,013 | -- | -- |
| Inventories, net | -- | 151,402 | 3,622 | -- | 155,024 |
| Deferred income tax asset, net | 6,297 | 3,846 | -- | -- | 10,143 |
| Prepaid expenses and other current assets | 10,167 | 13,901 | 1,481 | -- | 25,549 |
| Total current assets | 16,634 | 266,047 | 51,164 | -- | 333,845 |
| Plant and equipment, net | 6,851 | 677,480 | 20,315 | -- | 704,646 |
| Goodwill | -- | 429,942 | 10,115 | -- | 440,057 |
| Other intangible assets, net | 1,120 | 28,345 | 203 | -- | 29,668 |
| Investments in unconsolidated affiliates | 56,656 | 6,591 | 15 | -- | 63,262 |
| Investments in subsidiaries | 1,197,952 | -- | -- | (1,197,952) | -- |
| Intercompany receivable/(payable) | (107,248) | 99,842 | 7,406 | -- | -- |
| Other non-current assets | 5,294 | 4,311 | 207 | -- | 9,812 |
| Total assets | $1,177,259 | $1,512,558 | $ 89,425 | $(1,197,952) | $1,581,290 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Current Liabilities | | | | | |
| Accounts payable, trade | $ 3,339 | $ 71,045 | $ 1,953 | $ -- | $ 76,337 |
| Accrued expenses and other current liabilities | 41,291 | 88,253 | 1,329 | -- | 130,873 |
| Current portion of long-term debt | 50,000 | 22,863 | 82 | -- | 72,945 |
| Total current liabilities | 94,630 | 182,161 | 3,364 | -- | 280,155 |
| Long-term debt, excluding current portion | 585,465 | 10,354 | 24,845 | -- | 620,664 |
| Deferred income tax liability, net | 194 | 157,906 | 3,076 | -- | 161,176 |
| Other non-current liabilities | 121 | 22,935 | (610) | -- | 22,446 |
| Commitments and contingencies | -- | -- | -- | -- | -- |
| Stockholders' Equity | | | | | |
| Preferred stock, no par value | -- | -- | -- | -- | -- |
| Common stock, par value $.01 per share | 744 | 7 | -- | (7) | 744 |
| Capital in excess of par value | 188,629 | 754,926 | 31,783 | (786,709) | 188,629 |
| Retained earnings | 355,596 | 384,631 | 27,818 | (412,449) | 355,596 |
| Accumulated other comprehensive loss | (1,153) | (302) | (851) | 1,153 | (1,153) |
| Treasury stock | (3,982) | (60) | -- | 60 | (3,982) |
| Employee benefits trust | (42,985) | -- | -- | -- | (42,985) |
| Total stockholders' equity | 496,849 | 1,139,202 | 58,750 | (1,197,952) | 496,849 |
| Total liabilities and stockholders' equity | $1,177,259 | $1,512,558 | $ 89,425 | $(1,197,952) | $1,581,290 |



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

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Condensed Consolidating Statement of Earnings
Nine Months Ended
December 31, 2001

| (In thousands) | Parent | Guarantors | Non-Guarantors | Elimination Entries | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ -- | $1,204,804 | $ 15,286 | $ -- | $1,220,090 |
| Costs and Expenses | | | | | |
| Costs of products sold (excluding depreciation) | -- | 610,239 | 3,834 | -- | 614,073 |
| Selling, distribution and administrative expenses | 37,797 | 400,448 | 15,238 | -- | 453,483 |
| Depreciation | 2,570 | 43,343 | 1,584 | -- | 47,497 |
| Amortization | 159 | 6,061 | -- | -- | 6,220 |
| Operating Income (Loss) | (40,526) | 144,713 | (5,370) | -- | 98,817 |
| Interest (expense) income, net | (40,474) | 4,892 | 371 | -- | (35,211) |
| (Discount) gain on securitization of trade receivables | -- | (45,992) | 41,945 | -- | (4,047) |
| Other income (expense), net | 49,485 | (47,623) | (69) | -- | 1,793 |
| Equity in earnings of unconsolidated affiliates | 2,125 | 750 | -- | -- | 2,875 |
| Earnings (loss) before income taxes and a cumulative effect of a change in accounting principle | (29,390) | 56,740 | 36,877 | -- | 64,227 |
| Income tax benefit (expense) | 10,286 | (21,319) | (13,345) | -- | (24,378) |
| Equity in earnings of subsidiaries | (47) | -- | -- | 47 | -- |
| Cumulative effect of a change in accounting principle | -- | (59,000) | -- | -- | (59,000) |
| Net Earnings (Loss) | $(19,151) | $ (23,579) | $ 23,532 | $ 47 | $ (19,151) |



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

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Condensed Consolidating Statement of Earnings
Nine Months Ended
December 31, 2000

| (In thousands) | Parent | Guarantors | Non-Guarantors | Elimination Entries | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ -- | $1,197,091 | $ 16,974 | $ -- | $1,214,065 |
| Costs and Expenses | | | | | |
| Costs of products sold (excluding depreciation) | -- | 626,847 | 4,213 | -- | 631,060 |
| Selling, distribution and administrative expenses | 21,976 | 398,270 | 6,534 | -- | 426,780 |
| Depreciation | 1,974 | 44,311 | 1,715 | -- | 48,000 |
| Amortization | 169 | 17,430 | 295 | -- | 17,894 |
| Operating Income (Loss) | (24,119) | 110,233 | 4,217 | -- | 90,331 |
| Interest (expense) income, net | (49,755) | 1,120 | 967 | -- | (47,668) |
| Discount on securitization of trade receivables | -- | (137) | -- | -- | (137) |
| Other income (expense), net | 51,420 | (49,914) | (697) | -- | 809 |
| Equity in earnings of unconsolidated affiliates | 836 | 1,683 | (213) | -- | 2,306 |
| Earnings before income taxes | (21,618) | 62,985 | 4,274 | -- | 45,641 |
| Income tax benefit (expense) | 6,365 | (23,147) | (1,964) | -- | (18,746) |
| Equity in earnings of subsidiaries | 42,146 | -- | -- | (42,146) | -- |
| Net Earnings | $ 26,893 | $ 39,838 | $ 2,310 | $(42,146) | $ 26,895 |



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

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Condensed Consolidating Statement of Cash Flows
Nine Months Ended
December 31, 2001

| (In thousands) | Parent | Guarantors | Non-Guarantors | Elimination Entries | Consolidated |
|---|---|---|---|---|---|
| Net cash provided by (used in) operating activities | $ 496 | $ 187,516 | $(11,395) | $ -- | $ 176,617 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Capital expenditures | (5,442) | (34,998) | (900) | -- | (41,340) |
| Proceeds from sales of plant and equipment | -- | 2,909 | -- | -- | 2,909 |
| Proceeds from divestitures | -- | 10,200 | -- | -- | 10,200 |
| Business acquisitions, net of cash acquired | -- | (11,268) | -- | -- | (11,268) |
| Dividends and fees from unconsolidated affiliates | 2,125 | 92 | -- | -- | 2,217 |
| Other, net | 6,459 | (7,814) | 2,241 | -- | 886 |
| Net cash provided by (used in) investing activities | 3,142 | (40,879) | 1,341 | -- | (36,396) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from borrowings | 417,466 | -- | 2,539 | -- | 420,005 |
| Repayment of debt | (513,822) | (22,625) | (3,704) | -- | (540,151) |
| Financing costs | (8,753) | -- | -- | -- | (8,753) |
| Exercise of stock options | 2,517 | -- | -- | -- | 2,517 |
| Cash overdraft | -- | (13,839) | -- | -- | (13,839) |
| Inter-company | 98,954 | (110,173) | 11,219 | -- | -- |
| Net cash provided by (used in) financing activities | (3,638) | (146,637) | 10,054 | -- | (140,221) |
| CHANGE IN CASH | $ -- | $ -- | $ -- | $ -- | $ -- |
| Cash - Beginning of year | -- | -- | -- | -- | -- |
| Cash - End of year | $ -- | $ -- | $ -- | $ -- | $ -- |



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

EDGAR EDGARpro 2002. EDGAR Online, Inc.

Condensed Consolidating Statement of Cash Flows
Nine Months Ended
December 31, 2000

| (In thousands) | Parent | Guarantors | Non-Guarantors | Elimination Entries | Consolidated |
|---|---|---|---|---|---|
| Net cash provided by (used in) operating activities | $ (4,767) | $ 201,419 | $(37,033) | $ -- | $ 159,619 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Capital expenditures | (102) | (45,097) | (2,679) | -- | (47,878) |
| Proceeds from sales of plant and equipment | 107 | 255 | 1,865 | -- | 2,227 |
| Proceeds from divestitures | -- | -- | 7,506 | -- | 7,506 |
| Business acquisitions, net of cash acquired | -- | (2,139) | -- | -- | (2,139) |
| Business acquisitions, holdback settlements | -- | (2,284) | -- | -- | (2,284) |
| Dividends and fees from unconsolidated affiliates | 836 | 1,877 | -- | -- | 2,713 |
| Other, net | (820) | 1,957 | 1,120 | -- | 2,257 |
| Net cash provided by (used in) investing activities | 21 | (45,431) | 7,812 | -- | (37,598) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from borrowings | 111,000 | -- | -- | -- | 111,000 |
| Repayment of debt | (203,000) | (11,150) | (5,057) | -- | (219,207) |
| Purchase of treasury stock | (11,214) | -- | -- | -- | (11,214) |
| Exercise of stock options | 1,003 | -- | -- | -- | 1,003 |
| Cash overdraft | -- | (3,603) | -- | -- | (3,603) |
| Inter-company | 106,957 | (141,235) | 34,278 | -- | -- |
| Net cash provided by (used in) financing activities | 4,746 | (155,988) | 29,221 | -- | (122,021) |
| CHANGE IN CASH | $ -- | $ -- | $ -- | $ -- | $ -- |
| Cash - Beginning of year | -- | -- | -- | -- | -- |
| Cash - End of year | $ -- | $ -- | $ -- | $ -- | $ -- |



**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**

**RESULTS OF OPERATIONS: THREE MONTHS ENDED DECEMBER 31, 2001 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2000**

**INCOME STATEMENT COMMENTARY**

**Net Sales**

Net sales decreased 0.6% in the quarter ended December 31, 2001 ("current quarter") compared to the quarter ended December 31, 2000 ("prior year quarter"). Total Company same-store sales increased 0.3% in the current quarter versus the prior year quarter. The Company estimates same-store sales based on a comparison of current period sales to prior period sales, adjusted for acquisitions and divestitures.

EDGARpro 2002. EDGAR Online, Inc.

| (In thousands) Net Sales | Three Months Ended December 31, 2001 | 2000 | Decrease |
|---|---|---|---|
| Distribution | $357,769 | $359,721 | $(1,952) (0.5%) |
| Gas Operations | 34,664 | 35,249 | (585) (1.7%) |
| | $392,433 | $394,970 | $(2,537) (0.6%) |

The Distribution segment's principal products and services include industrial, medical and specialty gases; equipment rental; and hardgoods. Gases consist of packaged and small bulk gases. Equipment rental fees are generally charged on cylinders, cryogenic liquid containers, bulk tanks and welding equipment. Hardgoods consist of welding supplies and equipment, safety products, and industrial tools and supplies. Distribution sales decreased $2.0 million (-0.5%) resulting from a decline in hardgoods same-store sales of $16.6 million (-7.5%), partially offset by gas and rent same-store sales growth of $12.0 million (8.6%). Sales of $2.6 million from an acquisition consummated during the current quarter also helped offset the decline in hardgoods sales. The decline in hardgoods same-store sales continued to track the decline in non-tech industrial production. The hardgoods sales decline was driven by lower volumes of industrial tools and welding products reflecting the continued weak industrial environment, particularly with regard to metal fabrication and heavy manufacturing such as automotive, aluminum and aircraft. Partially offsetting the decline in tools and welding hardgoods, safety product sales grew 4% to $62 million reflecting continued success of cross- selling initiatives as well as growth through the Company's telemarketing sales channel. Gas and rent sales growth was driven primarily by price increases and growth from strategic sales initiatives. Strategic account sales (sales to large customers with multiple locations) were $40 million in the current quarter, representing an 8% increase over the prior year quarter. The Company is on track with its fiscal 2002 forecast of strategic account sales of $160 million. Strategic gas sales growth was driven by both higher volumes of medical, bulk and specialty gases, as well as price increases. Rental revenue was also favorably impacted by a 15.2% increase in welder equipment rentals.

Gas Operations' sales primarily include dry ice and carbon dioxide that are used for cooling and the production of food, beverages and chemical products. In addition, the segment includes businesses that produce and distribute specialty gases and nitrous oxide. Gas Operations' sales decreased $585 thousand compared to the prior year quarter as a result of divestiture activity, partially offset by same- store sales growth. Divestiture activity, consisting of the divestiture of two nitrous oxide plants during the current quarter and the fourth quarter fiscal 2001 divestiture of the Jackson Dome carbon dioxide reserves and associated pipeline (the "Jackson Dome pipeline"), accounted for a $2.7 million decrease in sales from the comparable period. On a same-store basis, Gas Operations' increased sales by $2.1 million (7.4%) primarily from price increases and higher volumes of liquid carbon dioxide and dry ice.





**Gross Profits**

Gross profits, excluding depreciation expense, increased 3.4% and the gross profit margin increased 190 basis points to 50.6% during the current quarter compared to 48.7% in the prior year quarter.

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| (In thousands) Gross Profits Increase(Decrease) | Three Months Ended December 31, 2001 | 2000 | | |
|---|---|---|---|---|
| Distribution | $175,945 | $169,402 | $6,543 | 3.9% |
| Gas Operations | 22,698 | 22,791 | (93) | (0.4%) |
| | $198,643 | $192,193 | $6,450 | 3.4% |

The increase in Distribution gross profits of $6.5 million primarily resulted from gas and rent same-store gross profit growth of $9.9 million (9.6%), partially offset by a decline in hardgoods gross profits of $4.7 million (-7.3%) reflecting weak industrial market conditions. Acquisitions consummated during the current quarter also contributed $1.3 million to the increase in gross profits. The Distribution segment's gross profit margin of 49.2% in the current quarter increased 210 basis points from 47.1% in the prior year quarter as a result of a shift in sales mix towards higher margin gas and rent sales and price increases. Gas and rent sales comprised 48.1% of sales compared to 44.2% in the prior year quarter.

Gas Operations' gross profits were relatively flat as a reduction in gross profits associated with divestiture activity was offset by same-store gross profit growth. Same-store gross profit growth resulted from higher volumes of liquid carbon dioxide and dry ice and price increases. Gas Operations' gross profit margin of 65.5% increased 80 basis points from 64.7% in the prior year quarter, reflecting volume gains leveraging fixed manufacturing costs.

**Operating Expenses**

Selling, distribution and administrative expenses ("operating expenses") consist of personnel and related costs, distribution and warehouse costs, occupancy expenses and other selling, general and administrative expenses. Operating expenses increased $4.4 million (3.0%) compared to the prior year quarter primarily from higher personnel costs and health and workers' compensation insurance, partially offset by a decrease in distribution expense principally from lower fuel costs. Additionally, expenses net of realized benefits related to the Company's "Project One" initiative were not material to the current quarter. The Company's Project One initiative is focused on improving certain operational and administrative processes. As a percentage of net sales, operating expenses increased 140 basis points to 38.1% compared to 36.7% in the prior year quarter.

Amortization expense was $1.9 million in the current quarter compared to $5.2 million in the prior year quarter. On April 1, 2001, the Company adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets. The decrease in amortization expense was due to the adoption of SFAS 142, which resulted in the Company no longer amortizing goodwill.





**Operating Income**

Operating income increased 4.4% during the current quarter compared to the prior year quarter, adjusted to exclude the amortization of goodwill. The Company's overall operating income margin increased 30 basis points to 7.9% from 7.6% in the prior year quarter, as adjusted.

EDGAR EDGARpro 2002. EDGAR Online, Inc.

| (In thousands) Operating Income | Three Months Ended December 31, 2001 | Adjusted 2000 (a) | Increase | | As reported 2000 |
|---|---|---|---|---|---|
| Distribution | $25,711 | $25,148 | $ 563 | 2.2% | $22,038 |
| Gas Operations | 5,483 | 4,742 | 741 | 15.6% | 4,204 |
| | $31,194 | $29,890 | $1,304 | 4.4% | $26,242 |

(a) Operating income for the quarter ended December 31, 2000 has been adjusted for comparative purposes to exclude the amortization of goodwill (see Note 10 to the Consolidated Financial Statements).

The Distribution segment's operating income margin increased 20 basis points to 7.2% in the current quarter compared to 7.0% in the prior year quarter, as adjusted. The operating income margin increase was driven by higher gross profits, partially offset by higher operating expenses.

Gas Operations' operating income margin increased 230 basis points to 15.8% in the current quarter compared to 13.5% in the prior year quarter, as adjusted. The operating margin improvement resulted from higher selling prices and volume gains that leverage fixed operating costs. Lower fuel costs also contributed to the improvement in the operating income margin.

**Interest Expense and Discount on Securitization of Trade Receivables**

Interest expense, net, and the discount on securitization of trade receivables totaled $13.5 million representing a decrease of $2.2 million (-14.1%) compared to the prior year quarter. The decrease primarily resulted from lower average debt levels. The decrease in average debt levels was attributable to cash flow provided from operations and proceeds from the divestiture of the Jackson Dome pipeline in the fourth quarter of fiscal 2001. Weighted-average interest rates were relatively flat in the current quarter compared to the prior year quarter as higher rates of fixed cost debt associated with the July 2001 refinancing, discussed below, were offset by lower prevailing market rates affecting the Company's variable rate debt.

The Company participates in a securitization agreement with two commercial banks to sell up to $150 million of qualifying trade receivables. The amount of outstanding receivables under the agreement was $139 million at December 31, 2001. Net proceeds were used to reduce borrowings under the Company's revolving credit facilities. The discount on the securitization of trade receivables represents the difference between the carrying value of the receivables and the proceeds from their sale. The amount of the discount varies on a monthly basis depending on the amount of receivables sold and market rates.

As discussed in "Liquidity and Capital Resources" and in Note 8 to the Financial Statements, on July 30, 2001, the Company refinanced its variable rate revolving credit facilities and concurrently issued fixed rate senior subordinated notes. The Company's refinancing strategy also included the securitization of trade receivables, which helped diversify its funding sources. The Company refinanced its debt facilities prior to their maturity in December 2002 to take advantage of current favorable market conditions.





Other income, net

Other income, net, in the current quarter includes a net gain of $1.9 million ($120 thousand after tax). The net gain consisted of a $7.4 million gain from the divestiture of two nitrous oxide plants, partially offset by a $3.6 million write-down of a business unit held for sale to its net realizable value and a $1.9 million loss resulting from an indemnity claim related to a prior period divestiture.

**Income Tax Expense**

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The effective income tax rate was 41.6% of pre-tax earnings in the current quarter compared to 35.5% in the prior year quarter, adjusted for comparative purposes for the impact of SFAS 142. The increase in the effective income tax rate in the current quarter was primarily due to the $3.6 million write-down of a business unit held for sale to its net realizable value, which was not deductible for income taxes. The effective income tax rate as reported in the prior year quarter was 41.0%.

**Net Earnings**

Net earnings for the quarter ended December 31, 2001 were $11.8 million, or $.17 per diluted share, compared to $6.7 million, or $.10 per diluted share, in the prior year quarter. As adjusted for comparative purposes for the impact of SFAS 142, net earnings were $.15 per diluted share in the prior year quarter.



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

**RESULTS OF OPERATIONS: NINE MONTHS ENDED DECEMBER 31, 2001 COMPARED TO THE NINE MONTHS ENDED DECEMBER 31, 2000**

**INCOME STATEMENT COMMENTARY**

**Net Sales**

Net sales increased slightly in the nine months ended December 31, 2001 ("current period") compared to the nine months ended December 31, 2000 ("prior year period"). Total Company same-store sales increased 1% in the current period versus the prior year period.

| (In thousands) Net Sales | Nine Months Ended December 31, 2001 | 2000 | Increase | |
|---|---|---|---|---|
| Distribution | $1,108,428 | $1,105,519 | $2,909 | 0.3% |
| Gas Operations | 111,662 | 108,546 | 3,116 | 2.9% |
| | $1,220,090 | $1,214,065 | $6,025 | 0.5% |

Distribution sales increased $2.9 million primarily resulting from $2.6 million in sales contributed by an acquisition consummated in the third quarter of fiscal 2002 and $300 thousand from same-store sales growth. Distribution same-store sales growth of $300 thousand resulted from gas and rent sales growth of $38.6 million (8.3%), offset by a decline in hardgoods sales of $38.3 million (-5.8%). Gas and rent same- store sales growth was primarily driven by price increases. The price increases were levied in response to rising costs. Sales initiatives such as strategic accounts (sales to large customers with multiple locations) also contributed to same-store sales growth. Strategic account sales reached approximately $120 million, an increase of 10% over the prior year period, which is in line with the Company's fiscal 2002 forecast of $160 million. Gas and rent sales were also driven by higher volumes of medical, bulk and specialty gases, and welder equipment rentals. The decline in hardgoods sales was driven by lower sales volumes of tools and welding products reflecting the continued weak industrial environment. Partially offsetting the decline in tool and welding hardgoods sales, safety product sales grew 6% to approximately $195 million reflecting continued success of cross- selling initiatives through the Company's distribution network.

Gas Operations' sales increased $3.1 million resulting from same- store sales growth, partially offset by divestiture activity. Gas Operations' same-store sales increased $8.5 million (8.6%) primarily from price increases and higher volumes of liquid carbon dioxide and dry ice. Sales were reduced by $5.4 million as a result of the divestiture of two nitrous oxide plants during the third quarter of fiscal 2002 and the divestiture of the Jackson Dome pipeline in the fourth quarter of fiscal 2001.



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**Gross Profits**

Gross profits, excluding depreciation expense, increased 3.9% and the gross profit margin increased 170 basis points to 49.7% in the current period compared to 48.0% in the prior year period.

| (In thousands) Gross Profits | Nine Months Ended December 31, 2001 | 2000 | Increase | |
|---|---|---|---|---|
| Distribution | $533,851 | $513,801 | $20,050 | 3.9% |
| Gas Operations | 72,166 | 69,204 | 2,962 | 4.3% |
| | $606,017 | $583,005 | $23,012 | 3.9% |

The increase in Distribution gross profits of $20.1 million primarily resulted from gas and rent same-store gross profit growth of $28.9 million (8.6%), partially offset by a decline in hardgoods gross profits of $10.1 million (-5.6%). A fiscal 2002 acquisition also contributed $1.3 million to the increase in gross profits. The Distribution segment's gross profit margin of 48.2% in the current period increased 170 basis points from 46.5% in the prior year period primarily due to a shift in sales mix towards higher margin gas and rent sales and price increases. Gas and rent sales comprised 46.7% of sales compared to 43.2% in the prior year period.

The increase in Gas Operations' gross profits of $3.0 million resulted from same-store gross profit growth, partially offset by divestiture activity. Same-store gross profit growth of $7 million (11.1%) was primarily due to improved gross margins from price increases and higher volumes of dry ice and liquid carbon dioxide. Gas Operations' gross profit margin of 64.6% increased 80 basis points from 63.8% in the prior year period, reflecting volume gains leveraging fixed manufacturing costs.

**Operating Expenses**

Operating expenses increased $26.7 million (6.3%) compared to the prior year period primarily from higher costs associated with the Company's "Project One" initiative, personnel costs, and health and workers' compensation insurance. The Company's "Project One" initiative added incremental costs, net of realized benefits, of $8.7 million during the current period. As a percentage of net sales, operating expenses increased 200 basis points to 37.2% compared to 35.2% in the prior year period. Project One costs contributed 70 basis points to the rise in operating expenses as a percentage of net sales.

Amortization expense was $6.2 million in the current period compared to $17.9 million in the prior year period. The decrease in amortization expense was due to the adoption of SFAS 142, which resulted in the Company discontinuing the amortization of goodwill.





**Operating Income**

Operating income decreased 2.3% in the current period compared to the prior year period, adjusted to exclude the amortization of goodwill. The Company's overall operating income margin decreased 20 basis points to 8.1% from 8.3% in the prior year quarter, as adjusted.

EDGAR FASTFACTS EDGARpro 2002. EDGAR Online, Inc.

| (In thousands) Operating Income | Nine Months Ended December 31, 2001 | Adjusted 2000 (a) | Increase(Decrease) | | As reported 2000 |
|---|---|---|---|---|---|
| Distribution | $80,069 | $ 83,988 | $(3,919) | (4.7%) | $74,761 |
| Gas Operations | 18,748 | 17,175 | 1,573 | 9.2% | 15,570 |
| | $98,817 | $101,163 | $(2,346) | (2.3%) | $90,331 |

(a) Operating income for the nine months ended December 31, 2000 has been adjusted for comparative purposes to exclude the amortization of goodwill (see Note 10 to the Consolidated Financial Statements).

The Distribution segment's operating income margin decreased 40 basis points to 7.2% in the current period compared to 7.6% in the prior year period, as adjusted. The operating income margin decrease was primarily attributable to Project One costs and increases in other operating expenses, as discussed above, partially offset by higher gross profits. The majority of Project One costs are allocated to the Distribution segment.

Gas Operations' operating income margin increased 100 basis points to 16.8% in the current period compared to 15.8% in the prior year period, as adjusted, primarily from higher gross profits from volume and price increases related to liquid carbon dioxide and dry ice.

**Interest Expense and Discount on Securitization of Trade Receivables**

Interest expense, net, and the discount on securitization of trade receivables totaled $39.3 million representing a decrease of $8.5 million (-17.9%) compared to the prior year period. The decrease resulted primarily from lower average debt levels. The decrease in average debt levels was attributable to cash flow provided from operations and proceeds from the divestiture of the Jackson Dome pipeline in the fourth quarter of fiscal 2001. Weighted-average interest rates were relatively flat in the current period compared to the prior year period as higher rates of fixed cost debt associated with the July 2001 refinancing, discussed below, were offset by lower prevailing market rates related to the Company's variable rate debt.

The Company participates in a securitization agreement with two commercial banks to sell up to $150 million of qualifying trade receivables. The amount of outstanding receivables under the agreement was $139 million and $73 million at December 31, 2001 and March 31, 2001, 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 securitization of trade receivables represents the difference between the carrying value of the receivables and the proceeds from their sale. The amount of the discount varies on a monthly basis depending on the amount of receivables sold and market rates.

As discussed in "Liquidity and Capital Resources" and in Note 8 to the Financial Statements, on July 30, 2001, the Company refinanced its variable rate revolving credit facilities and concurrently issued fixed rate senior subordinated notes. The Company's refinancing strategy also included the securitization of trade receivables, which helped diversify its funding sources. The Company refinanced its debt facilities prior to their maturity in December 2002 to take advantage of current favorable market conditions.





Other income, net

Other income, net, in the current period includes a net gain of $1.9 million ($120 thousand after tax). The net gain consisted of a $7.4 million gain from the divestiture of two nitrous oxide plants, partially offset by a $3.6 million write-down of a business unit held for sale to its net realizable value and a $1.9 million loss resulting from an indemnity claim related to a prior period divestiture.

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**Income Tax Expense**

The effective income tax rate was 38.0% of pre-tax earnings in the current period compared to 35.5% in the prior year period, adjusted for comparative purposes for the impact of SFAS 142. The increase in the effective income tax rate in the current period was primarily due the $3.6 million write-down of a business unit to its net realizable value, which was not deductible for income taxes. The effective income tax rate as reported in the prior year period was 41.1%.

**Cumulative Effect of a Change in Accounting Principle**

In connection with the adoption of SFAS 142, the Company performed an evaluation of goodwill as of April 1, 2001. The results of the evaluation indicated that goodwill related to one reporting unit, the Company's tool business, was impaired. The Company measured the amount of impairment based on a comparison of the fair value of the reporting unit to its carrying value. Accordingly, the Company recognized a $59 million non-cash charge, recorded as of April 1, 2001, as a cumulative effect of a change in accounting principle for the write-down of goodwill of the tool business reporting unit to its fair value. The impaired goodwill was not deductible for taxes, and as a result, no tax benefit was recorded in relation to the charge.

**Net Earnings (Loss)**

The net loss for the nine month period ended December 31, 2001 was $19.2 million, or a loss of $.28 per diluted share, compared to net earnings of $26.9 million, or $.40 per diluted share, in the prior year period. Net earnings for the nine month period ended December 31, 2001, excluding the cumulative effect of a change in accounting principle, were $.57 per diluted share compared to $.56 per diluted share in the prior year period, adjusted for comparative purposes for the impact of SFAS 142.





**LIQUIDITY AND CAPITAL RESOURCES**

**Cash Flows**

Net cash provided by operating activities totaled $176.6 million for the nine months ended December 31, 2001 compared to $159.6 million in the prior year period. Net earnings, adjusted for non-cash items, including the cumulative effect of a change in accounting principle, were $105.1 million in the current period compared to $105.3 million in the prior year period. The sale of trade receivables under the trade receivables securitization program, described below, provided cash of $65.4 million in the current period compared to $71.7 million in the prior year period. Working capital and other assets and liabilities, net, provided cash of $6.1 million in the current period compared to a use of cash of $17.4 million in the prior year period. The improvement in working capital components in the current period was primarily driven by a lower level of trade receivables outstanding reflecting a slight improvement in days sales outstanding to 54 days from 55 days at December 31, 2001 and 2000, respectively. Additionally, Project One initiatives significantly improved accounts payable days outstanding to 43 days from 36 days at December 31, 2001 and 2000, respectively. Cash flow provided by operating activities was primarily used to reduce borrowings under the Company's revolving credit facilities and to fund capital expenditures.

Cash used in investing activities totaled $36.4 million during the current period and primarily consisted of capital expenditures and acquisition and divestiture activity. The Company anticipates capital spending within a range of $55 to $60 million during fiscal 2002, including costs associated with the Project One initiatives. Cash used for the acquisition of six gas distributor locations from Air Liquide America Corporation was largely offset by cash provided by the divestiture of two nitrous oxide plants during the current period.

Financing activities used cash of $140.2 million primarily for the net repayment of $120.1 million of debt. The reduction in debt was principally the result of cash from operations, which includes the sale of receivables under the Company's securitization program. The remainder of cash used by financing activities included the reduction of the cash overdraft, representing the balance of outstanding checks, and financing costs related to the July 2001 refinancing, discussed below.

Cash on hand at the end of each period presented was zero. On a daily basis depository accounts are swept of all available funds. The funds are deposited into a concentration account through which all cash on hand is used to repay debt under the Company's revolving credit facilities.

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The Company believes that its sources of financing are adequate for its anticipated needs and that it could arrange additional sources of financing for unanticipated requirements. The cost and terms of any future financing arrangement depend on the market conditions and the Company's financial position at that time.

The Company does not currently pay dividends.

**Financial Instruments**

On July 30, 2001, the Company refinanced its revolving credit facilities due December 5, 2002 with new bank credit facilities under a credit agreement with a syndicate of lenders. The new credit facilities consist of unsecured revolving credit facilities totaling $367.5 million and $50 million Canadian (US $32 million) under a credit agreement with a maturity date of July 30, 2006. At December 31, 2001, the Company had borrowings under the credit agreement of approximately $112 million and $37 million Canadian (US $24 million). The Company also had commitments under letters of credit supported by the credit agreement of approximately $44 million at December 31, 2001.



The credit agreement contains covenants that include the maintenance of certain leverage ratios, a fixed charge ratio, and potential restrictions on certain additional borrowing, the payment of dividends and the repurchase of common stock. Based on restrictions related to certain leverage ratios, the Company had additional borrowing capacity under the new credit facilities of approximately $193 million at December 31, 2001. The variable interest rates of the U.S. and Canadian revolving credit facilities are based on LIBOR and Canadian Bankers' acceptance rates, respectively. At December 31, 2001, the effective interest rates on borrowings under the new credit facilities were 3.66% on U.S. borrowings and 2.51% on Canadian borrowings.

Borrowings under the new revolving credit facilities are guaranteed by certain of the Company's domestic subsidiaries and Canadian borrowings are guaranteed by Canadian subsidiaries. Should the Company's long-term senior unsecured debt ratings be reduced by one level, the Company will be required to pledge 100% of the stock of the domestic guarantors and 65% of the stock of the Canadian guarantors for the benefit of the syndicate of lenders. If the Company's long-term senior unsecured debt ratings are reduced by two or more levels, the Company will be required to grant a security interest in substantially all of the tangible and intangible assets of the Company for the benefit of the syndicate of lenders.

On July 30, 2001, concurrent with the refinancing of the new revolving credit facilities, the Company issued $225 million of senior subordinated notes (the "Notes") with a maturity date of October 1, 2011. The Notes bear interest at a fixed annual rate of 9.125%, payable semi-annually on April 1 and October 1 of each year with the first interest payment due April 1, 2002. The Notes were sold in accordance with the provisions of Rule 144A of the Securities Act of 1933 (the "Securities Act"). In October 2001, the Company exchanged the Notes for substantially similar notes that are registered with the Securities and Exchange Commission in accordance with the Securities Act. The notes contain covenants that could restrict the payment of dividends, the issuance of preferred stock, and the incurrence of additional indebtedness and liens. The notes are guaranteed on a subordinated basis by each of the domestic guarantors under the new credit facilities.

In addition to the senior subordinated notes, the Company had the following medium-term notes outstanding at December 31, 2001: $75 million of unsecured notes due March 2004 bearing interest at a fixed rate of 7.14% and $100 million of unsecured notes due September 2006 bearing interest at a fixed rate of 7.75%. At December 31, 2001, the Company's long-term debt also included acquisition notes and other long- term debt instruments of approximately $37 million with interest rates ranging from 6.0% to 9.0%.

The Company manages its exposure to changes in market interest rates. At December 31, 2001, the Company was party to a total of 14 interest rate swap agreements. The swap agreements are with major financial institutions and aggregate $334 million in notional principal amount at December 31, 2001. Nine swap agreements with approximately $180 million in notional principal amount require fixed interest payments based on an average effective rate of 6.70% and mature over periods ranging between one and three years. Five swap agreements with $155 million in notional principal amount require variable interest payments based on an average rate of 5.29% at December 31, 2001 and mature over periods ranging between two and ten years. The Company monitors its positions and the credit ratings of its counterparties, and does not anticipate non-performance by the counterparties. After considering the effect of interest rate swap agreements, the Company's ratio of fixed to variable interest rates was 61% to 39% at December 31, 2001.

**Trade Receivables Securitization**

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The Company participates in a securitization agreement with two commercial banks to sell up to $150 million of qualifying trade receivables. During the nine months ended December 31, 2001, the Company sold, net of its retained interest, $1.32 billion of trade receivables and remitted to the bank conduits, pursuant to a servicing agreement, $1.18 billion in collections on those receivables. The net proceeds were used to reduce borrowings under the Company's revolving credit facilities. The amount of outstanding receivables under the agreement was approximately $139 million at December 31, 2001 and $73 million at March 31, 2001.





**Pending Acquisition and Related Financing**

On January 3, 2002, the Company announced an agreement to purchase the majority of Air Products and Chemicals, Inc.'s U.S. packaged gas business for cash of $236 million. The transaction is expected to close during the fourth quarter of fiscal 2002. In anticipation of the transaction, the Company amended its revolving credit facilities to permit the acquisition and extend the period for compliance under current leverage ratios to September 30, 2002. In addition, the Company obtained commitments from a syndicate of lenders for an additional $100 million term loan with a maturity date of July 30, 2006. The term loan bears a variable interest rate based on LIBOR plus a spread, which is related to the Company's credit rating. The additional term loan along with the Company's existing revolving credit facilities will enable the Company to finance the entire transaction with senior bank debt. The Company expects that the closing of the acquisition may result in a reduction of its credit rating, which will increase the cost of borrowing on its revolving credit facilities by 25 basis points.

**OTHER**

**New Accounting Pronouncements**

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, Accounting for Asset Retirement Obligations. SFAS 143 requires the recognition of a liability for an asset retirement obligation in the period in which it is incurred. A retirement obligation is defined as one in which a legal obligation exists in the future resulting from existing laws, statutes or contracts. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company is evaluating the impact of SFAS 143 on its results of operations, financial position and liquidity.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 establishes one accounting model to be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions. The Statement supersedes SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a business segment. SFAS 144 also amends ARB No. 51, Consolidated Financial Statements, to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The Company is evaluating the impact of SFAS 144 on its results of operations, financial position and liquidity.





**Forward-looking Statements**

This report contains statements that are forward looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to, statements regarding: the success of the Company's sales initiatives, including strategic products and accounts, in continuing sales growth; the achievement of strategic account sales of $160 million in fiscal 2002; the effect of price increases on sales growth; the correlation of hardgoods sales with non-tech industrial production; the timing, scope and success of the Company's "Project One" initiatives designed to improve certain operational and administrative processes; the Company's expectation that capital spending will be in the range of $55 to $60 million in fiscal 2002; the expected closing of the purchase of the majority of Air Products' U.S. packaged gas business and the ability to finance the purchase entirely with senior bank debt; the Company's expectation that the closing of the pending acquisition from Air Products may result in a reduction of the Company's credit rating and increase the cost of borrowing by 25 basis points; the Company's belief that its sources of financing are

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adequate for its anticipated needs and that it could arrange additional sources of financing for unanticipated requirements; the effect on the Company of higher interest rates and/or changes in the Company's credit rating; and performance of counterparties under interest rate swap agreements. These forward-looking statements involve risks and uncertainties. Factors that could cause actual results to differ materially from those predicted in any forward-looking statement include, but are not limited to: underlying market conditions; growth and continued improvement in same-store sales; the success of marketing initiatives on sales of strategic products and accounts; the Company's inability to control operating expenses and the potential impact of higher operating expenses in future periods; the lack of correlation of hardgoods sales trends with non-tech industrial production; the inability of the Company's "Project One" initiatives to improve operational and administrative processes; higher than estimated expenses related to Project One; adverse changes in customer buying patterns; market acceptance of price increases; the inability of price increases and sales growth to offset any increases in product costs and operating expenses; the impact of higher than anticipated consulting expenses on future results; an economic downturn (including adverse changes in the specific markets for the Company's products); the inability to consummate the transaction with Air Products; the lack of availability of senior bank credit facilities to finance the transaction with Air Products; higher interest rates in future periods and/or downgrades of the Company's credit rating and the impact on interest expense; a higher or lower than expected level of capital spending in fiscal 2002; the inability to manage interest rate exposure; the effects of competition from independent distributors and vertically integrated gas producers on products, pricing and sales growth; changes in product prices from gas producers and name-brand manufacturers and suppliers of hardgoods; higher than estimated legal fees related to the Praxair, Inc. lawsuit; an unfavorable outcome of the Praxair, Inc. lawsuit; uncertainties regarding accidents or litigation which may arise in the ordinary course of business; the effects of, and changes in, the economy, monetary and fiscal policies, laws and regulations, inflation and monetary fluctuations and fluctuations in interest rates, both on a national and international basis; political and economic uncertainties associated with current world events; and other factors described in the Company's reports, including Form 10-K dated March 31, 2001 and Forms 10-Q dated June 30, 2001 and September 30, 2001 filed by the Company with the Securities and Exchange Commission. The Company does not undertake to update any forward-looking statement made herein or that may be made from time to time by or on behalf of the Company.



**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**Interest Rate Risk**

The Company manages its exposure to changes in market interest rates. The interest rate exposure arises primarily from the interest payment terms of the Company's borrowing agreements. Interest rate swap agreements are used to adjust the interest rate risk exposures that are inherent in its portfolio of funding sources. The Company has not, and will not establish any interest rate risk positions for purposes other than managing the risk associated with its portfolio of funding sources. The Company maintains the ratio of fixed to variable rate debt within parameters established by management under policies approved by the Board of Directors. After the effect of interest rate swap agreements, the ratio of fixed to variable rate debt was 61% to 39% at December 31, 2001. Counterparties to interest rate swap agreements are major financial institutions. The Company has established counterparty credit guidelines and only enters into transactions with financial institutions with long- term credit ratings of `A' or better. In addition, the Company monitors its position and the credit ratings of its counterparties, thereby minimizing the risk of non-performance by the counterparties.

The table below summarizes the Company's market risks associated with long-term debt obligations, interest rate swaps and LIBOR-based agreements as of December 31, 2001. For long-term debt obligations, the table presents cash flows related to payments of principal and interest by fiscal year of maturity. For interest rate swaps and LIBOR-based agreements, the table presents the notional amounts underlying the agreements by year of maturity. The notional amounts are used to calculate contractual payments to be exchanged and are not actually paid or received. Fair values were computed using market quotes, if available, or based on discounted cash flows using market interest rates as of the end of the period.

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| (In millions) | Fiscal Year of Maturity | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2002 (a) | 2003 | 2004 | 2005 | 2006 | 2007 | Thereafter | Total | Fair Value |
| Fixed Rate Debt: | | | | | | | | | |
| Medium-term notes | $ -- | $ -- | $ 75 | $ -- | $ -- | $100 | $ -- | $175 | $179 |
| Interest expense | $ 3 | $ 13 | $ 13 | $ 8 | $ 8 | $ 4 | $ -- | $ 49 | |
| Average interest rate | 7.49% | 7.49% | 7.49% | 7.75% | 7.75% | 7.75% | | | |
| Acquisition and other notes | $ 6 | $ 1 | $ 22 | $ 1 | $ 6 | $ 1 | $ -- | $ 37 | $ 38 |
| Interest expense | $ 1 | $ 2 | $ 2 | $ 1 | $ 1 | $ -- | $ -- | $ 7 | |
| Average interest rate | 7.56% | 7.55% | 7.58% | 7.75% | 7.96% | 8.50% | | | |
| Senior subordinated notes | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $225 | $225 | $237 |
| Interest expense | $ 5 | $ 21 | $ 21 | $ 21 | $ 21 | $ 21 | $ 92 | $202 | |
| Interest rate | 9.125% | 9.125% | 9.125% | 9.125% | 9.125% | 9.125% | 9.125% | | |
| Variable Rate Debt: | | | | | | | | | |
| Revolving credit facilities | $ -- | $ -- | $ -- | $ -- | $ -- | $136 | $ -- | $136 | $136 |
| Interest expense | $ 1 | $ 5 | $ 5 | $ 5 | $ 5 | $ 2 | $ -- | $ 23 | |
| Interest rate (b) | 3.46% | 3.46% | 3.46% | 3.46% | 3.46% | 3.46% | | | |
| Other notes | $ -- | $ -- | $ -- | $ 1 | $ -- | $ -- | $ -- | $ 1 | $ 1 |
| Average interest rate | | | | 5.75% | | | | | |



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| (In millions) | Fiscal Year of Maturity | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2002 (a) | 2003 | 2004 | 2005 | 2006 | 2007 | Thereafter | Total | Fair Value |
| Interest Rate Swaps: | | | | | | | | | |
| US $ denominated Swaps: | | | | | | | | | |
| 8 Swaps Receive Variable/Pay Fixed | | | | | | | | | |
| Notional amounts | $ 10 | $128 | $ -- | $ 40 | $ -- | $ -- | $ -- | $178 | $ 8 |
| Swap payments/(receipts) | $ 2 | $ 4 | $ 2 | $ 1 | $ -- | $ -- | $ -- | $ 9 | |
| Variable receive rate = 2.35% (3 month LIBOR) | | | | | | | | | |
| Weighted average pay rate = 6.71% | | | | | | | | | |
| 5 Swaps Receive Fixed/Pay Variable | | | | | | | | | |
| Notional amounts | $ -- | $ -- | $ 30 | $ -- | $ -- | $ 50 | $ 75 | $155 | $ (6) |
| Swap payments/(receipts) | $ (2) | $ (4) | $ (4) | $ (3) | $ (3) | $ (3) | $ (8) | $(27) | |
| Weighted average receive rate = 8.05% | | | | | | | | | |
| Variable pay rate = 5.29% (6 month LIBOR) | | | | | | | | | |
| Canadian $ denominated Swaps: | | | | | | | | | |
| 1 Swap Receive Variable/Pay Fixed | | | | | | | | | |
| Notional amounts | $ 1 | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ 1 | $ -- |
| Variable receive rate = 4.39% (3 month CAD BA (c)) | | | | | | | | | |
| Weighted average pay rate = 5.98% | | | | | | | | | |
| Other Off-Balance Sheet LIBOR-based agreements: | | | | | | | | | |
| Operating leases with trust (d) | $ -- | $ 1 | $ 1 | $ 41 | $ -- | $ -- | $ -- | $ 43 | $ 43 |
| Interest portion of lease expense | $ -- | $ 2 | $ 2 | $ 2 | $ -- | $ -- | $ -- | $ 6 | |
| Trade receivables securitization (e) | $ -- | $ -- | $139 | $ -- | $ -- | $ -- | $ -- | $139 | $139 |
| Discount on securitization | $ 1 | $ 4 | $ 3 | $ -- | $ -- | $ -- | $ -- | $ 8 | |

(a) Fiscal 2002 financial instrument maturities and interest expense relate to the period January 1, 2002 through March 31, 2002.

(b) The variable rate of U.S. revolving credit facilities is based on the London Interbank Offered Rate ("LIBOR") as of December 31, 2001. The variable rate of the Canadian dollar portion of the revolving credit facilities is the rate on Canadian Bankers' acceptances as of December 31, 2001.

(c) The variable receive rate for Canadian dollar denominated interest rate swaps is the rate on Canadian Bankers' acceptances ("CAD BA").

(d) The operating lease terminates October 8, 2004, but may be renewed subject to provisions of the lease agreement.

(e) The three-year agreement expires on December 19, 2003, but the initial term is subject to renewal provisions of the receivables purchase agreement.



Limitations of the tabular presentation

As the table incorporates only those interest rate risk exposures that exist as of December 31, 2001, it does not consider those exposures or positions that could arise after that date. In addition, actual cash flows of financial instruments in future periods may differ materially from prospective cash flows presented in the table due to future fluctuations in variable interest rates, debt levels and the Company's credit rating.

**Foreign Currency Rate Risk**

Canadian subsidiaries of the Company are funded in part with local currency debt. The Company does not otherwise hedge its exposure to translation gains and losses relating to foreign currency net asset exposures. The Company considers its exposure to foreign currency exchange fluctuations to be immaterial to its consolidated financial position and results of operations.



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## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

In July 1996, Praxair, Inc. ("Praxair") filed suit against the Company in the Circuit Court of Mobile County, Alabama. The complaint alleged tortious interference with business or contractual relations with respect to Praxair's Right of First Refusal contract with the majority shareholders of National Welders Supply Company, Inc. ("National Welders") in connection with the Company's formation of a joint venture with National Welders. In June 1998, Praxair filed a motion to dismiss its own action in Alabama and commenced another action in the Superior Court of Mecklenburg County, North Carolina, alleging substantially the same tortious interference by the Company. The North Carolina action also alleges breach of contract against National Welders and certain shareholders of National Welders and unfair trade practices and conspiracy against all the defendants. In the North Carolina action, Praxair seeks compensatory damages in excess of $10 thousand, punitive damages and other unspecified relief. The Company anticipates that additional discovery and pretrial motions will be completed by the end of May 2002, and that a trial on the merits will begin in July 2002. The Company believes that Praxair's North Carolina claims are without merit and intends to defend vigorously against such claims.

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 2. Changes in Securities and Use of Proceeds

During the nine months ended December 31, 2001, in connection with services rendered by an outside consulting firm, the Company granted warrants to the consulting firm to purchase 324,000 shares of the Company's common stock at exercise prices ranging from $11.98 to $18.78 per share. The warrants have a term of three years from the date of grant. No underwriter was involved in the foregoing grant of warrants. The grants were made by the Company in reliance upon an exemption from the registration provisions of the Securities Act of 1933 set forth in Section 4 (2) thereof as a transaction by an issuer not involving a public offering. The warrants were acquired for investment and not for distribution by an accredited investor which had access to information respecting the Company and its business.

### Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

The following exhibits are being filed as part of this Quarterly Report on Form 10-Q:

| Exhibit No. | Description |
|---|---|
| 4.1 | First Amendment, dated December 31, 2001, to the Tenth Amended and Restated Credit Agreement dated as of July 30, 2001 among Airgas, Inc., Airgas Canada, Inc., Red-D-Arc Limited, Bank of America, N. A. as U.S. Agent and Canadian Imperial Bank of Commerce as Canadian Agent. |
| 11 | Calculation of earnings per share |

b. Reports on Form 8-K

On October 25, 2001, the Company filed a Form 8-K pursuant to Item 5, reporting its earnings for its second quarter and six months ended September 30, 2001.



## SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant and Co-Registrants have duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

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*AIRGAS, INC.*
*(Registrant)*

*BY:/s/ Robert M. McLaughlin*
*Robert M. McLaughlin*
*Vice President & Controller*
*(Principal Accounting Officer)*

*AIRGAS EAST, INC.*
*AIRGAS GREAT LAKES, INC.*
*AIRGAS MID AMERICA, INC.*
*AIRGAS NORTH CENTRAL, INC.*
*AIRGAS SOUTH, INC.*
*AIRGAS GULF STATES, INC.*
*AIRGAS MID SOUTH, INC.*
*AIRGAS INTERMOUNTAIN, INC.*
*AIRGAS NORPAC, INC.*
*AIRGAS NORTHERN CALIFORNIA & NEVADA, INC.*
*AIRGAS SOUTHWEST, INC.*
*AIRGAS WEST, INC.*
*AIRGAS SAFETY, INC.*
*RUTLAND TOOL & SUPPLY CO., INC.*
*AIRGAS CARBONIC, INC.*
*AIRGAS SPECIALTY GASES, INC.*
*NITROUS OXIDE CORP.*
*PURITAN MEDICAL PRODUCTS, INC.*
*RED-D-ARC, INC.*
*AIRGAS REALTY, INC.*
*ATNL, INC.*
*AIRGAS DATA, LLC*

*(Co-Registrants)*

*BY:/s/ Robert M. McLaughlin*
*Robert M. McLaughlin*
*Vice President*
*(Principal Accounting Officer)*

DATED: February 13, 2002



**FIRST AMENDMENT TO CREDIT AGREEMENT**

THIS FIRST AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated as of December 31, 2001, is entered into by and among AIRGAS, INC., a Delaware corporation ("Airgas" and also a "Borrower"), AIRGAS CANADA INC., a Canada corporation, and RED-D- ARC LIMITED, an Ontario corporation, (each a "Canadian Borrower" and together with Airgas, the "Borrowers"), the Guarantors signatory hereto, the Lenders signatory hereto, BANK OF AMERICA, N. A., as administrative agent for the Lenders (in such capacity, the "U.S. Agent"), CANADIAN IMPERIAL BANK OF COMMERCE, as Canadian administrative agent for the Lenders (in such capacity, the "Canadian Agent"), FLEET NATIONAL BANK, as Syndication Agent, and THE BANK OF NEW YORK, as Documentation Agent.

**RECITALS**

A. The Borrowers, the Guarantors, the Lenders and the Agents are party to that certain Tenth Amended and Restated Credit Agreement dated as of July 30, 2001 (the "Existing Credit Agreement").

B. The Credit Parties have requested that the Required Lenders amend the Existing Credit Agreement as provided herein.

C. The Required Lenders have agreed to amend the Existing Credit Agreement on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the agreements herein contained, the parties hereto hereby agree as follows:

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## PART I
## DEFINITIONS

SUBPART 1.1 Certain Definitions. Unless otherwise defined herein or the context otherwise requires, the following terms used in this Amendment, including its preamble and recitals, have the following meanings:

"Amended Credit Agreement" means the Existing Credit Agreement as amended hereby.

"Amendment No. 1 Effective Date" is defined in Subpart 3.1.

SUBPART 1.2 Other Definitions. Unless otherwise defined herein or the context otherwise requires, terms used in this Amendment, including its preamble and recitals, have the meanings provided in the Existing Credit Agreement.



## PART II
## AMENDMENTS TO EXISTING CREDIT AGREEMENT

Effective on (and subject to the occurrence of) the Amendment No. 1 Effective Date, the Existing Credit Agreement is hereby amended in accordance with this Part II.

SUBPART 2.1 Amendments to Section 1.1. Section 1.1 of the Existing Credit Agreement is hereby amended in the following respects:

(a) The following definitions appearing in Section 1.1 of the Existing Credit Agreement are amended and restated in their entireties to read as follows:

"Applicable Percentage" means, for purposes of calculating the applicable interest rate for any day for any U.S. Base Rate Loan, any Eurodollar Loan or any Canadian Base Rate Loan, the applicable rate of the Acceptance Fee for any day for purposes of Section 3.4(a), the applicable rate of the Unused Revolving U.S. Commitment Fee for any day for purposes of Section 4.5(a)(i), the applicable rate of the Unused Revolving Canadian Commitment Fee for any day for purposes of Section 4.5(a)(ii), the applicable rate of the Standby U.S. Letter of Credit Fee for any day for purposes of Section 4.5(b)(i), the applicable rate of the Trade U.S. Letter of Credit Fee for any day for purposes of Section 4.5(b)(ii), the applicable rate of the Standby Canadian Letter of Credit Fee for any day for purposes of Section 4.5(c)(i), the applicable rate of the Trade Canadian Letter of Credit Fee for any day for the purposes of Section 4.5(c)(ii), the appropriate applicable percentage, corresponding to the higher of the long term credit ratings of Airgas by S&P and Moody's in effect as of such date:

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| | | Applicable Percentages | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | For Revolving U.S. Loans and U.S. Term Loans | | | | | | | | | |
| Pricing Level | Long term credit rating | Euro-dollar Loans | Base rate Loans | For Canadian Base Rate Loans | For Banker's Acceptances | For Standby U.S. Letter of Credit Fee | For Trade U.S. Letter of Credit Fee | For Standby Canadian Letter of Credit Fee | For Trade Canadian Letter of Credit Fee | For Unused Revolving U.S. Commitment Fee | For Unused Revolving Canadian Commitment Fee |
| I | BBB+/ Baa1 or higher | 1.00% | 0.00% | 0.00% | 1.00% | 1.00% | 0.50% | 1.00% | 0.500% | 0.200% | 0.200% |
| II | BBB/ Baa2 | 1.50% | 0.50% | 0.50% | 1.50% | 1.50% | 0.75% | 1.50% | 0.750% | 0.275% | 0.275% |
| III | BBB-/ Baa3 | 1.75% | 0.75% | 0.75% | 1.75% | 1.75% | 0.875% | 1.75% | 0.875% | 0.350% | 0.350% |
| IV | BB+/ Ba1 | 2.00% | 1.00% | 1.00% | 2.00% | 2.00% | 1.000% | 2.00% | 1.000% | 0.400% | 0.400% |
| V | BB/ Ba2 | 2.50% | 1.50% | 1.50% | 2.50% | 2.50% | 1.250% | 2.50% | 1.250% | 0.500% | 0.500% |
| VI | BB-/ Ba3 or lower | 3.00% | 2.00% | 2.00% | 3.00% | 3.00% | 1.500% | 3.00% | 1.500% | 0.500% | 0.500% |



In the event that the long term credit ratings of Airgas by S&P and Moody's for any day differ by more than one Pricing Level, the Applicable Percentage for such day shall be the appropriate applicable percentage corresponding to the Pricing Level which is one Pricing Level higher than the Pricing Level corresponding to the lower of the long term credit ratings of Airgas by S&P and Moody's in effect as of such date. At all times on or after the Willow Acquisition Date and notwithstanding any other provision of this Credit Agreement to the contrary, at any time that as of the last day of most recently ended fiscal quarter for which the U.S. Agent shall have received the Required Financial Information, the Consolidated Total Leverage Ratio is greater than 4.0 to 1.0, the Pricing Level shall not be more favorable to the Borrowers than Pricing Level IV; provided, however, that during the period from the Willow Acquisition Date until the next succeeding date thereafter that the U.S. Agent shall have received the Required Financial Information, the Consolidated Total Leverage Ratio for purposes of this definition shall be the ratio determined on a pro forma basis as contemplated by clause (iii) of the definition of "Willow Acquisition Conditions" set forth in this Section 1.1.

"Consolidated EBITDA" means, for any period, the sum of
(i) Consolidated Net Income for such period, plus (ii) an amount which, in the determination of Consolidated Net Income for such period, has been deducted for (A) Consolidated Interest Expense, (B) total federal, state, local and foreign income, value added and similar taxes,
(C) depreciation and amortization expense, (D) one-time cash expenses incurred in connection with the refinancing of the Existing Credit Agreement and the consummation on the Closing Date of the Debt Issuance pursuant to the Subordinated Note Indenture, (E) non-cash, non-recurring charges, (F) any losses realized upon the disposition of Property other than the disposition of Inventory in the course of business, (G) other non-cash expenses (excluding any non-cash expense to the extent that it represents an accrual of or reserve for cash expenses in any future period) and (H) one-time charges resulting from the permanent closure of facilities, the termination of employees and other costs directly associated with the Willow Acquisition and the financing thereof to the extent such charges were incurred not later than twelve months following the Willow Acquisition Date and not exceeding $10,000,000 in the aggregate, minus (iii) an amount which, in the determination of Consolidated Net Income for such period, has been included for (A) non-cash gains during such period and (B) any gains realized upon the disposition of Property other than the disposition of Inventory in the course of business, all as determined in accordance with GAAP. Notwithstanding the forgoing, the portion of Consolidated EBITDA attributable to the assets and business acquired in the Willow Acquisition shall be (1) for each of the fiscal quarters ended December 31, 2000, March 31, 2001, June 30, 2001 and September 30, 2001, the amount set forth on Schedule 1.1I that corresponds to such fiscal quarter and
(2) for any period(s) occurring between October 1, 2001 and the Willow Acquisition Date, an amount to be agreed upon by Airgas and the U.S. Agent which shall be supported by the direct profit of Willow and such financial information as the U.S. Agent shall reasonably request with respect to Willow for any such period.

"Excluded Asset Disposition" means, with respect to any Consolidated Party, any Asset Disposition consisting of

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(i) the sale, lease, license, transfer or other disposition of inventory in the ordinary course of such Consolidated



Party's business, (ii) the sale, lease, license, transfer or other disposition of obsolete machinery and equipment or machinery and equipment no longer used or useful in the conduct of such Consolidated Party's business, (iii) any sale, lease, license, transfer or other disposition of Property by such Consolidated Party to any U.S. Credit Party, provided that the Credit Parties shall cause to be executed and delivered such documents, instruments and certificates as the U.S. Agent may reasonably request so as to cause the Credit Parties to be in compliance with the terms of Section 7.13 after giving effect to such transaction, (iv) any sale, lease, license, transfer or other disposition of Property by a Canadian Subsidiary to any Canadian Credit Party, provided that the Credit Parties shall cause to be executed and delivered such documents, instruments and certificates as the U.S. Agent may request so as to cause the Credit Parties to be in compliance with the terms of Section 7.13 after giving effect to such transaction, (v) any portion of an Asset Disposition by such Consolidated Party constituting a Permitted Investment,
(vi) if such Consolidated Party is not a Credit Party, any sale, lease, license, transfer or other disposition of Property by such Consolidated Party to any Consolidated Party that is not a Credit Party, (viii) the sale or disposition of Cash Equivalents for fair market value, (ix) the disposition of cash in connection with a transaction permitted under the Credit Agreement, (x) any sale of Securitization Assets by such Consolidated Party to the Receivables Subsidiary in connection with the Permitted Receivables Financing, (xi) any Permitted Lien, (xii) the sale of the assets identified on Schedule 1.1B, and (xiii) any sale, transfer or other disposition of the Dogwood Assets for not less than the fair market value thereof that is consummated within 120 days following the Willow Acquisition; provided, however, that the term "Excluded Asset Disposition" shall not include (A) any Asset Disposition to the extent that any portion of the proceeds of such Asset Disposition would be required under any Junior Financing Documentation to be applied to permanently retire Indebtedness of the Consolidated Parties and (B) any transfer of assets to any Person identified on Schedule 1.1B by a Consolidated Party not identified on Schedule 1.1B to the extent such transfer of assets was made in contemplation of an Asset Disposition permitted by clause (xii) above.

"Lenders" means each Canadian Lender and each U.S. Lender, together with their successors and permitted assigns; provided, however, for purposes of Section 11.3(b), the term "Lender" shall not include any U.S. Term Lender, in its capacity as such.

"Loan" or "Loans" means the Revolving U.S. Loans and the U.S. Term Loans (or a portion of any Revolving U.S. Loan or U.S. Term Loan bearing interest at the U.S. Base Rate or the Eurodollar Rate and referred to as a U.S. Base Rate Loan or a Eurodollar Loan), the Competitive U.S. Loans (or any portion of any Competitive U.S. Loan), the Revolving Canadian Loans (or any portion of any Revolving Canadian Loan), the BA Outstandings, the U.S. Swingline Loans (or any U.S. Swingline Loan bearing interest at the U.S. Base Rate or the Quoted Rate and referred to as a U.S. Base Rate Loan or a Quoted Rate U.S. Swingline Loan) and/or the Canadian Swingline Loans, individually or collectively, as appropriate.

"Notice of Borrowing" means (a) in the case of Revolving U.S. Loans or the U.S. Term Loan, a written notice of borrowing in substantially the form of Schedule
2.1(b)(i), as required by Section 2.1(b)(i) or Section
2.5(b), as applicable, or (b) in the case of Revolving



Canadian Loans, a written notice of borrowing in substantially the form of Schedule 3.1(b)(i).

"Revolving U.S. Commitment" means, with respect to each U.S. Lender:

(a) the commitment of such U.S. Lender in an aggregate principal amount at any time outstanding of up to such U.S. Lender's U.S. Commitment Percentage of the Revolving U.S. Committed Amount, (i) to make Revolving U.S. Loans in accordance with the provisions of Section 2.1(a), (ii) to purchase Participation Interests in U.S. Letters of Credit in accordance with the provisions of Section 2.3(c), (iii) to purchase Participation Interests in the U.S. Swingline Loans in accordance with the provisions of Section 2.4(b)(iii); and

(b) for all purposes except for the purposes of Sections 2.1(a), 4.4(a), 4.5(a) and 11.3(b), the outstanding U.S. Term Loans of such U.S. Lender.

"U.S. Lenders" means (i) those Lenders identified as U.S Lenders on the signature pages attached hereto, (ii) each U.S. Term Lender and (iii) any Person which becomes a U.S. Lender by executing a New Commitment Agreement pursuant to Section 4.4(d), together with their successors and assigns; provided, however, for purposes of Section 11.3(b), the term "U.S. Lender" shall not include any U.S. Term Lender, in its capacity as such.

(b) The following new definitions are added to

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Section 1.1 of the Existing Credit Agreement in appropriate alphabetical order:

"Approved Fund" means any Person (other than a natural Person) that is engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

"Dogwood Assets" means the operations of Willow located in North Carolina, South Carolina and southern Virginia. The Dogwood Assets consist of ten locations that include retail stores, gas fill plants and a specialty gas laboratory.

"Principal Amortization Payment" means a principal payment on the U.S. Term Loans as set forth in Section 2.5(d).

"U.S. Term Lender" means each Person which executes a U.S. Term Loan Commitment Agreement, together with its successors and assigns.

"U.S. Term Loan" shall have the meaning assigned to such term in Section 2.5(a).

"U.S. Term Loan Commitment" means, with respect to each U.S. Term Lender, the commitment of such U.S. Term Lender to make U.S. Term Loans in accordance with Section 2.5(a) in an



aggregate principal amount equal to the amount specified in the U.S. Term Loan Commitment Agreement executed by such U.S. Term Lender.

"U.S. Term Loan Commitment Agreement" means an agreement in the form of Schedule 2.5 hereto.

"U.S. Term Loan Committed Amount" means the aggregate principal amount of commitments (not to exceed $100,000,000) received and consented to by the U.S. Agent from one or more lenders acceptable to the U.S. Agent and Airgas, pursuant to executed U.S. Term Loan Commitment Agreements.

"U.S. Term Loan Percentage" means, for any U.S. Term Lender, the percentage obtained by dividing (i) the principal amount of the U.S. Term Loan Commitment of such U.S. Term Lender by (ii) the U.S. Term Loan Committed Amount, as such percentage may be modified in connection with any assignment made in accordance with the provisions of Section 2.5(g).

"Willow" means Air Products and Chemicals, Inc.'s business in the United States with respect to (a) the sale of pressurized gases in pressurized cylinders and (b) the provision (as a reseller/distributor/lessor) of equipment (including, without limitation, welding equipment) and materials necessary for or related to the use of packaged gases.

"Willow Acquisition" means the Acquisition by Airgas of Willow in accordance with the Willow Acquisition Conditions.

"Willow Acquisition Conditions" means:

(i) The U.S. Agent shall have received an executed copy of the Willow Purchase Agreement which (a) shall provide (1) for an aggregate purchase price (excluding fees and expenses associated with the Willow Acquisition and the financing thereof) not in excess of $270 million less the amount of accounts receivable administered on the SPOC system as of the Willow Acquisition Date and less the value of the Dogwood Assets to the extent they are not acquired and (2) that as of the Willow Acquisition Date, except as set forth in the Willow Purchase Agreement, since September 30, 2001 there shall not have occurred any event, change or effect that is or would reasonably be expected to be materially adverse to the condition (financial or otherwise), properties, liabilities or results from operations of Willow (excluding any event, change or effect that arises or results from (A) the impact of a decline in the market price of the products of Willow, (B) the impact of an increase in the price of raw materials consistent with the market generally, or (C) the impact of changes in general economic and/or financial market conditions) and (b) shall otherwise be satisfactory to the U.S. Agent. The Willow Purchase Agreement shall not have been altered, amended or otherwise changed or supplemented or any condition therein waived in a manner that is adverse to the Lenders without the prior written consent of the U.S. Agent.



(ii) The Willow Acquisition shall have been consummated on or before March 31, 2002 in accordance with the terms of the Willow Purchase Agreement and in compliance with applicable law and regulatory approvals.

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(iii) Upon giving pro forma effect to the Willow Acquisition, the Credit Parties shall be in compliance with the financial covenants set forth in
Section 7.10 on the basis of financial information for Airgas and Willow for the 12-month period ended September 30, 2001. Such pro forma calculations shall be supported by certain audited and reviewed financial information of Willow at September 30, 2001 (which information shall be consistent in all material respects with the information provided by Airgas to the Agent and the Lenders in the Confidential Offering Memorandum dated November 2001) and such other financial information as the U.S. Agent shall reasonably request with respect to Willow for the period after September 30, 2001 through the Willow Acquisition Date.

(iv) To the extent applicable, the U.S. Agent shall have received all items in respect of the Property acquired in such Acquisition required to be delivered by the terms of Section 7.12 and/or
Section 7.13.

(v) The representations and warranties made by the Credit Parties in any Credit Document shall be true and correct in all material respects at and as if made as of the date of such Acquisition (after giving effect thereto) except to the extent such representations and warranties expressly relate to an earlier date.

(vi) If the Willow Acquisition is consummated after February 28, 2002, then the U.S. Agent shall have received reviewed financial information of Willow for the fiscal quarter at December 31, 2001 (which information shall be consistent in all material respects with the information provided by Airgas to the Agent and the Lenders in the Confidential Offering Memorandum dated November 2001).

(vii) The U.S. Agent shall have received from Airgas (a) for the account of each U.S. Term Lender, an upfront fee on such Lender's U.S. Term Loan Commitment in an amount mutually acceptable to the U.S. Agent and Airgas (net of amounts previously paid in respect of such upfront fees pursuant to that certain fee letter dated December 6, 2001 among Airgas, Bank of America and Banc of America Securities LLC ("BAS")) and (b) for the account of BAS, the costs, fees and expenses required to be paid by Airgas to BAS pursuant to that certain amended and restated engagement letter dated December 6, 2001, as amended, among Airgas, Bank of America and BAS.

"Willow Acquisition Date" means the date on which the Willow Acquisition is consummated.



"Willow Purchase Agreement" means the purchase agreement to be entered into by Airgas and Air Products and Chemicals, Inc. in respect of the Willow Acquisition, together with all schedules and exhibits thereto.

SUBPART 2.2 Amendments to Section 2.5. A new Section 2.5 is hereby added to the Existing Credit Agreement and shall read as follows:

2.5 U.S. Term Loan.

(a) U.S. Term Commitment. Subject to the terms and conditions hereof and in reliance upon the representations and warranties set forth herein each U.S. Term Lender severally agrees to make available to Airgas on the Willow Acquisition Date such U.S. Term Lender's U.S. Term Loan Percentage of a term loan in U.S. Dollars (the "U.S. Term Loan") in the aggregate principal amount equal to the U.S. Term Loan Committed Amount. The U.S. Term Loan may consist of U.S. Base Rate Loans or Eurodollar Loans, or a combination thereof, as Airgas may request; provided, however, that no more than five (5) Eurodollar Loans which are U.S. Term Loans shall be outstanding hereunder at any time (it being understood that, for purposes hereof, Eurodollar Loans with different Interest Periods shall be considered as separate Eurodollar Loans, even if they begin on the same date, although borrowings, extensions and conversions may, in accordance with the provisions hereof, be combined at the end of existing Interest Periods to constitute a new Eurodollar Loan with a single Interest Period). Amounts repaid on the U.S. Term Loan may not be reborrowed.

(b) Borrowing Procedures. Airgas shall submit an appropriate Notice of Borrowing to the U.S. Agent not later than 11:00 A.M. (Charlotte, North Carolina time) on the Willow Acquisition Date, with respect to the portion of the U.S. Term Loan initially consisting of a U.S. Base Rate Loan, or on the third Business Day prior to the Willow Acquisition Date, with respect to the portion of the U.S. Term Loan initially consisting of one or more Eurodollar Loans. Such Notice of Borrowing shall be irrevocable and shall specify (i) that the funding of a U.S. Term Loan is requested and (ii) whether the funding of the U.S. Term Loan shall be comprised of U.S. Base Rate Loans, Eurodollar Loans or a combination thereof, and if Eurodollar Loans are requested, the Interest Period(s) therefor. If Airgas shall fail to deliver such Notice of Borrowing to the U.S. Agent by 11:00 A.M. (Charlotte, North Carolina time) on the third Business Day prior to the Willow Acquisition Date, then the full amount of the U.S. Term Loan shall be disbursed on the Willow Acquisition Date as a U.S. Base Rate Loan. Each U.S. Term Lender shall make its U.S. Term Loan Percentage of the U.S. Term Loan available to the U.S. Agent for the account of Airgas as specified in Section 4.14, or in such other manner as the U.S. Agent may specify in writing, by 1:00 P.M. (Charlotte, North Carolina time) on the Willow Acquisition Date in U.S. Dollars and in funds

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immediately available to the U.S. Agent.

(c) Minimum Amounts. Each Eurodollar Loan or U.S. Base Rate Loan that is part of the U.S. Term Loan shall be



in an aggregate principal amount that is not less than U.S.$5,000,000 and integral multiples of U.S.$1,000,000 (or the then remaining principal balance of the U.S. Term Loan, if less).

(d) Repayment of U.S. Term Loan. Airgas promises to pay the outstanding principal amount of the U.S. Term Loan in eighteen (18) consecutive quarterly installments as follows (as such installments may hereafter be adjusted as a result of prepayments made pursuant to Section 4.3), unless accelerated sooner pursuant to Section 9.2:

| Principal Amortization Payment Dates | U.S. Term Loan Principal Amortization Payment due on the corresponding Principal Amortization Payment Date |
|---|---|
| June 30, 2002 and September 30, 2002 | 2.50% |
| December 31, 2002, March 31, 2003, June 30, 2003 and September 30, 2003 | 3.75% |
| December 31, 2003, March 31, 2004, June 30, 2004 and September 30, 2004 | 5.00% |
| December 31, 2004, March 31, 2005, June 30, 2005 and September 30, 2005 | 6.25% |
| December 31, 2005, March 31, 2006, June 30, 2006 and the Termination Date | 8.75% |

(e) Interest. Subject to the provisions of Section 4.1,

(i) U.S. Base Rate Loans. During such periods as the U.S. Term Loan shall be comprised in whole or in part of U.S. Base Rate Loans, such U.S. Base Rate Loans shall bear interest at a per annum rate equal to the U.S. Base Rate plus the Applicable Percentage; and

(ii) Eurodollar Loans. During such periods as the U.S. Term Loan shall be comprised in whole or in part



of Eurodollar Loans, such Eurodollar Loans shall bear interest at a per annum rate equal to the Eurodollar Rate plus the Applicable Percentage.

Airgas promises to pay interest on the U.S. Term Loan in arrears on each applicable Interest Payment Date (or at such other times as

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may be specified herein).

(f) U.S. Term Notes. At the request of any U.S. Term Lender, the portion of the U.S. Term Loan made by such U.S. Term Lender shall be evidenced by a duly executed promissory note of Airgas to such Lender in an original principal amount equal to such Lender's U.S. Term Loan Percentage of the U.S. Term Loan.

(g) Assignments of U.S. Term Loans. Each U.S. Term Lender may assign all or a portion of its rights and obligations hereunder with respect to its U.S. Term Loans, pursuant to an assignment agreement substantially in the form of Schedule 11.3(b), to (i) any Lender, any Subsidiary of a Lender or any Affiliate of a Lender under direct or indirect common control with such Lender, (ii) any Approved Fund or (iii) any other commercial bank, financial institution or "accredited investor" (as defined in Regulation D of the Securities and Exchange Commission) reasonably acceptable to the U.S. Agent and Airgas (so long as no Default or Event of Default exists) (provided that it shall not be unreasonable for Airgas to withhold its approval for any assignment to any competitor of Airgas (which term "competitor" shall not include a Person solely by reason of the fact that such Person is making loans to, accepting deposits from or otherwise generally engaging in banking business with any competitor of Airgas); provided that, except in the case of any assignment to an existing Lender, such assignment shall be in an integral multiple of U.S.$1,000,000 (or, if less, the remaining amount of the U.S. Term Loans being assigned by such U.S. Term Lender). Any assignment pursuant to this Section 2.5(g) shall be effective upon delivery to the U.S. Agent of written notice of the assignment together with a transfer fee of U.S.$3,500 payable to the U.S. Agent for its own account from and after the effective date specified in the applicable assignment agreement. In addition, the assigning U.S. Term Lender will give prompt notice to Airgas of any such assignment. Upon the effectiveness of any such assignment (and after notice to, and (to the extent required pursuant to the terms hereof), with the consent of, Airgas as provided herein), the assignee shall become a "U.S. Term Lender" for all purposes of this Credit Agreement and the other Credit Documents and, to the extent of such assignment, the assigning U.S. Term Lender shall be relieved of its obligations hereunder to the extent of the U.S. Term Loans being assigned. By executing and delivering an assignment agreement in accordance with this Section 2.5(g), the assigning U.S. Term Lender thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning U.S. Term Lender warrants that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim; (ii) except as set forth in clause (i) above, such assigning U.S. Term Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Credit Agreement, any of the other Credit Documents or any other instrument or document furnished pursuant hereto or thereto, or the execution, legality, validity, enforceability,



genuineness, sufficiency or value of this Credit Agreement, any of the other Credit Documents or any other instrument or document furnished pursuant hereto or thereto or the financial condition of any Credit Party or any of its respective Affiliates or the performance or observance by any Credit Party of any of its obligations under this Credit Agreement, any of the other Credit Documents or any other instrument or document furnished pursuant hereto or thereto;
(iii) such assignee represents and warrants that it is legally authorized to enter into such assignment agreement;
(iv) such assignee confirms that it has received a copy of this Credit Agreement, the other Credit Documents and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such assignment agreement; (v) such assignee will independently and without reliance upon the Agents, such assigning U.S. Term Lender or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Credit Agreement and the other Credit Documents; (vi) such assignee appoints and authorizes the Agents to take such action on its behalf and to exercise such powers under this Credit Agreement or any other Credit Document as are delegated to the Agents by the terms hereof or thereof, together with such powers as are reasonably incidental thereto; (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Credit Agreement and the other Credit Documents are required to be performed by it as a U.S. Term Lender; and (viii) such assignee agrees that it will be bound by the terms of the Intercreditor Agreement, regardless of whether such assignee becomes a signatory thereto. Each Person that shall become a U.S. Term Lender pursuant to Section 2.5(g) shall, upon the effectiveness of the related transfer, be required to provide all of the forms, certifications and statements required pursuant to Section 4.10(b).

(h) Pro Rata Treatment. Each U.S. Term Loan, each payment or prepayment of principal in respect of any U.S. Term Loan, each payment of interest on the U.S. Term Loans and each conversion or extension of any U.S. Term Loan, shall be allocated pro rata among the U.S. Term Lenders in accordance with the respective principal amounts of their outstanding U.S. Term Loans and Participation Interests in U.S. Term Loans.

SUBPART 2.3 Amendments to Section 4.2. Section 4.2 of the Existing Credit Agreement is hereby amended in its entirety to read as follows:

4.2 Extension and Conversion.

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(a) Airgas. Airgas shall have the option, on any Business Day, to extend existing Revolving U.S Loans or U.S. Term Loans into a subsequent permissible Interest Period or to convert any such Loans into Loans of another interest rate type; provided, however, that (i) except as provided in
Section 4.8, Eurodollar Loans may be converted into U.S. Base Rate Loans only on the last day of the Interest Period applicable thereto, (ii) Loans extended as, or converted into, Eurodollar Loans shall be subject to the terms of the definition of "Interest Period" set forth in Section 1.1 and shall be in such minimum amounts as provided in Sections
2.1(b)(ii) and 3.1(b)(ii), (iii) no more than 11 Eurodollar



Loans shall be outstanding hereunder at any time (it being understood that, for purposes hereof, Eurodollar Loans with different Interest Periods shall be considered as separate Eurodollar Loans, even if they begin on the same date, although borrowings, extensions and conversions may, in accordance with the provisions hereof, be combined at the end of existing Interest Periods to constitute a new Eurodollar Loan with a single Interest Period), (iv) any request for extension or conversion of a Eurodollar Loan which shall fail to specify an Interest Period shall be deemed to be a request for an Interest Period of one month and (v) Competitive U.S. Loans and U.S. Swingline Loans may not be extended or converted pursuant to this Section 4.2. Each such extension or conversion shall be effected by Airgas by giving a Notice of Extension/Conversion (or telephone notice promptly confirmed in writing) to the U.S. Agent prior to 11:00 A.M. (Charlotte, North Carolina time) on the Business Day of, in the case of the conversion of a Eurodollar Loan into a U.S. Base Rate Loan, and on the third Business Day prior to, in the case of the extension of a Eurodollar Loan as, or conversion of a U.S. Base Rate Loan into, a Eurodollar Loan, the date of the proposed extension or conversion, specifying the date of the proposed extension or conversion, the Loans to be so extended or converted, the types of Loans into which such Loans are to be converted and, if appropriate, the applicable Interest Periods with respect thereto. In the event Airgas fails to request extension or conversion of any Eurodollar Loan in accordance with this Section, or any such conversion or extension is not permitted or required by this Section, then such Eurodollar Loan shall be automatically converted into a U.S. Base Rate Loan at the end of the Interest Period applicable thereto. The U.S. Agent shall give each U.S. Lender notice as promptly as practicable of any such proposed extension or conversion affecting any Loan.

SUBPART 2.4 Amendments to Section 4.3. Section 4.3(a) and Section 4.3(b)(v) of the Existing Credit Agreement are hereby amended in their entireties to read as follows:

4.3 Prepayments.

(a) Voluntary Prepayments. Loans may be prepaid in whole or in part from time to time, subject to Section 4.11, but otherwise without premium or penalty; provided, however, that (i) Eurodollar Loans and Competitive U.S. Loans may only be prepaid on three Business Days' prior written notice to the U.S. Agent, and specifying the applicable Loans to be prepaid; (ii) any prepayment of Eurodollar Loans, Competitive U.S. Loans or Quoted Rate U.S. Swingline Loans will be subject to Section 4.11; (iii) any portion of the Revolving Canadian Committed Amount represented by a Bankers' Acceptance may not be prepaid prior to the maturity of such Bankers' Acceptance; (iv) each such partial prepayment of Loans shall be (A) in the case of Revolving U.S. Loans and the U.S. Term Loan, in a minimum principal amount of U.S.$5,000,000 and integral multiples of U.S.$1,000,000 in excess thereof, (B) in the case of Revolving Canadian Loans, in a minimum principal amount of C$1,500,000 and integral multiples of C$100,000 in excess thereof and (C) in the case of U.S. Swingline Loans, in a minimum principal amount of U.S.$100,000 and integral multiples thereof; and (v) any prepayment of the U.S. Term Loan shall be applied ratably to the remaining Principal Amortization Payments thereof. Subject to the foregoing terms, amounts prepaid under this Section 4.3(a) shall be applied as the applicable Borrower may elect.



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(b) Mandatory Prepayments.

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(v) Application of Certain Mandatory Prepayments.

(A) Asset Dispositions and Debt Issuances by the U.S. Credit Parties. All amounts required to be paid by the U.S. Credit Parties pursuant to
Section 4.3(b)(iii) or (iv) shall be applied first pro rata to (1) the U.S. Term Loan (ratably to the remaining Principal Amortization Payments thereof), and (2) (a) the U.S. Swingline Loans,
(b) the Revolving U.S. Loans and (c) the Competitive U.S. Loans (and, after all Revolving U.S. Loans, Competitive U.S. Loans and U.S. Swingline Loans have been repaid, to the U.S. Agent additional cash in respect of U.S. LOC Obligations, to be held by the U.S. Agent, for the benefit of the Lenders, in a cash collateral account) and second to the Canadian Obligations of the types described in and in the manner provided in subclause (B) below. To the extent the aggregate U.S. Dollar Amount of all prepayments required to be

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made pursuant to Sections
4.3(b)(iii) and 4.3(b)(iv) exceeds U.S.$75,000,000, the Revolving U.S. Committed Amount shall be permanently reduced in an amount equal to the U.S. Dollar Amount of all additional amounts applied pursuant to this clause (A) and clause (B) below). Without limiting the foregoing sentence, to the extent that any obligation to make a mandatory prepayment of the loans arises from an Asset Disposition Prepayment Event of the type described in clause (ii) of the definition thereof, the Revolving U.S. Committed Amount shall be permanently reduced in an amount equal to the U.S. Dollar Amount of such prepayment.

(B) Asset Dispositions and Debt Issuances by the Canadian Credit Parties. All amounts required to be paid by the Canadian Credit Parties pursuant to Section 4.3(b)(iii) or (iv) shall be applied first to the Canadian Swingline Loans, second to the Revolving Canadian Loans, third to the BA Outstandings in direct order of maturities (and, after all Revolving Canadian Loans, Canadian Swingline Loans and BA Outstandings have been repaid, to the Canadian Agent additional cash in respect of Canadian LOC Obligations, to be held by the Canadian Agent, for the benefit of the Lenders, in a cash collateral account) and fourth to the remaining Credit Party Obligations of the types described in and in the manner provided in subclause (A) above. To the extent the aggregate U.S. Dollar Amount of all prepayments required to be made pursuant to Sections 4.3(b)(iii) and
4.3(b)(iv) exceeds U.S.$75,000,000, the Revolving Canadian Committed Amount shall be permanently reduced in an amount equal to the Canadian Dollar Equivalent of all additional amounts applied pursuant to this clause (B) and clause (A) above).



Without limiting the foregoing sentence, to the extent that any obligation to make a mandatory prepayment of the loans arises from an Asset Disposition Prepayment Event of the type described in clause (ii) of the definition thereof, the Revolving Canadian Committed Amount shall be permanently reduced in an amount equal to the Canadian Dollar Equivalent of such prepayment.

Within the parameters of the applications set forth above, prepayments of Revolving U.S. Loans and the U.S. Term Loan shall be applied first to U.S. Base Rate Loans and then to Eurodollar Loans in direct order of Interest Period maturities. All prepayments under this
Section 4.3(b) shall be subject to Section 4.11 and be accompanied by interest on the principal amount prepaid through the date of prepayment.

SUBPART 2.5 Amendments to Section 4.4. The introductory clause of Section 4.4(d) of the Existing Credit Agreement is hereby amended in its entirety to read as follows and a new
Section 4.4(e) is hereby added to the Existing Credit Agreement and shall read as follows:
:

4.4 Termination and Reduction of Commitments; Increase of Commitments.

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(d) Increase in Commitments. Following the Willow Acquisition Date, the Borrowers shall have the right, upon at least fifteen (15) Business Days' prior written notice to the U.S. Agent, to increase the Revolving U.S. Committed Amount and/or the Revolving Canadian Committed Amount, in the aggregate, by the U.S. Dollar Amount (or the Canadian Dollar Equivalent) of up to the difference of (i) U.S.$100,000,000 minus (ii) the U.S. Term Loan Committed Amount, in one or more increases, at any time and from time to time on or after the Closing Date, subject, however, in any such case, to satisfaction of the following conditions precedent:

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(e) Termination of U.S. Term Loan Commitments. On the date, if any, that the Willow Purchase Agreement is terminated in accordance with Section 15 thereof, the U.S. Term Loan Commitments shall automatically terminate.

SUBPART 2.6 Amendments to Section 4.14(b).
Section 4.14(b) of the Existing Credit Agreement is hereby amended in its entirety to read as follows:

4.14 Payments, Computations, Etc.

(b) Allocation of Payments from U.S. Credit Parties After-Acceleration. Notwithstanding any other provision of this Credit Agreement to the contrary, after acceleration of the



Credit Party Obligations pursuant to Section 9.2 and after taking into account the application of the amounts collected or received from the Canadian Credit Parties as provided in Section 4.14(c), all amounts collected or received by the Agents or any Lender from the

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U.S. Credit Parties on account of the Credit Party Obligations or any other amounts outstanding under any of the Credit Documents or in respect of the Collateral pledged by the U.S. Credit Parties in support of the Credit Party Obligations shall be paid over or delivered as follows:

FIRST, to the payment of all reasonable out-of-pocket costs and expenses (including without limitation reasonable attorneys' fees) of the U.S. Agent in connection with enforcing the rights of the Lenders under the Credit Documents and any protective advances made by the U.S. Agent with respect to the Collateral under or pursuant to the terms of the Collateral Documents;

SECOND, to the payment of any fees owed to the U.S. Agent;

THIRD, to the payment of all reasonable out-of-pocket costs and expenses (including without limitation, reasonable attorneys' fees) of each of the U.S. Lenders in connection with enforcing its rights under the Credit Documents or otherwise with respect to the Credit Party Obligations (other than the Canadian Obligations) owing to such U.S. Lender;

FOURTH, to the payment of all of the Credit Party Obligations (other than the Canadian Obligations) consisting of accrued fees and interest;

FIFTH, to the payment of the outstanding principal amount of the Credit Party Obligations (other than the Canadian Obligations) (including the payment or cash collateralization of the outstanding U.S. LOC Obligations);

SIXTH, to all other Credit Party Obligations (other than the Canadian Obligations) and other obligations which shall have become due and payable under the Credit Documents or otherwise and not repaid pursuant to clauses "FIRST" through "FIFTH" above; and

SEVENTH, to the payment of the surplus, if any, to the payment of the Canadian Obligations in accordance with Section 4.14(c).

In carrying out the foregoing, (i) amounts received shall be applied in the numerical order provided until exhausted prior to application to the next succeeding category; (ii) each of the Lenders shall receive an amount equal to its pro rata share (based on the proportion that the then outstanding Revolving U.S. Loans, U.S. Term Loans, Competitive U.S. Loans and U.S. LOC Obligations held by such Lender bears to the aggregate then outstanding Revolving U.S. Loans, U.S. Term Loans, Competitive U.S. Loans and U.S. LOC Obligations) of amounts available to be applied pursuant to clauses "THIRD", "FOURTH", "FIFTH" and "SIXTH" above; and (iii) to the extent that any amounts available for distribution pursuant to clause "FIFTH" above are attributable to the issued but undrawn amount of outstanding U.S. Letters of Credit, such amounts shall be held by the U.S. Agent in a cash collateral account and applied (A) first, to reimburse the U.S. Issuing Lender from time to time for any drawings under



such U.S. Letters of Credit and (B) then, following the expiration of all U.S. Letters of Credit, to all other obligations of the types described in clauses "FIFTH", "SIXTH" and "SEVENTH" above in the manner provided in this Section 4.14(b).

SUBPART 2.7 Amendments to Section 7.1. Section 7.1(c) of the Existing Credit Agreement is hereby amended in its entirety to read as follows:

7.1 Information Covenants.

The Credit Parties will furnish, or cause to be furnished, to each of the Agents and each of the Lenders:

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(c) Officer's Certificate. At the time of delivery of the financial statements provided for in Sections 7.1(a) and 7.1(b) above, a certificate of an Executive Officer of Airgas substantially in the form of Schedule 7.1(c), (i) demonstrating compliance with the financial covenants contained in Section 7.10 by calculation thereof as of the end of each such fiscal period, (ii) including a description of adjustments to Consolidated EBITDA (of the type described in clause (H) of the definition thereof) attributable to the Willow Acquisition and (iii) stating that no Default or Event of Default exists, or if any Default or Event of Default does exist, specifying the nature and extent thereof and what action the Credit Party proposes to take with respect thereto.

SUBPART 2.8 Amendments to Section 7.10. Section 7.10 of the Existing Credit Agreement is hereby amended in its entirety to read as follows:

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7.10 Financial Covenants.

(a) Consolidated Total Leverage Ratio. The Credit Parties shall cause the Consolidated Total Leverage Ratio as of each Calculation Date set forth below to be no greater than:

| Calendar Year | March 31 | June 30 | September 30 | December 31 |
|---|---|---|---|---|
| 2001 | N/A | 4.45 to 1.00 | 4.45 to 1.00 | 4.45 to 1.00 |
| 2002 | 4.45 to 1.00 | 4.45 to 1.00 | 4.25 to 1.00 | 4.25 to 1.00 |
| 2003 | 4.25 to 1.00 | 4.25 to 1.00 | 4.25 to 1.00 | 4.25 to 1.00 |
| 2004 | 4.00 to 1.00 | 4.00 to 1.00 | 4.00 to 1.00 | 4.00 to 1.00 |
| Thereafter | 3.75 to 1.00 | 3.75 to 1.00 | 3.75 to 1.00 | 3.75 to 1.00 |



(b) Consolidated Senior Leverage Ratio. The Credit Parties shall cause the Consolidated Senior Leverage Ratio as of each Calculation Date set forth below to be no greater than:

| Calendar Year | March 31 | June 30 | September 30 | December 31 |
|---|---|---|---|---|
| 2001 | N/A | 3.00 to 1.00 | 3.00 to 1.00 | 3.00 to 1.00 |
| 2002 | 3.00 to 1.00 | 3.00 to 1.00 | 3.00 to 1.00 | 3.00 to 1.00 |
| 2003 | 3.00 to 1.00 | 3.00 to 1.00 | 3.00 to 1.00 | 3.00 to 1.00 |
| 2004 | 3.00 to 1.00 | 3.00 to 1.00 | 3.00 to 1.00 | 3.00 to 1.00 |
| Thereafter | 2.75 to 1.00 | 2.75 to 1.00 | 2.75 to 1.00 | 2.75 to 1.00 |

(c) Consolidated Fixed Charge Coverage Ratio. The Credit Parties shall cause the Consolidated Fixed Charge Coverage Ratio as of each Calculation Date set forth below to be at least:

| Calendar Year | March 31 | June 30 | September 30 | December 31 |
|---|---|---|---|---|
| 2001 | N/A | 1.75 to 1.00 | 1.75 to 1.00 | 1.75 to 1.00 |
| 2002 | 1.75 to 1.00 | 1.75 to 1.00 | 1.75 to 1.00 | 1.75 to 1.00 |
| 2003 | 2.00 to 1.00 | 2.00 to 1.00 | 2.00 to 1.00 | 2.00 to 1.00 |
| 2004 | 2.25 to 1.00 | 2.25 to 1.00 | 2.25 to 1.00 | 2.25 to 1.00 |
| Thereafter | 2.50 to 1.00 | 2.50 to 1.00 | 2.50 to 1.00 | 2.50 to 1.00 |

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SUBPART 2.9 Amendments to Section 8.5. Section 8.5(i) of the Existing Credit Agreement is hereby amended in its entirety to read as follows:

8.5 Investments.

The Credit Parties will not permit any Consolidated Party to make any Investments, except for:

*******

(i) (i) the Willow Acquisition and (ii) after the first to occur of (x) the date, if any, that the Willow Purchase Agreement is terminated in accordance with Section 15 thereof and (y) April 1, 2002, other Investments consisting of an Acquisition by Airgas or any Subsidiary of Airgas, provided that (A) the Property acquired (or the Property of the Person acquired) in such Acquisition is used or useful in the same or a similar or ancillary line of business as Airgas and its Subsidiaries were engaged in on the Closing Date (or any reasonable extensions or expansions thereof), (B) to the extent applicable, the U.S. Agent shall have received all items in respect of the Capital Stock or Property acquired in such Acquisition required to be delivered by the terms of Section 7.12 and/or Section 7.13, (C) in the case of an Acquisition of the Capital Stock of another Person, the board of directors (or other comparable governing body) of such other Person shall have duly approved such Acquisition, (D) Airgas shall have delivered to the U.S. Agent (1) a Pro Forma Compliance



Certificate demonstrating that, upon giving effect to such Acquisition on a Pro Forma Basis, Airgas would be in compliance with the financial covenants set forth in Sections 7.10(a) - (c) and (2) if the EBITDA for the four fiscal quarter period ending prior to the date of such Acquisition attributable to the Person or Property acquired in such Acquisition exceeds $10,000,000, a consolidated balance sheet and income statement of such Person or Property, together with related consolidated statements of operations and retained earnings and of cash flows for such four fiscal quarter period with respect to such Person or Property which have been prepared in accordance with GAAP and reviewed by an independent certified public accountant of recognized national standing reasonably acceptable to the U.S. Agent, (E) the representations and warranties made by the Credit Parties in any Credit Document shall be true and correct in all material respects at and as if made as of the date of such Acquisition (after giving effect thereto) except to the extent such representations and warranties expressly relate to an earlier date and (F) the aggregate consideration (including cash and non-cash consideration and any assumption of Indebtedness, but excluding consideration consisting of any Capital Stock of Airgas issued to the seller of the Capital Stock or Property acquired in such Acquisition and consideration consisting of the proceeds of any Equity Issuance by Airgas consummated subsequent to the Closing Date) paid by the Consolidated Parties for all such Acquisitions occurring during any fiscal year shall not exceed as of the date of such Acquisition after giving effect to any such Acquisition (1) if the Applicable Percentage is based on "Pricing Level I", "Pricing Level II" or "Pricing Level III", $100,000,000 during any fiscal year, (2) if the Applicable Percentage is based on "Pricing Level IV", $75,000,000 during any fiscal year or
(3) if the Applicable Percentage is based on "Pricing Level V" or "Pricing Level VI", $50,000,000 during any fiscal year; provided, however, that following the consummation, if any, of the Willow Acquisition, such aggregate consideration paid by the Consolidated Parties for all such Acquisitions occurring during any fiscal year shall not exceed as of the date of such Acquisition after giving effect to any such Acquisition $12,500,000 unless the Consolidated Total Leverage Ratio as of the last day of the fiscal quarter ended at least 45 days prior to any such Acquisition (or, during the period from the Willow Acquisition Date until the next succeeding date thereafter that the U.S. Agent shall have received the Required Financial Information, the Consolidated Total Leverage Ratio as determined on a pro forma basis as contemplated by clause (iii) of the definition of "Willow Acquisition Conditions" set forth in
Section 1.1) is less than 4.0 to 1.0; provided further, that if the Willow Acquisition is consummated, Airgas and it Subsidiaries shall not be permitted to make any other Investments pursuant to this Section 8.5(i) prior to the first day of the fiscal year commencing April 1, 2002.

SUBPART 2.10 Amendments to Section 10.4. Section 10.4 of the Existing Credit Agreement is hereby amended in its entirety to read as follows:



10.4 Reliance on Communications.

Each of the Agents shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopy, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Credit Parties, independent accountants and other experts selected by the U.S. Agent with reasonable care). Each of the Agents may deem and treat each Lender as the owner of its interests hereunder for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with such

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Agent in accordance with Section 2.5(g) or Section 11.3(b) hereof. Each of the Agents shall be fully justified in failing or refusing to take any action under this Credit Agreement or under any of the other Credit Documents unless it shall first receive such advice or concurrence as it deems appropriate from, in the case of the U.S. Agent, the Required Lenders, or, in the case of the Canadian Agent, the Required Canadian Lenders, or it shall first be indemnified to its satisfaction by, in the case of the U.S. Agent, the Lenders, or, in the case of the Canadian Agent, the Canadian Lenders, against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. Each Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder or under any of the other Credit Documents in accordance with a request of, in the case of the U.S. Agent, the Required Lenders, or, in the case of the Canadian Agent, the Required Canadian Lenders (or, in the case of the U.S. Agent or the Canadian Agent, all the Lenders to the extent specifically provided in Section 10.6) and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders (including their successors and assigns).

SUBPART 2.11 New Schedule 1.1I. A new Schedule 1.1I in the form of Schedule 1.1I attached hereto is hereby added to the Existing Credit Agreement.

SUBPART 2.12 Amendments to Schedule 2.1(b)(i). Schedule 2.1(b)(i) of the Existing Credit Agreement is hereby replaced with Schedule 2.1(b)(i) attached hereto.

SUBPART 2.13 New Schedule 2.5. A new Schedule 2.5 in the form of Schedule 2.5 attached hereto is hereby added to the Existing Credit Agreement.

SUBPART 2.14 Amendments to Schedule 11.3. Schedule 11.3 of the Existing Credit Agreement is hereby replaced with Schedule 11.3 attached hereto.

SUBPART 2.15 Conditional Amendments to Section 11.6. In the event that the Lenders unanimously approve and execute this Amendment, the introductory clause of Section 11.6 of the Existing Credit Agreement is hereby amended in its entirety to read as follows:



11.6 Amendments, Waivers and Consents.

Neither this Credit Agreement nor any other Credit Document nor any of the terms hereof or thereof may be amended, changed, waived, discharged or terminated unless such amendment, change, waiver, discharge or termination is in writing entered into by, or approved in writing by, the Required Lenders and the Credit Parties, provided that no such amendment, change, waiver, discharge or termination shall, without the consent of each Lender affected thereby:

**PART III**
**CONDITIONS TO EFFECTIVENESS**

This Amendment shall be and become effective as of the date (the "Amendment No. 1 Effective Date") when all of the conditions set forth in this Part III shall have been satisfied.

SUBPART 3.1 Execution of Counterparts of Amendment. The U.S Agent shall have received counterparts of this Amendment on or before December 31, 2001, which collectively shall have been duly executed on behalf of each of the Borrowers, the Guarantors and the Required Lenders.

SUBPART 3.2 Corporate Documents. The U.S Agent shall have received the following:

(i) Resolutions. Copies of resolutions of the Board of Directors of each U.S. Credit Party approving and adopting this Amendment, the transactions contemplated therein and authorizing execution and delivery thereof, certified by a secretary or assistant secretary of such U.S. Credit Party to be true and correct and in force and effect as of the Amendment No. 1 Effective Date.

(ii) Good Standing. Copies of certificates of good standing, existence or its equivalent with respect to Airgas certified as of a recent date by the appropriate Governmental Authorities of the state of incorporation and the state of the chief executive office and principal place of business.

(iii) Incumbency. An incumbency certificate of each U.S. Credit Party certified by a secretary or assistant secretary to be true and correct as of the Amendment No. 1 Effective Date.

SUBPART 3.3 Opinion of Counsel. The U.S. Agent shall have received a legal opinion of Cravath, Swaine & Moore dated as of the

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Amendment No. 1 Effective Date and in form and substance reasonably satisfactory to the U.S. Agent.

SUBPART 3.4 Additional Financing. The sum of the U.S. Term Loan Committed Amount plus the principal amount of all other financing arrangements (the "Additional Financing") made by Airgas to pay for the Willow Acquisition (which arrangements shall otherwise be permitted by the Credit Agreement) shall equal $100,000,000, and Airgas shall have obtained the amount of the Additional Financing prior to or simultaneously with the Amendment No. 1 Effective Date.



**PART IV**
**MISCELLANEOUS**

SUBPART 4.1 Construction. This Amendment is a Credit Document executed pursuant to the Existing Credit Agreement and shall (unless otherwise expressly indicated therein) be construed, administered and applied in accordance with the terms and provisions of the Amended Credit Agreement.

SUBPART 4.2 Representations and Warranties. Each Credit Party hereby represents and warrants that (i) each Credit Party that is party to this Amendment: (a) has the requisite corporate power and authority to execute, deliver and perform this Amendment, as applicable and (b) is duly authorized to, and has been authorized by all necessary corporate action, to execute, deliver and perform this Amendment, (ii) the representations and warranties contained in Section 6 of the Amended Credit Agreement are true and correct in all material respects on and as of the date hereof upon giving effect to this Amendment as though made on and as of such date (except for those which expressly relate to an earlier date) and (iii) no Default or Event of Default exists under the Existing Credit Agreement on and as of the date hereof upon giving effect to this Amendment.

SUBPART 4.3 Acknowledgment. The Guarantors acknowledge and consent to all of the terms and conditions of this Amendment and agree that this Amendment does not operate to reduce or discharge the Guarantors' obligations under the Amended Credit Agreement or the other Credit Documents. The Guarantors further acknowledge and agree that the Guarantors have no claims, counterclaims, offsets, or defenses to the Credit Documents and the performance of the Guarantors' obligations thereunder or if the Guarantors did have any such claims, counterclaims, offsets or defenses to the Credit Documents or any transaction related to the Credit Documents, the same are hereby waived, relinquished and released in consideration of the Lenders' execution and delivery of this Amendment.

SUBPART 4.4 Counterparts. This Amendment may be executed by the parties hereto in several counterparts, each of which shall be deemed to be an original and all of which shall constitute together but one and the same agreement.

SUBPART 4.5 Binding Effect. This Amendment, the Amended Credit Agreement and the other Credit Documents embody the entire agreement between the parties and supersede all prior agreements and understandings, if any, relating to the subject matter hereof. These Credit Documents represent the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements of the parties. Except as expressly modified and amended in this Amendment, all the terms, provisions and conditions of the Credit Documents shall remain unchanged and shall continue in full force and effect.

SUBPART 4.6 GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.



SUBPART 4.7 Severability. If any provision of this Amendment is determined to be illegal, invalid or unenforceable, such provision shall be fully severable and the remaining provisions shall remain in full force and effect and shall be construed without giving effect to the illegal, invalid or unenforceable provisions.



IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Amendment to be duly executed and delivered as of the date first above written.

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*BORROWERS:* *AIRGAS, INC.*

*By: /S/Joseph C. Sullivan*
*Name: Joseph C. Sullivan*
*Title: Vice President and Treasurer*

*AIRGAS CANADA INC.*

*By: /S/Robert M. McLaughlin*
*Name: Robert M. McLaughlin*
*Title: Vice President*

*RED-D-ARC LIMITED*
*By: /S/Robert M. McLaughlin*
*Name: Robert M. McLaughlin*
*Title: Vice President*



**U.S. GUARANTORS: AIRGAS-EAST, INC.**
**AIRGAS-GREAT LAKES, INC.**
**AIRGAS-MID AMERICA, INC.**
**AIRGAS-NORTH CENTRAL, INC.**
**AIRGAS-SOUTH, INC.**
**AIRGAS-GULF STATES, INC.**
**AIRGAS-INTERMOUNTAIN, INC.**
**AIRGAS-MID SOUTH, INC.**
**AIRGAS-NORPAC, INC.**
**AIRGAS-NORTHERN CALIFORNIA & NEVADA, INC.**
**AIRGAS-SOUTHWEST, INC.**
**AIRGAS-WEST, INC.**
**AIRGAS-SAFETY, INC.**
**RUTLAND TOOL & SUPPLY CO., INC.**
**AIRGAS CARBONIC, INC.**
**AIRGAS SPECIALTY GASES, INC.**
**NITROUS OXIDE CORP.**
**PURITAN MEDICAL PRODUCTS, INC.**
**RED-D-ARC, INC.**
**ATNL, INC.**
**AIRGAS REALTY, INC.**
**CYLINDER LEASING CORP.**
**AIRGAS DATA, LLC**
**AIRGAS DIRECT INDUSTRIAL VESSEL, LLC**

*By: /S/Robert M. McLaughlin*
*Name: Robert M. McLaughlin*
*Title: Vice President*

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**CANADIAN SUBSIDIARY**
**GUARANTORS: AIRGAS INTERNATIONAL, INC.**
**AIRGAS, S.A. DE C.V.**
**AIRGAS MEXICO, S.A. DE C.V.**

*By: /S/Joseph C. Sullivan*
*Name: Joseph C. Sullivan*
*Title: Vice President and Treasurer*

[Signatures continued]



*U.S. AGENT:* *BANK OF AMERICA, N.A.,*

*By: /S/Donald J. Chin*
*Name: Donald J. Chin*
*Title: Managing Director*

*U.S. LENDERS:* *BANK OF AMERICA, N.A.*

*By: /S/Donald J. Chin*
*Name: Donald J. Chin*
*Title: Managing Director*

*BANCA NAZIONALE DEL LAVARO S.p.A*

*NEW YORK BRANCH*

*By: /S/Leonardo Valentini*
*Name: Leonardo Valentini*
*Title: First Vice President*

*By: /S/Frederic W. Hall*
*Name: Frederic W. Hall*
*Title: Vice President*

**THE BANK OF NEW YORK**

*By: /S/David S. Csatari*
*Name: David S. Csatari*
*Title: Assistant Vice President*

**BANK OF TOYKO-MITSUBISHI TRUST COMPANY**

EDGARpro 2002. EDGAR Online, Inc.

*By: /S/Heather Zimmermann*
*Name: Heather Zimmermann*
*Title: Vice President*



**CIBC INC.**

*By: /S/Dominic Sorresso*
*Name: Dominic Sorresso*
*Title: Executive Director*

By:

Name:
Title:

**JP MORGAN CHASE BANK**

*By: /S/Lee P. Brennan*
*Name: Lee P. Brennan*
*Title: Vice President*

**FIRST UNION NATIONAL BANK**

*By: /S/Shannan S. Townsend*
*Name: Shannan S. Townsend*
*Title: Vice President*

**FLEET NATIONAL BANK**

EDGARpro 2002. EDGAR Online, Inc.

*By: /S/Marwan Isbaih*
*Name: Marwan Isbaih*
*Title: Director*

**MELLON BANK, N.A.**

*By: /S/William Feathers*
*Name: William Feathers*
*Title: Vice President*

**NATIONAL CITY BANK**

*By: /S/Thomas J. McDonnell*
*Name: Thomas J. McDonnell*
*Title: Senior Vice President*



**PNC BANK, NATIONAL ASSOCIATION**

*By: /S/Frank A. Pugliese*
*Name: Frank A. Pugliese*
*Title: Vice President*

**BANK OF OKLAHOMA**

EDGARpro 2002. EDGAR Online, Inc.

*By: /S/Pamela J. Been*
*Name: Pamela J. Been*
*Title: Vice President*

**MERRILL LYNCH BUSINESS FINANCIAL SERVICES INC.**

*By: /S/Christopher M. McLaughlin*
*Name: Christopher M. McLaughlin*
*Title: Vice President*

*CANADIAN AGENT:* *CANADIAN IMPERIAL BANK OF COMMERCE*

*By: /S/Dominic Sorresso*
*Name: Dominic Sorresso*
*Title: Executive Director*

*By:*
*Name:*
*Title:*

*CANADIAN LENDERS:* *CANADIAN IMPERIAL BANK OF COMMERCE*

*By: /S/Dominic Sorresso*
*Name: Dominic Sorresso*
*Title: Executive Director*

*By:*
*Name:*

Title:

**BANK OF AMERICA CANADA**

*By: /S/Nelson Lam*
*Name: Nelson Lam*
*Title: Vice President*



**MELLON BANK, N.A. - CANADA BRANCH**

EDGARpro 2002. EDGAR Online, Inc.

*By: /S/William Feathers*
*Name: William Feathers*
*Title: Vice President*



**Schedule 1.1I**

**CONSOLIDATED EBITDA FOR THE WILLOW ACQUISITION**

- Continued due-diligence may lead to an adjustment of the allocation of EBITDA between the purchaser of the Dogwood Assets and Airgas
- However, unless these adjustments are material and are agreed to between the Borrowers and the U.S. Agent, acting reasonably, the schedule of pro forma EBITDA from the Willow Acquisition shall be as follows:

| | 12/31/00 | 3/31/01 | 6/30/01 | 9/30/01 |
|---|---|---|---|---|
| Without $10,177,500 Dogwood Assets | $10,177,500 | $10,177,500 | $10,177,500 | |
| With $10,925,000 Dogwood Assets | $10,925,000 | $10,925,000 | $10,925,000 | |

**Schedule 2.1(b)(i)**

**FORM OF NOTICE OF U.S. BORROWING**

TO: Bank of America, N.A., as U.S. Agent 100 North Tryon Street
Charlotte, North Carolina 28255

RE: Tenth Amended and Restated Credit Agreement dated as of July 30, 2001 among Airgas, Inc. ("Airgas"), Airgas Canada Inc. and Red-D-Arc Limited (each a "Canadian Borrower"), the Guarantors party thereto, Bank of America, N.A., as U.S. Agent, Canadian Imperial Bank of Commerce, as Canadian Agent and the Lenders party thereto (as amended or modified from time to time, the "Credit Agreement").

DATE: _____, 200__

1. This Notice of Borrowing is made pursuant to the terms of the Credit Agreement. All capitalized terms used herein unless otherwise defined shall have the meanings set forth in the Credit Agreement.

2. Please be advised that Airgas is requesting a [Revolving U.S. Loan][U.S. Term Loan] in the amount of $_____ be funded on _____, 200__ to accrue interest at the interest rate set forth in paragraph 3 below. Subsequent to the funding of the requested [Revolving U.S. Loan][U.S. Term Loan], the aggregate amount of outstanding [Revolving U.S. Loan][U.S. Term Loans] will be $_____.

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3. The interest rate option applicable to the requested
[Revolving U.S. Loan][U.S. Term Loan] set forth in paragraph 2 above shall be:

a. _____ the U.S. Base Rate plus the Applicable Percentage for Base Rate Loans; or

b. _____ the Eurodollar Rate plus the Applicable Percentage for Eurodollar Loans for an Interest Period of:

_____ one month
_____ two months
_____ three months
_____ six months
_____ twelve months

4. The representations and warranties made in Section 6 of the Credit Agreement are true and correct in all material respects at and as if made on the date hereof (except for those which expressly relate to an earlier date) unless the failure to be so true and correct would not be reasonably expected to have a Material Adverse Effect.

5. As of the date hereof, no Default or Event of Default has occurred and is continuing or would be caused by the requested Loan.

6. The incurrence by Airgas of the Indebtedness evidenced by such Loan is permitted by the Subordinated Note Indenture and constitutes "Senior Debt" (as defined in the Subordinated Note Indenture).

7. Immediately after giving effect to the making of the requested Revolving U.S. Loan, the sum of the aggregate principal amount of outstanding Revolving U.S. Loans plus the aggregate principal amount of outstanding Competitive U.S. Loans plus the aggregate principal amount of outstanding U.S. Swingline Loans plus U.S. LOC Obligations outstanding shall not exceed the Revolving U.S. Committed Amount.

By:

Title:

**Schedule 2.5**

**U.S. TERM LOAN COMMITMENT AGREEMENT**

Reference is made to the Tenth Amended and Restated Credit Agreement dated as of July 30, 2001 (as amended, modified, extended or restated from time to time, the "Credit Agreement") by and among Airgas, Inc., a Delaware corporation ("Airgas"), the other Credit Parties party thereto, the Lenders party thereto, the Guarantors party thereto, Bank of America, N.A., as U.S. Agent and Canadian Imperial Bank of Commerce, as Canadian Agent. All of the defined terms in the Credit Agreement are incorporated herein by reference.

1. Effective as of the Effective Date (defined below), the undersigned Lender hereby confirms its U.S. Term Loan Commitment, in an aggregate principal amount of up to the amount specified below to (i) make U.S. Term Loans in accordance with the provisions of Section 2.5(a). If the undersigned Lender is already a Lender under the Credit Agreement, such Lender acknowledges and agrees that such U.S. Term Loan Commitment is in addition to any existing Commitment of such Lender under the Credit Agreement. If the undersigned Lender is not already a Lender under the Credit Agreement, such Lender hereby acknowledges, agrees and confirms that, by its execution of this agreement, such Lender will, as of the Effective Date, be a party to the Credit Agreement and be bound by the provisions of the Credit Agreement and, to the extent of its U.S. Term Loan Commitment, have the rights and obligations of a Lender thereunder.

2. This agreement shall be governed by and construed in accordance with the laws of the State of New York.

**Effective Date _____**

**Amount of U.S. Term Loan Commitment _____**

The terms set forth above
are hereby agreed to this ____ day of _____, 200_:

[Lender]

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By:_____
Title:

**CONSENTED TO:**

**BANK OF AMERICA, N.A.,**
**as U.S. Agent**

By:_____
Title:

**Schedule 11.3**

**FORM OF ASSIGNMENT AND ACCEPTANCE**

THIS ASSIGNMENT AND ACCEPTANCE dated as of _____, 200_ is entered into between _____ ("Assignor") and _____ ("Assignee").

Reference is made to the Tenth Amended and Restated Credit Agreement dated as of July 30, 2001, as amended and modified from time to time thereafter (the "Credit Agreement") among Airgas, Inc., the Canadian Borrowers, the Lenders party thereto, the Guarantors party thereto, Bank of America, N.A., as U.S. Agent and Canadian Imperial Bank of Commerce, as Canadian Agent. Terms defined in the Credit Agreement are used herein with the same meanings.

1. The Assignor hereby sells and assigns, without recourse, to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, effective as of the Effective Date set forth below, the interests set forth below (the "Assigned Interest") in the Assignor's rights and obligations under the Credit Agreement, including, without limitation, the interests set forth below in the Commitments and outstanding Loans of the Assignor on the effective date of the assignment designated below (the "Effective Date"), together with unpaid Fees accrued on the assigned Commitments to the Effective Date and unpaid interest accrued on the assigned Loans to the Effective Date. Each of the Assignor and the Assignee hereby makes and agrees to be bound by all the representations, warranties and agreements set forth in [Section
2.5(g)] [Section 11.3(b)] of the Credit Agreement, a copy of which has been received by the Assignee. From and after the Effective Date (i) the Assignee, if it is not already a Lender under the Credit Agreement, shall be a party to and be bound by the provisions of the Credit Agreement and, to the extent of the interests purchased and assumed by the Assignee under this Assignment and Acceptance, have the rights and obligations of a Lender thereunder and (ii) the Assignor shall, to the extent of the interests sold and assigned by the Assignor under this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement.

2. This Assignment and Acceptance shall be governed by and construed in accordance with the laws of the state of New York.

3. Terms of Assignment

(a)Date of Assignment:

(b)Legal Name of Assignor:

(c)Legal Name of Assignee:

(d)Effective Date of Assignment:

(e)Assigned Interest:

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| Facility Assigned Commitment/Loans | Total Commitment/ Loans for all Lenders | Amount of Commitment/ Loans Assigned | Percentage Assigned of Total |
|---|---|---|---|
| Revolving U.S. Commitment | $_____ | $_____ | |
| Revolving U.S. Loans | $_____ | $_____ | _____% |
| U.S. Term Loan | $_____ | $_____ | _____% |
| Revolving Canadian Commitment | $_____ | $_____ | _____% |
| Revolving Canadian Loans | $_____ | $_____ | |

4. This Assignment and Acceptance shall be effective only upon consent of U.S. Agent [Airgas] [and the Canadian Agent], if applicable, delivery to the [U.S./Canadian] Agent of this Assignment and Acceptance together with the transfer fee payable pursuant to [Section 2.5(g)] [Section 11.3(b)] in connection herewith.

5. This Assignment and Acceptance may be executed in any number of counterparts, each of which where so executed and delivered shall be an original, but all of which shall constitute one and the same instrument. It shall not be necessary in making proof of this Assignment and Acceptance to produce or account for more than one such counterpart.

The terms set forth above
are hereby agreed to:

_____, as Assignor

By:_____

Title:_____

_____, as Assignee

By:_____

Title:_____

**CONSENTED TO:**

**BANK OF AMERICA, N.A.,**
**as U.S. Agent**

By:_____

Title:_____

**AIRGAS, INC.**

By:_____

Title:_____

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EXHIBIT 11

AIRGAS, INC.

EARNINGS PER SHARE CALCULATIONS

| (In thousands, except per share amounts) | Three Months Ended December 31, 2001 | Three Months Ended December 31, 2000 | Nine Months Ended December 31, 2001 | Nine Months Ended December 31, 2000 |
|---|---|---|---|---|
| **Weighted Average Shares Outstanding:** | | | | |
| Basic shares outstanding | 68,300 | 66,500 | 67,900 | 65,700 |
| Stock options and warrants - incremental shares | 2,000 | 700 | 1,500 | 500 |
| Contingently issuable shares | -- | -- | -- | 800 |
| Diluted shares outstanding | 70,300 | 67,200 | 69,400 | 67,000 |
| Net earnings (loss) | $11,845 | $ 6,676 | $(19,151) | $26,895 |
| **Basic earnings per share:** | | | | |
| Earnings per share before the cumulative effect of a change in accounting principle | $ .17 | $ .10 | $ .59 | $ .41 |
| Cumulative effect per share of a change in accounting principle | -- | -- | (.87) | -- |
| Net earnings (loss) per share | $ .17 | $ .10 | $ (.28) | $ .41 |
| **Diluted earnings per share:** | | | | |
| Earnings per share before the cumulative effect of a change in accounting principle | $ .17 | $ .10 | $ .57 | $ .40 |
| Cumulative effect per share of a change in accounting principle | -- | -- | (.85) | -- |
| Net earnings (loss) per share | $ .17 | $ .10 | $ (.28) | $ .40 |
| **Pro forma amounts assuming the application of the change in accounting principle (adoption of SFAS 142) applied retroactively:** | | | | |
| Net earnings | $11,845 | $ 9,926 | $39,849 | $37,249 |
| Basic earnings per share | $ .17 | $ .15 | $ .59 | $ .57 |
| Diluted earnings per share | $ .17 | $ .15 | $ .57 | $ .56 |

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