AIRGAS INC
Form 10-K
May 29, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ý ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: March 31, 2012
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 1-9344

AIRGAS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	56-0732648 (I.R.S. Employer Identification No.)
259 North Radnor-Chester Road, Suite 100 Radnor, PA (Address of principal executive offices)	19087-5283 (ZIP code)

(610) 687-5253
(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ¨ No ý
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 ý No ¨

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

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

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

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	o	Smaller reporting company	¨

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

The aggregate market value of the 67,730,273 shares of voting stock held by non-affiliates of the registrant was approximately $4.3 billion computed by reference to the closing price of such stock on the New York Stock Exchange as of the last day of the registrant's most recently completed second quarter, September 30, 2011. For purposes of this calculation, only executive officers and directors were deemed to be affiliates.

The number of shares of common stock outstanding as of May 25, 2012 was 76,902,878.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the 2012 Annual Meeting of Stockholders (when it is filed) will be incorporated by reference into Part III of this Report.

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PART I

ITEM 1. BUSINESS.

GENERAL

Airgas, Inc., including its subsidiaries (“Airgas” or the “Company”), became a publicly traded company in December 1986. Through a combination of organic growth initiatives and acquisitions in both its core and adjacent lines of business, the Company has become the largest U.S. distributor of industrial, medical and specialty gases (delivered in “packaged” or cylinder form), and hardgoods, such as welding equipment and supplies, with a significant position in the U.S. bulk gas distribution market. Airgas is also a leading U.S. producer of atmospheric gases, carbon dioxide, dry ice and nitrous oxide, one of the largest U.S. distributors of safety products, and a leading distributor of refrigerants, ammonia products and process chemicals. Airgas' production network and long-term supply agreements, full range of gas supply modes (from cylinders to truckload quantities to on-site pipeline supply) and national footprint make it one of the few fully-integrated industrial gas companies in the U.S. The Company also offers supply chain management services and solutions, and product and process technical support across many diverse customer segments.

The Company markets its products and services through multiple sales channels, including branch-based sales representatives, retail stores, strategic customer account programs, telesales, catalogs, eBusiness and independent distributors. Products reach customers through an integrated network of more than 15,000 employees and approximately 1,100 locations including branches, retail stores, gas fill plants, specialty gas labs, production facilities and distribution centers. The Company's product and service offering, full range of supply modes, national scale and strong local presence offer a competitive edge to its diversified base of more than one million customers.

The Company's consolidated net sales were $4.75 billion, $4.25 billion and $3.88 billion in the fiscal years ended March 31, 2012, 2011 and 2010, respectively. The Company's operations are predominantly in the United States. However, the Company does conduct operations outside of the United States, principally in Canada and, to a lesser extent, Mexico, Russia, Dubai and several European countries. Revenues derived from foreign countries, based on the point of sale, were $83 million, $75 million and $77 million in the fiscal years ended March 31, 2012, 2011 and 2010, respectively. Long-lived assets attributable to the Company's foreign operations represent less than 4% of the consolidated total long-lived assets of the Company and were $146 million, $142 million and $141 million at March 31, 2012, 2011 and 2010, respectively. Long-lived assets primarily consist of plant and equipment as well as intangible assets.

Since its inception, the Company has made over 400 acquisitions. During fiscal 2012, the Company acquired eight businesses with aggregate historical annual sales of approximately $106 million. The largest of these businesses were ABCO Gases, Welding and Industrial Supply Company, Inc. (“ABCO”), Pain Enterprises, Inc. (“Pain”) and Industrial Welding Supplies of Hattiesburg, LLC (d/b/a “Nordan Smith”). ABCO was a New England-based industrial gas and welding supply distributor with 12 locations throughout Connecticut, New Hampshire, Massachusetts and Rhode Island with historical annual sales of approximately $35 million. Pain, a producer and distributor of dry ice and liquid carbon dioxide with 20 locations throughout the Midwestern United States, generated historical annual sales of approximately $33 million. Nordan Smith was a Mississippi-based industrial gas and welding supply distributor with 17 locations throughout Mississippi, Arkansas and Alabama with historical annual sales of approximately $31 million. A total of $160 million in cash was paid for the eight businesses and for the settlement of holdback liabilities and contingent consideration arrangements associated with certain prior year acquisitions. The Company acquired these businesses in order to expand its geographic coverage and strengthen its national network of branch-store locations, and to expand its dry ice and liquid carbon dioxide production and distribution. See Note 3 to the Company's Consolidated Financial Statements under Item 8, “Financial Statements and Supplementary Data,” for a description of current and prior year acquisition activity.

The Company has two reportable segments, Distribution and All Other Operations. The Distribution business segment primarily engages in the distribution of industrial, medical and specialty gases and hardgoods, and in the production of gases to supply the regional distribution companies. The All Other Operations business segment consists of six business units which primarily manufacture and/or distribute carbon dioxide, dry ice, nitrous oxide, ammonia and refrigerant gases. Financial information by business segment can be found in Item 7, “Management's Discussion and

Analysis of Financial Condition and Results of Operations" ("MD&A"), and in Note 21 to the Company's Consolidated Financial Statements under Item 8, "Financial Statements and Supplementary Data." A more detailed description of the Company's business segments follows.

DISTRIBUTION BUSINESS SEGMENT

The Distribution business segment accounted for approximately 90% of consolidated sales in each of the fiscal years 2012, 2011 and 2010.

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Principal Products and Services

The Distribution business segment's principal products include industrial, medical and specialty gases sold in packaged and bulk quantities, as well as hardgoods. The Company's air separation facilities and national specialty gas labs primarily produce gases that are sold by the Distribution business segment's business units. Gas sales include nitrogen, oxygen, argon, helium, hydrogen, welding and fuel gases such as acetylene, propylene and propane, carbon dioxide, nitrous oxide, ultra high purity grades, special application blends and process chemicals. Business units in the Distribution business segment also recognize rental revenue, derived from gas cylinders, cryogenic liquid containers, bulk storage tanks, tube trailers and welding and welding related equipment. Gas and rent represented 58%, 60% and 61% of the Distribution business segment's sales in fiscal years 2012, 2011 and 2010, respectively. Hardgoods consist of welding consumables and equipment, safety products, construction supplies, and maintenance, repair and operating supplies. Hardgoods sales represented 42%, 40% and 39% of the Distribution business segment's sales in fiscal years 2012, 2011 and 2010, respectively.

Principal Markets and Methods of Distribution

The industry has three principal modes of gas distribution: on-site or pipeline supply, bulk or merchant supply, and cylinder or packaged supply. Airgas' market focus has primarily been on packaged gas distribution, supplying customers with product in gaseous form in cylinders, liquid form in dewars, and less-than-truckload liquid bulk quantities. Generally, packaged gas distributors also sell welding hardgoods. The Company believes the U.S. market for packaged gases and welding hardgoods to have been approximately $13 billion in annual revenue during its fiscal 2012. Packaged gases and welding hardgoods are generally delivered to customers on Company-owned or leased trucks, although third-party carriers are also used in the delivery of welding and safety products, and customers can purchase products through multiple sales channels including branch-based sales representatives, retail stores, strategic customer account programs, telesales, catalogs, eBusiness and independent distributors.

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

Customer Base

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

Repair & Maintenance (28%)
Industrial Manufacturing (27%)
Energy and Infrastructure Construction (9%)
Medical (9%)
Petrochemical (7%)
Food and Beverage (6%)
Retail and Wholesale (3%)
Analytical (3%)
Utilities (2%)
Transportation (2%)
Other (4%).

Supply

The Company's atmospheric gas production capacity includes 16 air separation plants that produce oxygen, nitrogen and argon, making Airgas the fifth largest producer of atmospheric gases in North America. In addition, the Company purchases atmospheric and other gases pursuant to contracts with national and regional producers of industrial gases.

The Company is party to a long-term take-or-pay supply agreement in effect through August 2017, under which Air Products and Chemicals, Inc. ("Air Products") will supply the Company with bulk liquid nitrogen, oxygen and argon, as well as helium and hydrogen gas. The Company is committed to purchase approximately $55 million annually in bulk gases under the Air Products supply

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agreement. The Company also has long-term take-or-pay supply agreements with The Linde Group, AG (“Linde AG”) to purchase oxygen, nitrogen, argon and helium. The agreements expire at various dates through July 2019 and represent approximately $41 million in annual bulk gas purchases. Additionally, the Company has long-term take-or-pay supply agreements to purchase oxygen, nitrogen and argon from other major producers. The agreements expire at various dates through 2024, and annual purchases under these contracts are approximately $20 million. The annual purchase commitments above reflect future minimum purchase commitments at current pricing.

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

ALL OTHER OPERATIONS

The All Other Operations business segment consists of six business units, which in aggregate accounted for approximately 10% of sales in each of the fiscal years 2012, 2011 and 2010. The primary products manufactured and/or distributed are carbon dioxide, dry ice (solid form of carbon dioxide), nitrous oxide, ammonia and refrigerant gases. The business units reflected in the All Other Operations business segment individually do not meet the thresholds to be reported as separate business segments.

Carbon Dioxide & Dry Ice

Airgas is a leading supplier of liquid carbon dioxide and dry ice. Customers for carbon dioxide and dry ice include food processors, food service businesses, pharmaceutical and biotech industries, and wholesale trade and grocery outlets, with food and beverage applications accounting for approximately 70% of the market. Some seasonality is experienced within this business, as the Company generally experiences a higher level of dry ice sales during the warmer months. With 14 dry ice plants (converting liquid carbon dioxide into dry ice), Airgas has the largest network of dry ice conversion plants in the United States. Additionally, Airgas operates eight carbon dioxide production facilities. The Company's carbon dioxide production capacity is supplemented by long-term take-or-pay supply contracts.

Nitrous Oxide

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

Specialty Products

Airgas Specialty Products is a distributor of anhydrous and aqua ammonia. Industrial ammonia applications primarily include the abatement of nitrogen oxide compounds in the utilities industry (“DeNOx”), chemicals processing, commercial refrigeration, water treatment and metal treatment. Airgas Specialty Products operates 29 distribution facilities across the U.S. and purchases ammonia from suppliers under agreements.

Refrigerants

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

AIRGAS GROWTH STRATEGIES

The Company's primary objective is to maximize shareholder value by driving market-leading sales growth through core and strategic product offerings that leverage the Company's infrastructure and customer base, by pursuing acquisitions in the

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Company's core business and in adjacent businesses, by providing outstanding customer service and by improving operational efficiencies. To meet this objective, the Company is focusing on:

- a customer-centric sales and marketing alignment that provides leadership and strategic support throughout all sales channels, particularly the strategic accounts program, allowing the Company to leverage its unique combination of products, application technology and service, as well as its unrivaled national foot print;
- strategic products, which have strong growth profiles due to favorable customer segments, application development, increasing environmental regulation, strong cross-selling opportunities, or a combination thereof (e.g., bulk gases, specialty gases, medical products, carbon dioxide and safety products);
- enhanced training, tools and resources for all associates, including installing a new enterprise information system (“SAP”);
- the alignment of its twelve regional distribution companies into four new divisions, the consolidation of its regional company accounting and certain administrative functions into four newly created Business Support Centers (“BSCs”) and a related change in its legal entity structure, allowing the Company to more effectively utilize its resources across regional company boundaries and to form an operating structure that will help leverage the full benefits of the new SAP platform;
- reducing costs associated with production, cylinder maintenance and distribution logistics; and
- acquisitions to complement and expand its business and to leverage its significant platform.

REGULATORY AND ENVIRONMENTAL MATTERS

The Company's subsidiaries are subject to federal and state laws and regulations adopted for the protection of the environment and the health and safety of employees and users of the Company's products. The Company has programs for the operation and design of its facilities to achieve compliance with applicable environmental regulations. The Company believes that it is in compliance, in all material respects, with such laws and regulations. Expenditures for environmental compliance purposes during fiscal 2012 were not material.

INSURANCE

The Company has established insurance programs to cover workers' compensation, business automobile and general liability claims. During fiscal 2012, 2011 and 2010, these programs had deductible limits of $1 million per occurrence and costs related to the programs were approximately 0.6% of sales during each of these years. For fiscal 2013, the deductible limits will remain at $1 million per occurrence. The Company accrues estimated losses using actuarial methods and assumptions based on the Company's historical loss experience.

EMPLOYEES

On March 31, 2012, the Company employed more than 15,000 associates. Less than 5% of the Company's associates were covered by collective bargaining agreements. The Company believes it has good relations with its employees and has not experienced a significant strike or work stoppage in over ten years.

PATENTS, TRADEMARKS AND LICENSES

The Company holds the following trademarks: “Airgas,” “Airgas National Welders,” “Airgas National Carbonation,” “Airgas National Cryogenics,” “Airgas Total Access,” “Airgas Retail Solutions,” “AcuGrav,” “AIM,” “AiRx,” “AIR BOSS,” “Aspen,” Refrigerants,” “Any Refrigerant, Any Place, Any Time,” “For All Your Refrigerant Needs,” “Radnor,” “Gold Gas,” “SteelMIX “StainMIX,” “AluMIX,” “Outlook,” “Ny-Trous+,” “Powersource,” “Red-D-Arc,” “RED-D-ARC WELDERENTALS,” “Gasp “GAIN,” “MasterCut,” “Walk-Out,” “Airgas Puritan Medical,” “Penguin Brand Dry Ice,” “Kangaroo Kart,” “National Farm and Shop,” “National/HEF,” “OUTLOOK,” “UNAMIX,” “UNAMIG Xtra,” “UNAMIG Six,” “UNATIG,” “EZ-Cyl,” “Freeze “Freshblend,” “Reklaim,” “Safe-T-Cyl,” “StatusChecker,” “Smart-Logic,” “When You're Ready To Weld,” “WelderHelper” ar “Your Total Ammonia Solution” and a service mark for “You'll find it with us.”

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

EXECUTIVE OFFICERS OF THE COMPANY

The executive officers of the Company are as follows:

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Name	Age	Position
Peter McCausland	62	Chairman of the Board, President and Chief Executive Officer
Michael L. Molinini	61	Executive Vice President and Chief Operating Officer
Robert M. McLaughlin	55	Senior Vice President and Chief Financial Officer
Andrew R. Cichocki	49	Senior Vice President - Distribution Operations and Business Process Improvement
Robert A. Dougherty	54	Senior Vice President and Chief Information Officer
Leslie J. Graff	51	Senior Vice President - Corporate Development
Ronald J. Stark	48	Senior Vice President - Sales and Marketing
Dwight T. Wilson	56	Senior Vice President - Human Resources
Robert H. Young, Jr.	61	Senior Vice President and General Counsel
Max D. Hooper	52	Division President - West
Terry L. Lodge	55	Division President - Central
B. Shaun Powers	60	Division President - North
Michael E. Rohde	65	Division President - South
Thomas S. Thoman	49	Division President - Gases Production
Thomas M. Smyth [1]	58	Vice President and Controller

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

Mr. McCausland has been an Airgas director from June 1986 until September 15, 2010 and from September 23, 2010 to the present and served as Chairman of the Board from 1987 to September 15, 2010 and from August 29, 2011 to the present. Mr. McCausland has also served as the Chief Executive Officer of Airgas since May 1987 and President of Airgas from June 1986 to August 1988, from April 1993 to November 1995, from April 1997 to January 1999 and from January 2005 to the present. Effective immediately following the Annual Meeting of Stockholders to be held in mid-August 2012 (the “2012 Annual Meeting”), Mr. McCausland will transition from Chairman, President and Chief Executive Officer of Airgas to Executive Chairman. Mr. McCausland serves as a director of the Fox Chase Cancer Center, the Independence Seaport Museum and The Philadelphia Orchestra. Mr. McCausland also serves on the Board of Visitors of the Boston University School of Law and the College of Arts and Sciences of the University of South Carolina.

Mr. Molinini has been Executive Vice President and Chief Operating Officer since January 2005. Prior to that time, Mr. Molinini served as Senior Vice President - Hardgoods Operations from August 1999 to January 2005 and as Vice President - Airgas Direct Industrial from April 1997 to July 1999. Prior to joining Airgas, Mr. Molinini served as Vice President of Marketing of National Welders Supply Company, Inc. (“National Welders”) from 1991 to 1997. Effective immediately following the 2012 Annual Meeting, Mr. Molinini will transition from Executive Vice President and Chief Operating Officer to President and Chief Executive Officer.

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

Mr. Cichocki has been Senior Vice President - Distribution Operations and Business Process Improvement since August 2011. From July 2008 to July 2011, he was Division President - Process Gases and Chemicals. Prior to that time, Mr. Cichocki served as President of Airgas National Welders and Airgas' joint venture, National Welders, from 2003. Prior to that, Mr. Cichocki served in key corporate roles for Airgas, including Senior Vice President of Human Resources, Senior Vice President of Business Operations and Planning, and for ten years as Vice President of Corporate Development.

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

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

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Mr. Stark was named Senior Vice President - Sales and Marketing in July 2009 and previously served as President, Airgas North Central, since joining Airgas in 2003. Mr. Stark began his career at Union Carbide - Linde Division (now Praxair) in 1985 and advanced through a series of positions in applications engineering and key account management. In 1992, he joined MVE, a Minnesota-based supplier of cryogenic storage and distribution technology, and advanced to vice president and general manager of the industrial gases market. After Chart Industries acquired MVE in 1999, Mr. Stark became president of Chart's Distribution and Storage Group and held that post until joining Airgas.

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

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

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

Mr. Lodge has been Division President - Central since July 2011. Prior to that time, Mr. Lodge was President of Airgas Mid South from November 2007, Vice President - Western Division from January 2005 to November 2007 and CFO for Airgas Mid South from August 1994 to January 2005. Prior to joining Airgas, Mr. Lodge was the CFO for The Jimmie Jones Company, an independent distributor acquired by Airgas in 1994 where he originally started his career in the industrial gas industry in 1979.

Mr. Powers has been Division President - North since July 2011. Prior to that time, Mr. Powers was Division President - East since joining Airgas in April 2001. Prior to joining Airgas, Mr. Powers served as Senior Vice President of Industrial Gases at AGA from October 1995 to March 2001. Mr. Powers has more than 25 years of experience in the industrial gas industry.

Mr. Rohde has been Division President - South since July 2011. Prior to that time, Mr. Rohde served as Senior Vice President - Distribution Operations and President - Airgas South since joining Airgas in 1999. Mr. Rohde was Senior Vice President with Matheson Tri-Gas from 1995 until joining Airgas. He has over 35 years experience in the industrial gas industry.

Mr. Thoman has been Division President - Gases Production since July 2011. Prior to that time, Mr. Thoman served as Senior Vice President - Tonnage and Merchant Gases and President - Airgas Merchant Gases since 2007. Leading up to that time, Mr. Thoman served in key corporate roles including Vice President - Gases, which focused on the Company's gases supply chains, product sourcing, marketing, product management and business development. He has been with Airgas nearly 11 years and in the industrial gas industry for 23 years.

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

COMPANY INFORMATION

The Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed with or furnished to the Securities and Exchange Commission (“SEC”) are available free of charge on the Company's website (www.airgas.com) under the “Investors” section. The Company makes these documents available as soon as reasonably practicable after they are filed with or furnished to the SEC,

but no later than the end of the day that they are filed with or furnished to the SEC.

Code of Ethics and Business Conduct

The Company has adopted a Code of Ethics and Business Conduct applicable to its employees, officers and directors. The Code of Ethics and Business Conduct is available on the Company's website, under the link “Corporate Governance” in the “Investors” section. Amendments to and waivers from the Code of Ethics and Business Conduct will also be disclosed promptly on the website. In addition, stockholders may request a printed copy of the Code of Ethics and Business Conduct, free

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of charge, by contacting the Company's Investor Relations department at:
Airgas, Inc.
Attention: Investor Relations
259 N. Radnor-Chester Rd.
Radnor, PA 19087-5283
Telephone: (866) 816-4618

Corporate Governance Guidelines

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

Certifications

The Company has filed certifications of its President and Chief Executive Officer and Senior Vice President and Chief Financial Officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 as exhibits to its annual report on Form 10-K for each of the years ended March 31, 2012, 2011 and 2010.

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ITEM 1A. RISK FACTORS.

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

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

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

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

We are the largest U.S. distributor of industrial, medical and specialty gases in packaged form and have long-term supply contracts with the major gas producers. Additionally, we operate 16 air separation plants, 13 acetylene plants and eight carbon dioxide liquification plants, which provide us with substantial production capacity. Our long-term supply contracts and our own production capacity mitigate supply disruptions to various degrees. However, natural disasters, plant shut downs, labor strikes and other supply disruptions may occur within our industry. Regional supply disruptions may create shortages of raw materials and certain products. Consequently, we may not be able to obtain the products required to meet our customers' demands or may incur significant cost to ship product from other regions of the country to meet customer requirements. Such additional costs may adversely impact operating results until product sourcing can be restored. In the past, when we have experienced supply shortages, we successfully met customer demand by arranging for alternative supplies and transporting product into an affected region, but we cannot guarantee that we will be successful in arranging alternative product supplies or passing the additional transportation or other costs on to customers in the event of future supply disruptions, which could negatively impact our operations, financial results or liquidity. The industrial gas industry, including Airgas, is currently experiencing shortfalls in the supply of helium due to shortages of helium from global sources and disruptions in crude helium production, resulting in a decrease in the Company's allocations from its suppliers. Although the Company is working to arrange for alternative supplies, and has instituted product allocations and price increases in order to meet customer demand, we cannot assure you that we will be as successful in arranging sufficient alternative product supplies or passing the additional cost on to customers, which could have an adverse financial impact on our operations. Sales of helium represent approximately 3% of the Company's consolidated net sales.

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

We continue our phased SAP implementation for many aspects of our business, with more than half of the Company's business operating on SAP. We may experience disruptions in our business operations related to this implementation effort. Such disruptions could result in material adverse consequences, including delays in the design and implementation of the system, loss of information, a reduction in our ability to process transactions, harm to our control environment and unanticipated increases in costs.

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

In May 2011 in conjunction with the SAP implementation, we announced that we will consolidate the accounting and certain administrative functions of our twelve regional distribution companies into four Business Support Centers. Historically, each of the regional distribution companies operated with its own accounting group and administrative functions. The consolidation of our regional company accounting and certain administrative functions is expected to

support the net operating income benefits anticipated as part of the SAP project. However, the cost of such consolidation, which includes severance, transition staffing, relocation and other costs, could exceed our estimates and the implementation of the reorganization could be disruptive to ongoing operations. The administrative efficiencies, which we believe will result from the consolidation, may not be realized to the extent anticipated, thereby reducing the operating income benefit.

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

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

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

Although our operations are widely distributed across the U.S., and safety is a primary focus in all we do, a catastrophic event such as a fire or explosion at one of the Company's facilities or a supplier's facility; or natural disasters, such as hurricanes, tornadoes and earthquakes; or an operating failure at one of our facilities or in connection with the delivery of our products could result in significant property losses, injuries and third-party claims. Additionally, such events may severely impact our regional customer base and supply sources resulting in lost revenues, higher product costs and increased bad debts.

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

As of March 31, 2012, we had total consolidated debt of approximately $2.2 billion, which had an average length to maturity of approximately three years. During periods of volatility and disruption in the U.S. credit markets, obtaining additional or replacement financing may be more difficult and costly. Higher cost of new debt may limit our ability to finance future acquisitions on terms that are acceptable to us. Additionally, although we actively manage our interest rate risk through derivative and diversified debt obligations, approximately 50% of our debt has a variable interest rate. If interest rates increase, our interest expense could increase, affecting earnings and reducing cash flows available for working capital, capital expenditures and acquisitions. Based on the Company's outstanding borrowings at March 31, 2012, for every 25 basis point increase in LIBOR, the Company estimates that its annual interest expense would increase by approximately $2.6 million.

Finally, our cost of borrowing can be affected by debt ratings assigned by independent rating agencies which are based in large part on our performance as measured by certain liquidity metrics. An adverse change in these debt ratings could increase the cost of borrowing and make it more difficult to obtain financing on favorable terms.

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

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

Increases in product and energy costs could reduce our profitability.

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

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

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

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acquired companies may not have an internal control structure appropriate for a larger public company resulting in a need for significant revisions;

- acquired operations, information systems and products may be difficult to integrate;
- acquired operations may not achieve targeted synergies;

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- we may not be able to retain key employees, customers and business relationships of acquired companies; and
- our management team may have its attention and resources diverted from ongoing operations.

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

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

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

From time to time, we are involved in lawsuits that arise from our business. Litigation may, for example, relate to product liability claims, personal injury, property damage, vehicle accidents, contractual disputes or employment matters. The occurrence of any of these matters would also create possible damage to our reputation. The defense and ultimate outcome of lawsuits against us may result in higher operating expenses. Higher operating expenses or reputational damage could have a material adverse effect on our business, results of operations or financial condition.

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The Company operates in 49 states, Canada and to a lesser extent Mexico, Russia, Dubai and Europe. The principal executive offices of the Company are located in leased space in Radnor, Pennsylvania.

The Company's Distribution business segment operates a network of multiple use facilities consisting of more than 875

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branches, approximately 300 cylinder fill plants, 67 regional specialty gas laboratories, 11 national specialty gas laboratories, one research and development center, two specialty gas equipment centers, 13 acetylene plants and 16 air separation units, as well as six national hardgoods distribution centers, various customer call centers, buying centers and administrative offices. The Distribution business segment conducts business in 49 states and internationally in Canada, Mexico, Russia, Dubai and Europe. The Company owns approximately 46% of these facilities. The remaining facilities are primarily leased from unrelated third parties. A limited number of facilities are leased from employees, generally former owners of acquired businesses, and are on terms consistent with commercial rental rates prevailing in the surrounding rental market.

The Company's All Other Operations business segment consists of businesses, located throughout the United States, which operate multiple use facilities consisting of approximately 75 branch/distribution locations, eight liquid carbon dioxide and 14 dry ice production facilities, and three nitrous oxide production facilities. The Company owns approximately 24% of these facilities. The remaining facilities are leased from unrelated third parties.

During fiscal 2012, the Company's production facilities operated at approximately 72% of capacity based on an average daily production period of 14 hours. If required, additional shifts could be run to expand production capacity. The Company believes that its facilities are adequate for its present needs and that its properties are generally in good condition, well maintained and suitable for their intended use.

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

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

The Company's common stock is listed on the New York Stock Exchange (ticker symbol: ARG). The following table sets forth, for each quarter during the last two fiscal years, the high and low closing price per share for the common stock as reported by the New York Stock Exchange and cash dividends per share for the period from April 1, 2010 to March 31, 2012:

	High	Low	Dividends Per Share
Fiscal 2012			
First Quarter	$70.04	$65.80	$0.29
Second Quarter	70.72	58.50	0.32
Third Quarter	80.22	62.47	0.32
Fourth Quarter	89.43	77.02	0.32
Fiscal 2011			
First Quarter	$64.40	$59.79	$0.22
Second Quarter	68.04	62.04	0.25
Third Quarter	71.00	61.10	0.25
Fourth Quarter	66.78	60.87	0.29

The closing sale price of the Company's common stock on May 25, 2012, as reported by the New York Stock Exchange, was $87.77 per share. As of May 21, 2012, there were 520 stockholders of record, a number that by

definition does not count those who hold the Company's stock in street name including the many employee owners under the Airgas Employee Stock Purchase Plan.

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On May 3, 2012, the Company's Board of Directors declared a regular quarterly cash dividend of $0.40 per share, which is payable on June 29, 2012 to stockholders of record as of June 15, 2012. Future dividend declarations and associated amounts paid will depend upon the Company's earnings, financial condition, loan covenants, capital requirements and other factors deemed relevant by management and the Company's Board of Directors.

Stockholder Return Performance Presentation

Below is a graph comparing the yearly change in the cumulative total stockholder return on the Company's common stock against the cumulative total return of the S&P 500 Index and the S&P 500 Chemicals Index for the five-year period that began April 1, 2007 and ended March 31, 2012.

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

	March 31	2007	2008	2009	2010	2011	2012
t	Airgas, Inc.	100.00	108.74	81.94	156.57	166.02	226.16
n	S&P 500 Index	100.00	94.92	58.77	88.02	101.79	110.48
Å	S&P 500 Chemicals	100.00	117.52	73.89	105.72	135.16	143.31

The graph above assumes that $100 was invested on April 1, 2007 in Airgas, Inc. common stock, the S&P 500 Index and the S&P 500 Chemicals Index.

ITEM 6. SELECTED FINANCIAL DATA.

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

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	Years Ended March 31, [1]				
(In thousands, except per share amounts):	2012 [2]	2011 [3]	2010 [4]	2009	2008 [5]
Operating Results:					
Net sales	$4,746,283	$4,251,467	$3,875,153	$4,361,479	$4,028,253
Depreciation and amortization	$270,285	$250,518	$234,949	$220,795	$189,775
Operating income	$556,221	$469,191	$399,544	$526,784	$476,720
Interest expense, net	66,337	60,054	63,310	84,395	89,485
Discount on securitization of trade receivables	—	—	5,651	10,738	17,031
Losses on the extinguishment of debt	—	4,162	17,869	—	—
Other income (expense), net	2,282	1,958	1,332	(382)	1,454
Income taxes	178,792	156,669	117,780	169,016	144,532
Minority interest in earnings of consolidated affiliate	—	—	—	—	(3,230)
Net earnings	$313,374	$250,264	$196,266	$262,253	$223,896
Net Earnings Per Common Share:					
Basic earnings per share	$4.09	$3.00	$2.39	$3.20	$2.75
Diluted earnings per share	$4.00	$2.94	$2.34	$3.13	$2.66
Dividends per common share declared and paid [6]	$1.25	$1.01	$0.76	$0.56	$0.39
Balance Sheet and Other Data at March 31:					
Working capital	$344,157	$566,015	$244,754	$305,559	$139,524
Total assets	5,320,585	4,945,754	4,504,994	4,435,427	3,994,465
Short-term debt	388,452	—	—	—	—
Current portion of long-term debt	10,385	9,868	10,255	11,058	40,400
Long-term debt, excluding current portion	1,761,902	1,842,994	1,499,384	1,750,308	1,539,648
Deferred income tax liability, net	793,957	726,797	655,920	580,266	442,582
Other non-current liabilities	84,419	70,548	72,972	79,231	80,104
Stockholders' equity	1,750,258	1,740,912	1,801,076	1,577,321	1,417,737
Capital expenditures for years ended March 31,	356,514	256,030	252,828	351,912	267,378

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(1) Certain amounts have been adjusted for the Company's retrospective application of the change in the method of accounting for the portion of the Company's hardgoods inventory valued using the last-in, first-out (“LIFO”) inventory costing method to the average-cost method. The impact of this change was immaterial to the operating results and financial position for all periods presented. See Note 4 to the Company's Consolidated Financial Statements included in Item 8, “Financial Statements and Supplementary Data,” for further information.

(2) The results for fiscal 2012 include the following: $24.4 million ($15.6 million after tax) or $0.19 per diluted share of restructuring and other special charges, $7.9 million ($5.0 million after tax) or $0.06 per diluted share in benefits from lower than previously estimated net costs related to a prior year unsolicited takeover attempt, $4.3 million ($2.7 million after tax) or $0.04 per diluted share in multi-employer pension plan withdrawal charges, and $4.9 million or $0.06 per diluted share of income tax benefits related to the LLC reorganization as well as a true-up of the Company's foreign tax liability. Additionally, during fiscal 2012, the Company commenced a $750 million commercial paper program supported by its revolving credit facility. The Company has used proceeds under the commercial paper program to pay down amounts outstanding under its revolving credit facility and for general corporate purposes. Borrowings under the commercial paper program are classified as short-term debt on the

Company's Consolidated Balance Sheet, which led to a $388 million decrease in both working capital and long-term debt in the table above.

(3) The results for fiscal 2011 include $44.4 million ($28.0 million after tax) or $0.33 per diluted share in costs related to an unsolicited takeover attempt and $4.6 million ($2.8 million after tax) or $0.03 per diluted share in multi-employer

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

(4) The results for fiscal 2010 include $23.4 million ($14.8 million after tax) or $0.18 per diluted share in costs related to an unsolicited takeover attempt and $6.7 million ($4.1 million after tax) or $0.05 per diluted share in multi-employer pension plan withdrawal charges. Also included in the results for fiscal 2010 are a charge of $17.9 million ($11.3 million after tax) or $0.14 per diluted share for the early extinguishment of debt and a tax benefit of $2.2 million or $0.03 per diluted share associated with the reorganization of certain facilities within the All Other Operations business segment.

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

(6) The Company's quarterly cash dividends paid to stockholders for the years presented above are disclosed in the following table:

	Years Ended March 31,				
	2012	2011	2010	2009	2008
First Quarter	$0.29	$0.22	$0.18	$0.12	$0.09
Second Quarter	0.32	0.25	0.18	0.12	0.09
Third Quarter	0.32	0.25	0.18	0.16	0.09
Fourth Quarter	0.32	0.29	0.22	0.16	0.12
Fiscal Year	$1.25	$1.01	$0.76	$0.56	$0.39

On May 3, 2012, the Company's Board of Directors declared a regular quarterly cash dividend of $0.40 per share, which is payable on June 29, 2012 to stockholders of record as of June 15, 2012. Future dividend declarations and associated amounts paid will depend upon the Company's earnings, financial condition, loan covenants, capital requirements and other factors deemed relevant by management and the Company's Board of Directors.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

RESULTS OF OPERATIONS: 2012 COMPARED TO 2011

OVERVIEW

Airgas had net sales for the year ended March 31, 2012 (“fiscal 2012” or “current year”) of $4.7 billion compared to $4.3 billion for the year ended March 31, 2011 (“fiscal 2011” or “prior year”), an increase of 12%. Total same-store sales increased 10%, with hardgoods up 14% and gas and rent up 7%. Acquisitions contributed 2% sales growth in the current year. The same-store sales growth for the current year was driven by both volume and price, with sales volumes up 6% and pricing up 4%. The increase in sales volumes reflects strength in the Company’s manufacturing, petrochemical and energy customers, with relative outperformance in the hardgoods business on the strength of welding and automation equipment sales. Higher pricing reflects a broad-based price increase on gas and rent effective March 1, 2011 and, to a lesser extent, an additional price increase on gas and rent effective December 1, 2011. The pricing actions were designed to offset rising product, operating and distribution costs as well as support ongoing investments in production and distribution capabilities to support and efficiently meet the growing demands of the Company's customers.

The consolidated gross profit margin (excluding depreciation) in the current year was 54.2%, a decline of 80 basis points from the prior year, reflecting continued outperformance of hardgoods sales, a mix shift within hardgoods to lower-margin welding and automation equipment, and an increase in sales to large customers that generally carry lower gross profit margins (excluding depreciation) and a lower net cost to serve.

The Company’s operating income margin increased to 11.7%, a 70 basis-point improvement over the prior year. Additionally, the current and prior year's operating income margins were burdened by 50 basis points and 120 basis points, respectively, of net special charges. The current year also included a 70 basis-point negative impact from SAP (see Enterprise Information System section below) implementation costs and depreciation expense compared to only 40 basis-points of such SAP costs in the prior year.

Net earnings per diluted share rose to $4.00 in the current year versus $2.94 in the prior year. Net earnings per diluted share in the current year reflect the benefit of the Company’s two recently completed share repurchase programs, which offset $0.20 per diluted share of incremental SAP implementation costs and depreciation expense. Net earnings per diluted share in the current and prior years included net special charges of $0.11 and $0.41 per diluted share, respectively. Net special charges in each year consisted of the following:

	Years Ended March 31,	
Effect on Diluted EPS	2012	2011
Restructuring and other special charges	$0.19	$—
Costs (benefits) related to unsolicited takeover attempt	(0.06)	0.33
Multi-employer pension plan withdrawal charges	0.04	0.03
Losses on the extinguishment of debt	—	0.03
One-time interest penalty	—	0.02
Income tax benefits	(0.06)	—
Special charges, net	$0.11	$0.41

Enterprise Information System

The Company continued its phased, multi-year rollout of its highly-customized SAP enterprise information system during the current year. At this stage in the Company's phased implementation, each of its four BSCs, into which the regional company accounting and administrative functions will be consolidated upon converting to SAP, are firmly in place. Through March 31, 2012, the Company has successfully converted its Safety telesales and hardgoods infrastructure businesses and five regional distribution companies to the SAP platform. Two additional regional distribution company conversions are scheduled for the first quarter of the year ending March 31, 2013 (“fiscal 2013”).

The Company expects to have eleven of its twelve regional distribution companies converted to SAP by the end of calendar year 2012. The remaining regional company will be converted in the first quarter of calendar 2013.

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With more than half of the Company's business operating on SAP, the Company believes the implementation risk associated with the remaining business units has been significantly diminished and is beginning to focus more on attaining benefits. The Company incurred the highest level of expenses related to the SAP implementation in fiscal 2012, as the first five of the regional distribution companies, including all four BSCs, were converted during this period. Total implementation costs and depreciation expense related to the SAP system were $0.34 and $0.14 per diluted share for the years ended March 31, 2012 and 2011, respectively, and such costs, net of expected benefits, are estimated to be in the range of $0.12 to $0.16 per diluted share for the year ending March 31, 2013. The Company expects the combination of lower implementation costs and the increase in SAP-related benefits to yield year-over-year earnings accretion of between $0.18 and $0.22 per diluted share in fiscal 2013 above and beyond the Company's base business performance.

The Company previously quantified the economic benefits expected to be achieved through its implementation of SAP in three key areas: accelerated sales growth through expansion of the telesales platform, price management, and administrative and operating efficiencies. By December 2013, the Company expects these areas alone to have yielded a minimum of $75 million in annual run-rate operating income benefits. Further economic benefits are expected to be identified as the implementation progresses.

New Divisional Alignment and LLC Formation

In May 2011, the Company announced the alignment of its twelve regional distribution companies into four new divisions, and the consolidation of its regional company accounting and certain administrative functions into four newly created BSCs. Additionally, the Company initiated a related change in its legal entity structure on January 1, 2012 whereby the majority of Airgas' distribution businesses have merged or will merge into a single limited liability company (“LLC”) of which the Company is the sole member. Each of the Company’s twelve regional distribution companies operated (prior to conversion to SAP) or operates its own accounting and administrative functions. Enabled by the Company’s conversion to a single information platform across all of its regional companies as part of the SAP implementation, the restructuring will allow Airgas to more effectively utilize its resources across regional company boundaries and form an operating structure that will help Airgas leverage the full benefits of its new SAP platform. During the current year, the Company recorded restructuring and other related costs of $20.2 million associated with the Company's organization and legal entity changes. Of this amount, total restructuring costs of $14.5 million were recorded in the current year, primarily consisting of a $13.3 million restructuring charge for severance benefits. The Company also incurred $5.7 million of other costs related to the divisional realignment and LLC formation, primarily related to transition staffing for the BSCs, legal costs and other expenses. The realignment is expected to be completed in fiscal 2013, during which year the Company expects to incur additional costs, primarily related to transition staffing, legal, relocation and other costs, of approximately $8 million.

Acquisitions

During the year ended March 31, 2012, the Company purchased eight businesses with aggregate historical annual sales of approximately $106 million. The largest of these businesses were ABCO, Pain and Nordan Smith. ABCO was a New England-based industrial gas and welding supply distributor with 12 locations throughout Connecticut, New Hampshire, Massachusetts and Rhode Island with historical annual sales of approximately $35 million. Pain, a producer and distributor of dry ice and liquid carbon dioxide with 20 locations throughout the Midwestern United States, generated historical annual sales of approximately $33 million. Nordan Smith was a Mississippi-based industrial gas and welding supply distributor with 17 locations throughout Mississippi, Arkansas and Alabama with historical annual sales of approximately $31 million.

Stock Repurchase Programs

During the three months ended June 30, 2011, the Company completed a $300 million share repurchase program announced on May 5, 2011, repurchasing 4.46 million shares on the open market at an average price of $67.19. During the fourth quarter of the prior year, the Company also completed a $300 million share repurchase program by repurchasing 4.78 million of its shares on the open market at an average price of $62.76.

Supply Constraints

The industrial gas industry is working through supply constraints related to helium. Factors and events driving the helium shortage include a reduction in the amount of helium made available by the U.S. Bureau of Land Management

from the Federal Helium Reserve (a major source of helium in North America), and shortfalls of helium from global sources accelerated by recent disruptions in crude helium production and limited liquefied natural gas demand and production. The Company's major helium suppliers have decreased their helium allocations to the Company. The Company is contesting the appropriateness of these allocations and is working to secure additional helium sources in order to meet customer demand. To help mitigate the

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financial impact to Airgas, the Company has instituted product allocations and price increases related to helium. Sales of helium represent approximately 3% of the Company's consolidated net sales.

Fiscal 2013 Outlook

The Company expects earnings per diluted share for fiscal 2013 in the range of $4.64 to $4.79. The earnings per diluted share range for fiscal 2013 includes an estimated $0.06 per diluted share of restructuring charges and related costs arising from the Company’s transition to BSCs and $0.12 to $0.16 per diluted share of implementation costs and depreciation expense, net of expected benefits, associated with the Company’s SAP implementation. The Company estimates same store sales growth for fiscal 2013 in the mid-to-upper single digits based on a continuation of recent business trends and continued modest expansion in U.S. industrial production activity.

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STATEMENT OF EARNINGS COMMENTARY - FISCAL YEAR ENDED MARCH 31, 2012 COMPARED TO FISCAL YEAR ENDED MARCH 31, 2011

Results for the prior years were adjusted for the retrospective application of a change implemented in the current year in the Company's method of accounting for the small portion of its hardgoods inventory valued using the last-in, first-out ("LIFO") to the average-cost method. The impact of this change was immaterial to the operating results for all periods presented. Business segment information and statement of earnings commentary related to the prior years have been recast to reflect the change in accounting principle.

Although corporate operating expenses are generally allocated to each business segment based on sales dollars, the Company reports expenses (excluding depreciation) related to the implementation of its SAP system under selling, distribution and administrative expenses as "other" expenses that are not allocated to the Company's business segments. Costs associated with the Company's withdrawal from various multi-employer pension plans ("MEPPs") are also reported under selling, distribution and administrative expenses in the Other line item in the tables below. Additionally, the Company's restructuring and other special charges and the legal, professional and other costs incurred as a result of Air Products and Chemicals, Inc.'s ("Air Products") unsolicited takeover attempt are not allocated to the Company's business segments. These costs are also reflected in the Other line item in the tables below.

Net Sales

Net sales increased 12% to $4.7 billion for the current year compared to the prior year, driven by same-store sales growth of 10% and incremental sales of 2% contributed by acquisitions. Gas and rent same-store sales increased 7% and hardgoods increased 14%. Same-store sales were driven by increased volumes of 6% and price of 4%. The Company estimates same-store sales growth based on a comparison of current period sales to prior period sales, adjusted for acquisitions and divestitures. The pro forma adjustments consist of adding acquired sales to, or subtracting sales of divested operations from, sales reported in the prior period.

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

Strategic accounts also contributed to the increase in net sales for the year. Strategic accounts sales growth of 12% was primarily driven by new account signings across all customer segments and by increased activity in the Company's existing metal fabrication, oil and gas and chemical customer bases. The strategic accounts program, which now represents more than 20% of net sales, was designed to deliver superior product and service offerings to larger, multi-location customers, and presents the Company with strong cross-selling opportunities.

The table below reflects actual sales and does not include the pro forma adjustments used in calculating the same-store sales metric. The intercompany eliminations represent sales from the All Other Operations business segment to the Distribution business segment.

Net Sales (In thousands)	Years Ended March 31, 2012	2011	Increase	
Distribution	$4,234,869	$3,810,136	$424,733	11 %
All Other Operations	549,213	472,054	77,159	16 %
Intercompany eliminations	(37,799)	(30,723)	(7,076)	
	$4,746,283	$4,251,467	$494,816	12 %

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

equipment, safety products, construction supplies and maintenance, repair and operating supplies.

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Distribution business segment sales increased 11% compared to the prior year with an increase in same-store sales of 10% and incremental sales of 1% contributed by current and prior year acquisitions. Same-store sales growth for the Distribution business segment was driven by increased volumes of 6% and price of 4%. The Distribution business segment's gas and rent same-store sales increased 7%, with volumes up 3% and pricing up 4%. Hardgoods same-store sales increased 14%, with volumes up 10% and pricing up 4%. Both gas and rent and hardgoods volumes reflect the strength in the Company's manufacturing, petrochemical and energy customers, while the increase in pricing was primarily driven by the March 1, 2011 and, to a lesser extent, December 1, 2011 price increases.

Sales of strategic gas products sold through the Distribution business segment in the current year increased 6% from the prior year. Among strategic gas products, bulk gas sales were up 7% on improvement in the industrial manufacturing customer base and new customer signings. Sales of medical gases were up 5% as a result of new business signings and stronger demand across most medical segments. Sales of specialty gases were up 5% driven primarily by higher volumes on improvement in demand for core specialty gases, including EPA protocols.

Contributing to the rise in Distribution business segment hardgoods same-store sales were increases in both safety products and the Company's Radnor® private-label brand product line, as well as strong growth in welding and automation equipment. Safety product sales increased 16% in the current year, comparing favorably to the hardgoods same-store sales increase for the Distribution business segment of 14% and reflecting broad-based improvement in the core safety business, particularly in large industrial production and strategic account customers. The Company's Radnor® private-label line was up 15% for the current year, driven by the overall increase in hardgoods volumes.

Revenues from the Company's rental welder business experienced a 20% increase in same-store sales during the current year as compared to the prior year due to increased rental demand, reflecting strength in general outage work.

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

The All Other Operations business segment sales increased 16% in total and 10% on a same-store basis compared to the prior year, with incremental sales of 6% contributed by current and prior year acquisitions. The same-store sales increase was primarily driven by an increase in ammonia sales, which increased on both a volume and price basis.

Gross Profits (Excluding Depreciation)

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

Consolidated gross profits (excluding depreciation) increased 10% compared to the prior year, principally due to the same-store sales increase for the current year. The consolidated gross profit margin (excluding depreciation) in the current year declined 80 basis points to 54.2% compared to 55.0% in the prior year. The decline in consolidated gross profit margin (excluding depreciation) reflects the continued shift in sales mix towards hardgoods, which carry lower gross profit margins (excluding depreciation) than gas and rent, a mix shift within hardgoods to lower-margin welding and automation equipment, and increased sales to large customers, which generally carry lower gross profit margins (excluding depreciation) than small customers but at a lower net cost to serve.

Gross Profits (ex. Depr.) (In thousands)	Years Ended March 31, 2012	2011	Increase		
Distribution	$2,316,761	$2,118,080	$198,681	9	%
All Other Operations	254,092	220,107	33,985	15	%
	$2,570,853	$2,338,187	$232,666	10	%

The Distribution business segment's gross profits (excluding depreciation) increased 9% compared to the prior year. The Distribution business segment's gross profit margin (excluding depreciation) was 54.7% versus 55.6% in the prior

year, a decrease of 90 basis points. The decline in the Distribution business segment's gross profit margin (excluding depreciation) reflects the sales mix shift towards hardgoods and lower-margin welding and automation equipment within hardgoods, as well as increased sales to larger customers. As a percentage of the Distribution business segment's sales, gas and rent decreased 150

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basis points to 58.1% in the current year as compared to 59.6% in the prior year.

The All Other Operations business segment's gross profits (excluding depreciation) increased 15% compared to the prior year. The All Other Operations business segment's gross profit margin (excluding depreciation) decreased 30 basis points to 46.3% in the current year from 46.6% in the prior year. The decrease in the All Other Operations business segment's gross profit margin (excluding depreciation) was primarily driven by lower margins in the ammonia business.

Operating Expenses

Selling, Distribution and Administrative ("SD&A") Expenses

SD&A expenses consist of labor and overhead associated with the purchasing, marketing and distribution of the Company's products, as well as costs associated with a variety of administrative functions such as legal, treasury, accounting, tax and facility-related expenses. Consolidated SD&A expenses increased $154 million, or 10%, in the current year as compared to the prior year. Contributing to the increase in SD&A expenses were $113 million of higher variable costs associated with growing sales, such as sales commissions, salaries, production overtime and distribution costs, approximately $24 million of incremental operating costs associated with acquired businesses and $17 million of incremental costs associated with the SAP implementation. As a percentage of net sales, SD&A expenses decreased to 36.4% in the current year from 37.0% in the prior year.

SD&A Expenses (In thousands)	Years Ended March 31, 2012	2011	Increase		
Distribution	$1,528,215	$1,418,491	$109,724	8	%
All Other Operations	162,205	134,578	27,627	21	%
Other	37,349	21,003	16,346		
	$1,727,769	$1,574,072	$153,697	10	%

SD&A expenses in the Distribution and All Other Operations business segments increased 8% and 21%, respectively, in the current year. For both business segments, the increases in SD&A costs were driven by higher variable costs on sales growth, including sales commissions, salaries, production overtime and distribution costs, and incremental operating costs associated with acquired businesses of $14 million for the Distribution business segment and $10 million for the All Other Operations business segment. As a percentage of Distribution business segment net sales, SD&A expenses in the Distribution business segment decreased 110 basis points to 36.1% compared to 37.2% in the prior year driven by operating leverage on sales growth and by the shift in sales mix towards hardgoods. As a percentage of All Other Operations business segment net sales, SD&A expenses in the All Other Operations business segment increased 100 basis points to 29.5% compared to 28.5% in the prior year primarily driven by higher distribution costs, much of which are recovered through surcharge billings to customers.

SD&A Expenses – Other

Enterprise Information System

The Company continues its phased, multi-year rollout of its highly-customized SAP enterprise information system, whereby business units will implement the new system in succession. Through March 31, 2012, the Company has successfully converted its Safety telesales and hardgoods infrastructure businesses and five regional distribution companies to SAP. The Company continues to prepare for the implementation of SAP at the remainder of its business units. SAP costs incurred by the Company include pre-implementation data conversion and training costs as well as post-implementation monitoring, training and operating activities related to the scheduled business unit rollouts. SAP implementation costs for the current year were $33.0 million as compared to $16.4 million in the prior year. These costs were recorded as SD&A expenses and were not allocated to the Company's business segments.

Multi-employer Pension Plan Withdrawals

Historically, the Company participated in several MEPPs providing defined benefits to union employees under the terms of collective bargaining agreements ("CBAs"). Contributions were made to the plans in accordance with negotiated CBAs. The plans generally provided retirement benefits to participants based on their service to

contributing employers.

In connection with the renewal of CBAs, the Company has been successful in negotiating its withdrawal from MEPPs, replacing those retirement plans for CBA employees with defined contribution plans. As part of the withdrawal from a MEPP, the Company is required to fund its portion of the MEPP's unfunded pension obligation, if any. The amount of the withdrawal

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liability assessed by a MEPP is impacted by a number of factors, including investment returns, benefit levels, interest rates and continued participation by other employers in the MEPP.

During the current year, the Company incurred MEPP withdrawal charges of $4.3 million, primarily related to the final withdrawal and assessment from its last remaining MEPP. During the year ended March 31, 2011, the Company incurred MEPP withdrawal charges of $4.6 million. These charges are reflected in selling, distribution and administrative expenses. As of March 31, 2012, the Company has successfully negotiated its withdrawal from all MEPPs in which it previously participated and has fully accrued for the related withdrawal assessments.

Restructuring and Other Special Charges

The following table presents the components of restructuring and other special charges for the current year:

(In thousands)	Year Ended March 31, 2012
Restructuring costs	$ 14,473
Other related costs	5,725
Asset impairment charges	$ 4,250
Total restructuring and other special charges	$ 24,448

Restructuring and Other Related Costs

As a result of the realignment of the Company’s twelve regional distribution companies into four new divisions, and the consolidation of its regional company accounting and certain administrative functions into four newly created BSCs, the Company recorded $14.5 million in restructuring costs during the current year, primarily related to severance benefits to be paid out through fiscal 2014 and facility exit costs. Also during the current year, the Company incurred $5.7 million of other costs related to the divisional realignment and LLC formation. These costs primarily related to transition staffing for the BSCs, legal costs and other expenses associated with the Company's organizational and legal entity changes. The restructuring charges and other related costs were not allocated to the Company’s business segments.

The activity in the accrued liability balances associated with the restructuring plan was as follows for the year ended March 31, 2012:

(In thousands)	Severance Costs	Facility Exit and Other Costs	Total
Balance at March 31, 2011	$—	$—	$—
Restructuring charges	13,330	1,143	14,473
Cash payments and other adjustments	(192)	(153)	(345)
Balance at March 31, 2012	$ 13,138	$ 990	$ 14,128

Asset Impairments

In August 2011, the Company received 24 months notice that a supplier’s hydrogen plant, which generates carbon dioxide as a by-product that serves as the feedstock for the Company’s co-located liquid carbon dioxide plant, will cease operations in calendar year 2013. The Company expects the hydrogen plant to continue to supply the feedstock for its liquid carbon dioxide plant during the intervening period. As a result of an impairment analysis performed on the assets at this location, the Company recorded a charge of $2.5 million during the current year.

Additionally, in March 2012, the Company re-evaluated its plan for the operation of one of its smaller and less efficient air separation units (“ASUs”) over the long-term. As a result of an impairment analysis performed on the assets at this location, the Company recorded a charge of $1.8 million during the current year.

Total asset impairment charges for the current year were $4.3 million.

Unsolicited Takeover Attempt

On February 11, 2010, Air Products initiated an unsolicited tender offer for all of the Company’s outstanding shares of common stock. In connection with this unsolicited tender offer, Air Products filed an action against the Company and members of its Board in the Delaware Court of Chancery. On February 15, 2011, the Delaware Court of Chancery denied in their entirety all requests for relief by Air Products and dismissed with prejudice all claims asserted against the Company and its directors.

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Air Products promptly terminated its unsolicited tender offer and no appeal of the Court's decision was filed. In responding to the unsolicited tender offer and related litigation, the Company incurred on a cumulative basis a net $60.0 million of legal and professional fees and other costs. During the current year, the Company recognized a $7.9 million benefit from lower than previously estimated net costs related to the Air Products' unsolicited takeover attempt of Airgas. During the prior year, the Company incurred $44.4 million of costs related to the unsolicited takeover attempt. The net costs and benefits recognized related to the unsolicited takeover attempt were reflected as a separate line item in the Company's Consolidated Statements of Earnings, and were not allocated to the Company's business segments.

Depreciation and Amortization

Depreciation expense increased $20 million or 9%, to $245 million in the current year as compared to $225 million in the prior year. The increase primarily reflects the additional depreciation expense on capital investments in revenue generating assets to support customer demand (such as cylinders and bulk tanks), $8 million of incremental depreciation expense related to the SAP enterprise information system and $4 million of additional depreciation expense on capital assets included in acquisitions. Total fiscal 2012 depreciation expense related to the SAP system of $10 million represents the expected full annual depreciation run-rate without the benefits associated with full implementation of the system. Amortization expense of $25 million in the current year was consistent with that of the prior year.

Operating Income

Consolidated operating income of $556 million increased 19% in the current year driven by operating leverage on organic sales growth and $52 million of lower costs related to the unsolicited takeover attempt, which offset $24 million of incremental SD&A and depreciation expense related to the SAP implementation and $24 million of restructuring and other special charges. The consolidated operating income margin increased 70 basis points to 11.7% from 11.0% in the prior year, reflecting the impact of the above items.

Operating Income	Years Ended March 31,				
(In thousands)	2012	2011	Increase		
Distribution	$542,684	$469,105	$73,579	16	%
All Other Operations	67,464	65,495	1,969	3	%
Other	(53,927)	(65,409)	11,482		
	$556,221	$469,191	$87,030	19	%

Operating income in the Distribution business segment increased 16% in the current year. The Distribution business segment's operating income margin increased 50 basis points to 12.8% compared to 12.3% in the prior year. The operating income margin increase was driven by operating leverage on organic sales growth in the current year, which more than offset higher variable costs associated with sales growth.

Operating income in the All Other Operations business segment increased 3% compared to the prior year. The All Other Operations business segment's operating income margin of 12.3% decreased by 160 basis points compared to the operating income margin of 13.9% in the prior year.

Interest Expense, Net and Losses on the Extinguishment of Debt

Interest expense, net, was $66 million in the current year, representing an increase of $6 million, or 10%, compared to the prior year. The overall increase in interest expense, net, resulted primarily from higher average debt balances in the current period as compared to the prior year period, primarily reflecting the impact of stock repurchases and acquisitions.

In September 2010, the Company replaced its then existing senior credit facility with a new credit facility. As a result of the early termination of the prior credit facility, the Company recognized a loss of $0.6 million associated with the write-off of unamortized debt issuance costs during the prior year period. Additionally, the Company repurchased $30 million of its 7.125% senior subordinated notes due October 1, 2018 (the "2018 Notes") during the prior year period. In conjunction with the repurchase of the 2018 Notes, the Company recognized losses on the early extinguishment of

debt of $3.6 million during the prior year period. The losses reflected the redemption premiums as well as the write-off of the associated unamortized debt issuance costs.

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Income Tax Expense

The effective income tax rate was 36.3% of pre-tax earnings in the current year compared to 38.5% in the prior year. The decrease in effective income tax rates was due in part to the Company's recognition of a $4.9 million tax benefit (which reduced the effective income tax rate by approximately 1%) related to the LLC reorganization as well as a true-up of its foreign tax liabilities. As a result of the Company's operating realignment into four divisions, the Company initiated a related change in its legal entity structure in which the majority of Airgas' distribution businesses have merged or will merge into a single LLC, leading to the realization of certain state tax benefits that previously required a valuation allowance. The Company expects the effective income tax rate for fiscal 2013 to be between 37.5% and 38.0% of pre-tax earnings.

Net Earnings

Net earnings per diluted share rose 36% to $4.00 in the current year compared to $2.94 in the prior year. Net earnings were $313.4 million compared to $250.3 million in the prior year. Net earnings per diluted share in the current and prior year periods included net special charges aggregating to $0.11 and $0.41 per diluted share, respectively. Net special charges in each period consisted of the following:

	Years Ended March 31,	
Effect on Diluted EPS	2012	2011
Restructuring and other special charges	$0.19	$—
Costs (benefits) related to unsolicited takeover attempt	(0.06)	0.33
Multi-employer pension plan withdrawal charges	0.04	0.03
Losses on the extinguishment of debt	—	0.03
One-time interest penalty	—	0.02
Income tax benefits	(0.06)	—
Special charges, net	$0.11	$0.41

RESULTS OF OPERATIONS: 2011 COMPARED TO 2010

OVERVIEW

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

The Company's operating income margin increased 70 basis points to 11.0% in fiscal 2011 compared to 10.3% in fiscal 2010. Fiscal 2011's operating income margin reflected a 110 basis point improvement in the operating income margin driven by operating leverage on sales growth in fiscal 2011, offset by $44.4 million in costs related to Air Products' unsolicited takeover attempt and $4.6 million in charges related to the Company's withdrawal from some of its MEPPs, which together reduced the Company's operating income margin by 120 basis points. The Company's operating income margin in fiscal 2010 reflected the impact of $23.4 million in costs related to Air Products' unsolicited takeover attempt and $6.7 million in MEPP withdrawal charges, which reduced fiscal 2010's operating income margin by 80 basis points.

Net earnings per diluted share rose 26% to $2.94 in fiscal 2011 versus $2.34 in fiscal 2010. Net earnings per diluted share in fiscal 2011 included special charges aggregating to $0.41 per diluted share comprised of $0.33 per diluted

share in costs related to the unsolicited takeover attempt, $0.03 per diluted share in MEPP withdrawal charges, $0.03 per diluted share in losses on the extinguishment of debt and $0.02 per diluted share for a one-time interest penalty. Net earnings per diluted share in fiscal 2010 included net special charges aggregating to $0.34 per diluted share comprised of $0.18 per diluted share in costs related to the unsolicited takeover attempt, $0.05 per diluted share in MEPP withdrawal charges, $0.14 per diluted share in losses on the extinguishment of debt and a $0.03 per diluted share income tax benefit associated with the reorganization of

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certain facilities within the All Other Operations business segment. The special charges reduced reported net earnings per diluted share by 12% in fiscal 2011 and 13% in fiscal 2010.

STATEMENT OF EARNINGS COMMENTARY - FISCAL YEAR ENDED MARCH 31, 2011 COMPARED TO FISCAL YEAR ENDED MARCH 31, 2010

Net Sales

Net sales increased 10% to $4.3 billion for fiscal 2011 compared to fiscal 2010, driven by same-store sales growth of 8% and incremental sales of 2% contributed by acquisitions. Gas and rent same-store sales increased 7% and hardgoods increased 11%. Same-store sales were driven by increased volumes of 5% and price of 3%.

Strategic products account for more than 40% of net sales and include safety products, bulk, medical and specialty gases, as well as carbon dioxide and dry ice. The Company has identified these products as strategic because it believes they have good long-term growth profiles relative to the Company's core industrial gas and welding products due to favorable end customer markets, application development, increasing environmental regulation, strong cross-selling opportunities or a combination thereof. For fiscal 2011, sales of strategic products increased 9% on a same-store sales basis as compared to fiscal 2010, which was slightly stronger than the overall same-store sales increase of 8%.

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

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

Sales of strategic gas products sold through the Distribution business segment in fiscal 2011 increased 8% from fiscal 2010. Among strategic gas products, bulk gas sales were up 10% as bulk sales to industrial manufacturing and petrochemical customers continued to recover, and bulk nitrogen for food-freezing applications continued to show strength. Sales of medical gases were up 4% as a result of new business signings, partially offset by a reduction in elective and non-critical medical procedures, which reduced overall demand. Sales of specialty gases were up 8% driven primarily by higher volumes and increased demand for core specialty gases. The rising demand for the Company's core specialty gases reflects further strengthening of the Company's market position in EPA protocols and other calibration gas mixtures, improving conditions in petrochemical markets and spot sales of certain rare gases in the fiscal second quarter.

Contributing to the rise in Distribution business segment hardgoods same-store sales were increases in both safety products and the Company's Radnor® private-label brand product line. Safety product sales increased 13% in fiscal 2011, comparing favorably to the overall hardgoods same-store sales increase of 11% and reflecting broad-based increases that were most pronounced in the manufacturing customer base. The Company's Radnor® private-label line was up 15% for fiscal 2011, driven by the overall increase in hardgoods volumes.

Sales of core industrial gases, which experienced the sharpest volume declines during the recession, increased 6% in fiscal 2011 as compared to fiscal 2010, reflecting accelerating growth in the Company's core business. Revenues from the Company's rental welder business experienced a 5% decline in same-store sales during fiscal 2011 as compared to fiscal 2010, primarily as a result of continued weakness in non-residential construction.

The All Other Operations business segment sales increased 12% in total and on a same-store basis compared to fiscal 2010. The sales increase was driven by higher pricing and volumes for certain products in the refrigerants business and for ammonia used in DeNOx applications and chemicals processing, as well as higher volumes in the carbon

dioxide and dry ice businesses.

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Gross Profits (Excluding Depreciation)

Consolidated gross profits (excluding depreciation) increased 9% compared to fiscal 2010, principally due to the same-store sales increase in fiscal 2011. The consolidated gross profit margin (excluding depreciation) in fiscal 2011 declined 40 basis points to 55.0% compared to 55.4% in fiscal 2010. The decline in consolidated gross profit margin (excluding depreciation) primarily reflects the sales mix shift toward lower-margin hardgoods that is characteristic of an industrial economic recovery.

Gross Profits (ex. Depr.) (In thousands)	Years Ended March 31, 2011	2010	Increase		
Distribution	$2,118,080	$1,948,814	$169,266	9	%
All Other Operations	220,107	198,419	21,688	11	%
	$2,338,187	$2,147,233	$190,954	9	%

The Distribution business segment's gross profits (excluding depreciation) increased 9% compared to fiscal 2010. The Distribution business segment's gross profit margin (excluding depreciation) was 55.6% versus 56.0% in fiscal 2010, a decrease of 40 basis points. The decline in the Distribution business segment's gross profit margin (excluding depreciation) largely reflects the shift in sales mix toward hardgoods, which carry lower gross profit margins (excluding depreciation) than gas and rent. As a percentage of the Distribution business segment's sales, gas and rent decreased 120 basis points to 59.6% in the current year as compared to 60.8% in fiscal 2010.

The All Other Operations business segment's gross profits (excluding depreciation) increased 11% compared to fiscal 2010, primarily as a result of favorable pricing and product mix for the refrigerants, carbon dioxide and dry ice businesses. The All Other Operations business segment's gross profit margin (excluding depreciation) decreased 50 basis points to 46.6% in fiscal 2011 from 47.1% in fiscal 2010. The decrease in the All Other Operations business segment's gross profit margin (excluding depreciation) was primarily driven by higher costs in the ammonia business relative to pricing.

Operating Expenses

Consolidated SD&A expenses increased $85 million, or 6%, in fiscal 2011 as compared to fiscal 2010. Contributing to the increase in SD&A expenses were $65 million of higher variable costs associated with growing sales, such as sales commissions, performance bonuses, production overtime and distribution costs, approximately $13 million of incremental operating costs associated with acquired businesses and $9 million in incremental costs associated with the SAP implementation, slightly offset by $2 million of lower MEPP withdrawal charges. As a percentage of net sales, SD&A expense decreased 140 basis points to 37.0% compared to 38.4% in fiscal 2010 driven by operating leverage on sales growth and by the shift in sales mix to hardgoods, which carry lower operating expenses in relation to sales and corresponding lower gross margins. Although corporate operating expenses are generally allocated to each business segment based on sales dollars, the Company reports SD&A expenses related to the implementation of its SAP system and the Company's withdrawal from various MEPPs in the Other line item in the table below.

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

SD&A expenses in the Distribution and All Other Operations business segments increased 5% and 6%, respectively, in fiscal 2011. For both business segments, the increases in SD&A costs were driven by higher variable costs on sales growth, including sales commissions, performance bonuses, production overtime and distribution costs, and approximately $13 million of incremental operating costs associated with acquired businesses, the majority of which

was incurred in the Distribution business segment. As a percentage of Distribution business segment net sales, SD&A expense in the Distribution business segment decreased 160 basis points to 37.2% compared to 38.8% in fiscal 2010, driven by operating leverage on sales growth and by the shift in sales mix to hardgoods. As a percentage of All Other Operations business segment net sales, SD&A expense in the All Other Operations business segment decreased 170 basis points to 28.5% compared to 30.2% in fiscal 2010, driven

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primarily by operating leverage on sales growth in the refrigerants, carbon dioxide and dry ice businesses.

Enterprise Information System

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

Multi-employer Pension Plan Withdrawals

MEPP withdrawal costs for fiscal 2011 were $4.6 million and related to the ratification of certain CBAs up for renewal as well as revised estimated withdrawal liabilities from two plan administrators. In connection with the renewal of certain labor contracts during fiscal 2010, the Company recognized MEPP withdrawal charges of $6.7 million in fiscal 2010. These charges were reflected in SD&A expenses and were not allocated to the Company's business segments.

Unsolicited Takeover Attempt

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

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

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

During fiscal 2011, the Company incurred $44.4 million of legal and professional fees and other costs related to Air Products' unsolicited takeover attempt and the related litigation compared to $23.4 million in fiscal 2010. The costs related to the unsolicited takeover attempt were reflected as a separate line item in the Company's Consolidated Statements of Earnings, and were not allocated to the Company's business segments.

Depreciation and Amortization

Depreciation expense of $225 million increased $13 million, or 6%, in fiscal 2011 as compared to $213 million in fiscal 2010. The increase primarily reflects capital investments in revenue generating assets to support customer demand (such as cylinders and bulk tanks) and $2 million of incremental depreciation expense related to the SAP

enterprise information system. Amortization expense of $25 million in fiscal 2011 increased by $3 million as compared to fiscal 2010 reflecting amortization of intangibles acquired during both fiscal 2011 and 2010.

Operating Income

Consolidated operating income of $469 million increased 17% in fiscal 2011 driven by operating leverage on sales

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growth which more than offset the impact of costs related to the unsolicited takeover attempt, higher variable costs associated with sales growth, and incremental SAP implementation costs, slightly offset by lower MEPP withdrawal charges. The consolidated operating income margin, which was negatively impacted by significant costs related to the unsolicited takeover attempt, increased to 11.0% from 10.3% in fiscal 2010. Although corporate operating expenses are generally allocated to each business segment based on sales dollars, the Company reports SD&A expenses related to the implementation of its SAP system and the Company's withdrawal from various MEPPs in the Other line item in the table below. Additionally, the legal and professional fees and other costs related to the unsolicited takeover attempt are not allocated to the Company's business segments, and are also reflected in the Other line item in the table below.

Operating Income (In thousands)	Years Ended March 31, 2011	2010	Increase	
Distribution	$469,105	$384,530	$84,575	22 %
All Other Operations	65,495	52,482	13,013	25 %
Other	(65,409)	(37,468)	(27,941)	
	$469,191	$399,544	$69,647	17 %

Operating income in the Distribution business segment increased 22% in fiscal 2011. The Distribution business segment's operating income margin increased 120 basis points to 12.3% compared to 11.1% in fiscal 2010. The operating income margin increase was driven by operating leverage on sales growth in fiscal 2011 which more than offset higher variable costs associated with sales growth.

Operating income in the All Other Operations business segment increased 25% compared to fiscal 2010. The All Other Operations business segment's operating income margin of 13.9% was 140 basis points higher than the operating income margin of 12.5% in fiscal 2010. The increase in operating margin was driven primarily by operating leverage on sales growth in the refrigerants, carbon dioxide and dry ice businesses, partially offset by the impact of gross margin compression in the ammonia business.

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

Interest expense, net, was $60 million in fiscal 2011, representing a decrease of approximately $9 million, or 13%, compared to interest expense, net, and the discount on securitization of trade receivables in fiscal 2010. As a result of a change in accounting treatment effective April 1, 2010 related to the Company's trade receivables securitization program, costs formerly recognized as discount on securitization of trade receivables, which represented the difference between the carrying value of the receivables and the proceeds from their sale, are now reflected as interest expense, consistent with the new accounting treatment. The overall decrease in interest expense, net (including the discount on securitization of trade receivables in fiscal 2010) resulted primarily from lower average debt balances in fiscal 2011 as compared to aggregate debt and trade receivables securitization balances in fiscal 2010, partially offset by a $2.6 million one-time interest penalty in fiscal 2011 related to the 2018 Notes.

Interest Penalty

During fiscal 2011, the Company incurred a one-time interest penalty to the holders of its 2018 Notes in the amount of $2.6 million related to the late removal of the restrictive legend on these notes. In issuing the 2018 Notes, the Company utilized a newly available technology that has since become obsolete, wherein it was incumbent upon Airgas to remove the restrictive legend from the 2018 Notes at the end of the restricted transfer period. Failure to do so required the payment of an interest penalty to holders of the 2018 Notes, which the Company promptly addressed when it identified the oversight. The Company has classified this penalty as interest expense.

Trade Receivables Securitization

The Company participates in the Securitization Agreement with three commercial banks to which it sells qualifying trade receivables on a revolving basis. The maximum amount of the Securitization Agreement is $295 million. On April 1, 2010, the Company adopted new accounting guidance which affected the presentation of its Securitization Agreement. Under the new guidance, proceeds received under the Securitization Agreement are treated as secured borrowings, whereas previously they were treated as proceeds from the sale of trade receivables. Furthermore, the new

accounting treatment resulted in the recognition of both the trade receivables securitized under the agreement and the borrowings they collateralize on the Company's Consolidated Balance Sheet, which led to a $295 million increase in trade receivables and long-term debt. There was no impact to the Company's consolidated net earnings as a result of the change in accounting principle. Additionally, the Company's debt covenants were not impacted by the balance sheet recognition of the borrowings under the new accounting

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guidance, as borrowings under the Securitization Agreement were already factored into the debt covenant calculations.
Financing and Losses on the Extinguishment of Debt
In September 2010, the Company replaced its then existing senior credit facility with a new credit facility. As a result of the early termination of the prior credit facility, the Company recognized a loss of $0.6 million associated with the write-off of unamortized debt issuance costs.
Additionally, during fiscal 2011, the Company repurchased $30 million of its 2018 Notes at an average price of 110.6% of the principal. In conjunction with the repurchase of the 2018 Notes, the Company recognized losses on the early extinguishment of debt of $3.6 million. The losses reflected the redemption premiums as well as the write-off of associated unamortized debt issuance costs. In connection with the fiscal 2010 repurchase of $154 million of the 2018 Notes and the redemption in full of the $150 million 6.25% senior subordinated notes due July 15, 2014 (the "2004 Notes"), the Company recognized losses on the early extinguishment of debt of $17.9 million in fiscal 2010. The losses related to the redemption premiums and the write-off of unamortized debt issuance costs.
Income Tax Expense
The effective income tax rate was 38.5% of pre-tax earnings in fiscal 2011 compared to 37.5% in fiscal 2010. The lower tax rate in fiscal 2010 reflects the impact of tax benefits of $2.2 million associated with the reorganization of certain facilities within the All Other Operations business segment and the recognition of previously unrecognized tax benefits associated with uncertain tax positions.
Net Earnings
Net earnings were $250 million, or $2.94 per diluted share, compared to $196 million, or $2.34 per diluted share, in fiscal 2010. Fiscal 2011's net earnings include costs related to the unsolicited takeover attempt of $44.4 million ($28.0 million after tax) or $0.33 per diluted share, charges related to withdrawals from MEPPs of $4.6 million ($2.8 million after tax) or $0.03 per diluted share, losses related to the early extinguishment of debt of $4.2 million ($2.6 million after tax) or $0.03 per diluted share and costs related to the one-time interest penalty of $2.6 million ($1.7 million after tax) or $0.02 per diluted share. Fiscal 2010's net earnings include costs related to the unsolicited takeover attempt of $23.4 million ($14.8 million after tax) or $0.18 per diluted share, charges related to withdrawals from MEPPs of $6.7 million ($4.1 million after tax) or $0.05 per diluted share, losses related to the early extinguishment of debt of $17.9 million ($11.3 million after tax) or $0.14 per diluted share and a one-time income tax benefit of $2.2 million or $0.03 per diluted share.

LIQUIDITY AND CAPITAL RESOURCES
Cash Flows
Net cash provided by operating activities was $506 million in fiscal 2012 compared to $275 million in fiscal 2011 and $600 million in fiscal 2010. Net cash provided by operating activities in fiscal 2011 was negatively impacted by new accounting guidance adopted by the Company on April 1, 2010 that affected the presentation of the Securitization Agreement. As a result of implementing the new guidance, funding under the agreement of $295 million on April 1, 2010 was reflected in the Company's Consolidated Statements of Cash Flows as a use of cash from the securitization of trade receivables in operating activities and as a source of cash in financing activities.
The following table provides a summary of the major items affecting the Company's cash flows from operating activities for the periods presented:

	Years Ended March 31,		
(In thousands)	2012	2011	2010
Net earnings	$313,374	$250,264	$196,266
Non-cash and non-operating activities [1]	368,942	348,965	344,846
Trade receivables securitization	—	(295,000)	(16,400)
Changes in working capital	(179,562)	(27,701)	79,320
Other operating activities	3,652	(1,227)	(3,985)
Net cash provided by operating activities	$506,406	$275,301	$600,047

[1] Includes depreciation, amortization, asset impairment charges, deferred income taxes, loss on sales of plant and equipment, stock-based compensation expense and losses on the extinguishment of debt.

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The increase in the use of cash for working capital in fiscal 2012 was driven by increases in working capital to support sales growth and the payout of fiscal 2011 accrued annual incentive compensation, as well as payments for professional fees related to the Air Products' unsolicited takeover attempt in fiscal 2011 and payments related to the Company's final MEPP withdrawal assessments. Working capital provided cash in fiscal 2010 primarily driven by lower inventory and accounts receivable balances, reflecting the recession's impact on declining sales in fiscal 2010. Net earnings adjusted for non-cash and non-operating items provided cash of $682 million versus $599 million in fiscal 2011 and $541 million in fiscal 2010.

The following table provides a summary of the major items affecting the Company's cash flows from investing activities for the periods presented:

	Years Ended March 31,		
(In thousands)	2012	2011	2010
Capital expenditures	$ (356,514)	$ (256,030)	$ (252,828)
Business acquisitions and holdback settlements	(160,115)	(21,186)	(80,777)
Other investing activities	14,535	15,449	11,324
Net cash used in investing activities	$ (502,094)	$ (261,767)	$ (322,281)

Capital expenditures increased approximately $100 million in the current year compared to the prior years, primarily due to investments in revenue generating assets, such as cylinders and bulk tanks to support sales growth, the construction of an ASU in Clarksville, Tennessee, the expansion of a hardgoods distribution center in Duluth, Georgia, the purchase of a new hardgoods distribution center in Bristol, Pennsylvania and the build-out of the Company's four BSCs. Capital expenditures in all periods also reflect the development and implementation of the Company's highly customized SAP system. Capital expenditures as a percent of sales was 7.5%, 6.0% and 6.5%, respectively, for fiscal years 2012, 2011 and 2010. Payments for business acquisitions and holdback settlements in fiscal 2012 also increased significantly from the prior years due to renewed activity in the acquisitions market.

Free cash flow* in fiscal 2012 was $262 million, compared to $387 million in fiscal 2011 and $412 million in fiscal 2010. The decrease in free cash flow from the prior years reflects an increase in capital expenditures and working capital to support sales growth.

The following table provides a summary of the major items affecting the Company's cash flows from financing activities for the periods presented:

	Years Ended March 31,		
(In thousands)	2012	2011	2010
Net cash borrowings (repayments) exclusive of trade receivables securitization	$ 305,788	$ 35,593	$ (253,868)
Proceeds from trade receivables securitization	—	295,000	—
Purchase of treasury stock	(300,000)	(300,000)	—
Dividends paid to stockholders	(95,323)	(83,797)	(62,526)
Other financing activities	72,668	49,887	38,441
Net cash used in financing activities	$ (16,867)	$ (3,317)	$ (277,953)

In fiscal 2012, net financing activities used cash of $17 million. Net borrowings were a source of $306 million, primarily related to the issuance of $250 million of 2.95% senior notes maturing on June 15, 2016. The Company authorized and completed a share repurchase program purchasing 4.5 million shares of treasury stock for $300 million. Other financing activities, primarily comprised of proceeds and tax benefits related to the exercise of stock options and stock issued for the employee stock purchase plan, generated cash of $73 million.

In fiscal 2011, net financing activities used cash of $3 million. Net borrowings exclusive of the trade receivables securitization were a source of $36 million. As noted above under operating activities, the change in accounting principle for the Securitization Agreement was reflected as a financing source of cash of $295 million, but had no impact on the Company's net cash position as an equal and offsetting amount was reflected as a use of cash in operating activities. The Company authorized and completed a share repurchase program purchasing 4.8 million shares of treasury stock for $300 million. Other financing activities, primarily comprised of proceeds and tax benefits related to the exercise of stock options and stock issued for the employee stock purchase plan, generated cash of $50

million.

In fiscal 2010, net financing activities used cash of $278 million. Strong operating cash flows enabled the Company to

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make a net debt repayment of $254 million. Other financing activities, primarily comprised of proceeds and tax benefits related to the exercise of stock options and stock issued for the employee stock purchase plan, generated cash of $38 million.

* See Non-GAAP reconciliations below.

Dividends

In fiscal 2012, the Company paid its stockholders $95 million or $0.32 per share in the second through fourth quarters and $0.29 per share in the first quarter. During fiscal 2011, the Company paid dividends of $84 million or $0.22 per share in the first quarter, $0.25 per share in the second and third quarters and $0.29 per share in the fourth quarter. During fiscal 2010, the Company paid its stockholders $63 million or $0.18 at the end of each of the first three quarters and $0.22 in the fourth quarter. Future dividend declarations and associated amounts paid will depend upon the Company's earnings, financial condition, loan covenants, capital requirements and other factors deemed relevant by management and the Company's Board of Directors.

Financial Instruments

Commercial Paper

In October 2011, the Company commenced a $750 million commercial paper program supported by its $750 million revolving credit facility (see below). This program allows the Company to obtain favorable short-term borrowing rates with maturities that may vary, but will generally not exceed 90 days from the date of issue. The Company has used proceeds from the commercial paper program to pay down amounts outstanding under its revolving credit facility and for general corporate purposes. At March 31, 2012, $388 million was outstanding under the commercial paper program and the average effective interest rate on these borrowings was 0.54%.

Senior Credit Facility

On July 19, 2011, the Company entered into a $750 million Amended and Restated Credit Facility (the "Credit Facility") to amend and restate the prior credit facility dated September 13, 2010. The Credit Facility consists of a $650 million U.S. dollar revolving credit line and a $100 million (U.S. dollar equivalent) multi-currency revolving credit line. The maturity date of the Credit Facility is July 19, 2016. Under circumstances described in the Credit Facility, the revolving credit line may be increased by an additional $325 million, provided that the multi-currency revolving credit line may not be increased by more than an additional $50 million.

As of March 31, 2012, the Company had $43 million of borrowings under the Credit Facility, all of which were under the multi-currency revolver. There were no borrowings under the U.S. dollar revolver at March 31, 2012. The Company also had outstanding U.S. letters of credit of $45 million issued under the Credit Facility. U.S. dollar revolver borrowings bear interest at the London Interbank Offered Rate ("LIBOR") plus 125 basis points. The multi-currency revolver bears interest based on a rate of 125 basis points over the Euro currency rate applicable to each foreign currency borrowing. As of March 31, 2012, the average effective interest rate on the multi-currency revolver was 1.93%.

At March 31, 2012, the financial covenant of the Credit Facility did not restrict the Company's ability to borrow on the unused portion of the Credit Facility. The Credit Facility contains customary events of default, including, without limitation, failure to make payments, a cross-default to certain other debt, breaches of covenants, breaches of representations and warranties, certain monetary judgments and bankruptcy and ERISA events. In the event of default, repayment of borrowings under the Credit Facility may be accelerated.

The Company also maintains a committed revolving line of credit of up to €8.0 million (U.S. $10.7 million) to fund its operations in France. These revolving credit borrowings are outside of the Company's Credit Facility. At March 31, 2012, these revolving credit borrowings were €4.8 million (U.S. $6.3 million). The variable interest rates on the French revolving credit borrowings are based on the Euro currency rate plus 125 basis points. As of March 31, 2012, the effective interest rate on the French revolving credit borrowings was 1.7%. This line of credit matures on December 31, 2012.

Total Borrowing Capacity

As of March 31, 2012, $273 million remained unused under the Company's Credit Facility, after giving effect to the borrowings under the commercial paper program backstopped by the Credit Facility, the outstanding U.S. letters of

credit and the borrowings under the multi-currency revolver.

The Company believes that it has sufficient liquidity from cash from operations and under its revolving credit facilities to meet its working capital, capital expenditure and other financial commitments. The financial covenant under the Company's Credit Facility requires the Company to maintain a leverage ratio not higher than 3.5. The leverage ratio is a contractually defined amount principally reflecting debt and, historically, the amounts outstanding under the Securitization Agreement

divided by a contractually defined Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") for the trailing twelve-month period with pro forma adjustments for acquisitions. The financial covenant calculations of the Credit Facility include the pro forma results of acquired businesses. Therefore, total borrowing capacity is not reduced dollar-for-dollar with acquisition financing. The leverage ratio measures the Company's ability to meet current and future obligations. At March 31, 2012, the Company's leverage ratio was 2.6.

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

Money Market Loans

The Company has an agreement with a financial institution that provides access to short-term advances not to exceed $35 million that expires on July 31, 2012, but may be extended subject to renewal provisions contained in the agreement. The advances are generally overnight or for up to seven days. The amount, term and interest rate of an advance are established through mutual agreement with the financial institution when the Company requests such an advance. At March 31, 2012, there were no advances outstanding under the agreement.

The Company also has an agreement with another financial institution to provide access to additional short-term advances not to exceed $35 million. The agreement expires on January 2, 2013, but may be extended subject to renewal provisions contained in the agreement. The advances may be for one to six months with rates at a fixed spread over the corresponding LIBOR. At March 31, 2012, there were no advances outstanding under the agreement.

Senior Notes

On June 3, 2011, the Company issued $250 million of 2.95% senior notes maturing on June 15, 2016 (the "2016 Notes"). The 2016 Notes were issued at a discount with a yield of 2.980%. The net proceeds from the sale of the 2016 Notes were used to fund acquisitions and repurchase shares under the Company's stock repurchase program. Interest on the 2016 Notes is payable semi-annually on June 15 and December 15 of each year.

At March 31, 2012, the Company had $300 million outstanding of 2.85% senior notes maturing on October 1, 2013 (the "2013 Notes"). The 2013 Notes were issued at a discount with a yield of 2.871%. Interest on the 2013 Notes is payable semi-annually on April 1 and October 1 of each year.

At March 31, 2012, the Company had $400 million outstanding of 4.5% senior notes maturing on September 15, 2014 (the "2014 Notes"). The 2014 Notes were issued at a discount with a yield of 4.527%. Interest on the 2014 Notes is payable semi-annually on March 15 and September 15 of each year.

At March 31, 2012, the Company had $250 million outstanding of 3.25% senior notes maturing on October 1, 2015 (the "2015 Notes"). The 2015 Notes were issued at a discount with a yield of 3.283%. Interest on the 2015 Notes is payable semi-annually on April 1 and October 1 of each year.

The 2013, 2014, 2015 and 2016 Notes (collectively, the "Senior Notes") contain covenants that could restrict the incurrence of liens and limit sale and leaseback transactions. Additionally, the Company has the option to redeem the Senior Notes prior to their maturity, in whole or in part, at 100% of the principal plus any accrued but unpaid interest and applicable make-whole payments.

Senior Subordinated Notes

At March 31, 2012, the Company had $215 million outstanding of 7.125% senior subordinated notes maturing on October 1, 2018 (the "2018 Notes"). Interest on the 2018 Notes is payable semi-annually on April 1 and October 1 of each year. The 2018 Notes have a redemption provision which permits the Company, at its option, to call the 2018 Notes at scheduled dates and prices. The first scheduled optional redemption date is October 1, 2013 at a price of 103.563% of the principal amount.

Other Long-term Debt

The Company's other long-term debt primarily consists of vendor financing of rental welders, capitalized lease obligations and notes issued to sellers of businesses acquired, which are repayable in periodic installments. At March 31, 2012, other long-term debt totaled $6.1 million with an average interest rate of approximately 6% and an average maturity of approximately one year.

Trade Receivables Securitization

The Company participates in the Securitization Agreement with three commercial banks to which it sells qualifying trade

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receivables on a revolving basis. The Company's sale of qualified trade receivables is accounted for as a secured borrowing under which qualified trade receivables collateralize amounts borrowed from the commercial banks. Trade receivables that collateralize the Securitization Agreement are held in a bankruptcy-remote special purpose entity, which is consolidated for financial reporting purposes and represents the Company's only variable interest entity. Qualified trade receivables in the amount of the outstanding borrowing under the Securitization Agreement are not available to the general creditors of the Company. The maximum amount of the Securitization Agreement is $295 million and it bears interest at approximately LIBOR plus 70 basis points. At March 31, 2012, the amount of outstanding borrowing under the Securitization Agreement was $295 million, and it was classified as long-term debt on the Consolidated Balance Sheet. Amounts borrowed under the Securitization Agreement could fluctuate monthly based on the Company's funding requirements and the level of qualified trade receivables available to collateralize the Securitization Agreement. The Securitization Agreement expires in December 2013 and contains customary events of termination, including standard cross-default provisions with respect to outstanding debt.

Debt Extinguishment Charges

During the year ended March 31, 2011, the Company repurchased $30.0 million of its 2018 Notes at an average price of 110.6% of the principal. Losses on the early extinguishment of debt from the repurchase of the 2018 Notes were $3.6 million for the year ended March 31, 2011 and related to the redemption premiums and write-off of unamortized debt issuance costs.

Also during the year ended March 31, 2011, the Company entered into a new credit facility. In connection with the entry by the Company into the credit facility on September 13, 2010, the Company's then existing senior credit facility was terminated and all obligations under the prior credit facility (including the term loans) were repaid in full using proceeds of the credit facility and other funds. As a result of the termination of the prior credit facility, the Company recorded a loss on the early extinguishment of debt of $0.6 million during the year ended March 31, 2011 related to the write-off of unamortized debt issuance costs.

On October 13, 2009, the Company redeemed its $150.0 million, 6.25% senior subordinated notes maturing July 15, 2014 at a price of 103.125% of the principal. A loss on the early extinguishment of debt of $6.1 million was recognized related to the redemption premium and write-off of unamortized debt issuance costs.

Also during the year ended March 31, 2010, the Company repurchased $154.6 million of its 2018 Notes at an average price of 106.4% of the principal. Losses on the early extinguishment of debt from the repurchase of the 2018 Notes were $11.8 million for the year ended March 31, 2010 and related to the redemption premiums and write-off of unamortized debt issuance costs.

Interest Rate Derivatives

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

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

At March 31, 2012 and 2011, the Company was party to no fixed interest rate swap agreements.

In anticipation of the issuance of the 2015 Notes, the Company entered into a treasury rate lock agreement in July 2010 with a notional amount of $100 million that matured in September 2010. The treasury rate lock agreement was designated as a cash flow hedge of the semi-annual interest payments associated with the forecasted issuance of the 2015 Notes. When the treasury rate lock agreement matured, the Company realized a loss of $2.6 million ($1.6 million after tax) which was reported as a component within AOCI and will be reclassified into earnings over the term of the 2015 Notes. For the years ended March 31, 2012 and 2011, $517 thousand and $258 thousand, respectively, of

the loss on the treasury rate lock was reclassified to interest expense. At March 31, 2012, the estimated loss recorded in AOCI on the treasury rate lock agreement that is expected to be reclassified into earnings within the next twelve months is $517 thousand ($326 thousand after tax).

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

At March 31, 2012, the Company had five variable interest rate swaps outstanding with a notional amount of $300

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million. These variable interest rates swaps effectively convert the Company's $300 million of fixed rate 2013 Notes to variable rate debt. At March 31, 2012, these swap agreements required the Company to make variable interest payments based on a weighted average forward rate of 1.35% and receive fixed interest payments from the counterparties based on a fixed rate of 2.85%. The maturity of these fair value swaps coincides with the maturity date of the Company's 2013 Notes in October 2013. During the year ended March 31, 2012, the fair value of the variable interest rate swaps increased by $1.6 million to an asset of $6.7 million and was recorded in other non-current assets. The corresponding increase in the carrying value of the 2013 Notes caused by the hedged risk was $1.6 million and was recorded in long-term debt. The Company records the gain or loss on the hedged item (i.e., the 2013 Notes) and the gain or loss on the variable interest rate swaps in interest expense. The net gain or loss recorded in earnings as a result of hedge ineffectiveness related to the designated fair value hedges was immaterial for the years ended March 31, 2012, 2011 and 2010.

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

Interest Expense

A majority of the Company's variable rate debt is based on a spread over LIBOR. Based on the Company's fixed to variable interest rate ratio, for every 25 basis point increase in LIBOR, the Company estimates that its annual interest expense would increase by approximately $2.6 million.

Non-GAAP Reconciliations

Adjusted Cash from Operations and Free Cash Flow

	Years Ended March 31,		
(In thousands)	2012	2011	2010
Net cash provided by operating activities	$506,406	$275,301	$600,047
Adjustments to net cash provided by operating activities:			
Cash used by the securitization of trade receivables	—	295,000	16,400
Stock issued for the Employee Stock Purchase Plan	15,256	14,997	15,428
Tax benefit realized from the exercise of stock options	17,516	8,444	15,444
Net cash expenditures related to unsolicited takeover attempt	35,084	23,427	963
Cash expenditures related to MEPP withdrawals	18,323	—	—
Adjusted cash from operations	592,585	617,169	648,282
Capital expenditures	(356,514)	(256,030)	(252,828)
Adjustments to capital expenditures:			
Proceeds from sales of plant and equipment	16,365	15,844	14,466
Operating lease buyouts	9,218	9,893	1,687
Adjusted capital expenditures	(330,931)	(230,293)	(236,675)
Free cash flow	$261,654	$386,876	$411,607

The Company believes that free cash flow provides investors meaningful insight into the Company’s ability to generate cash from operations without the impact of cash used related to Air Products’ unsolicited takeover attempt and MEPP withdrawals, which is available for servicing debt obligations and for the execution of its business strategies, including acquisitions, the prepayment of debt, the payment of dividends or to support other investing and financing activities. Non-GAAP numbers should be read in conjunction with GAAP financial measures, as non-GAAP metrics are merely a supplement to, and not a replacement for, GAAP financial measures. It should be noted as well that our free cash flow metric may be

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different from free cash flow metrics provided by other companies.

OTHER

Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires management to make judgments, assumptions and estimates that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Note 1 to the Consolidated Financial Statements included under Item 8, "Financial Statements and Supplementary Data," describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. Estimates are used for, but not limited to, determining the net carrying value of trade receivables, inventories, goodwill, other intangible assets, business insurance reserves and deferred income tax assets. Uncertainties about future events make these estimates susceptible to change. Management evaluates these estimates regularly and believes they are the best estimates, appropriately made, given the known facts and circumstances. For the three years ended March 31, 2012, there were no material changes in the valuation methods or assumptions used by management. However, actual results could differ from these estimates under different assumptions and circumstances. The Company believes the following accounting estimates are critical due to the subjectivity and judgment necessary to account for these matters, their susceptibility to change and the potential impact that different assumptions could have on operating performance.

Trade Receivables

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

Inventories

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

Goodwill and Other Intangible Assets

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

In performing tests for goodwill impairment, the Company is first permitted to perform a qualitative assessment about the likelihood of the carrying value of a reporting unit exceeding its fair value. If an entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount based on the qualitative

assessment, it is required to perform the two-step goodwill impairment test described below to identify the potential goodwill impairment and measure the amount of the goodwill impairment loss, if any, to be recognized for that reporting unit. However, if an entity concludes otherwise based on the qualitative assessment, the two-step goodwill impairment test is not required. The option to perform the qualitative assessment is not an accounting policy election and can be utilized at the Company's discretion. Further, the qualitative assessment need not be applied to all reporting units in a given goodwill impairment test. For an individual reporting unit, if the Company elects not to perform the qualitative assessment, or if the qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the Company must perform the two-

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step goodwill impairment test for the reporting unit.
In applying the two-step process, the first step used to identify potential impairment involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. For this purpose, the Company uses a discounted cash flow approach to develop the estimated fair value of its reporting units. Management judgment is required in developing the assumptions for the discounted cash flow model. These assumptions include revenue growth rates, profit margins, future capital expenditures, working capital needs, discount rates and perpetual growth rates. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is not impaired. If the carrying value exceeds the estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment.
The second step of the process involves the calculation of an implied fair value of goodwill for each reporting unit for which step one indicated potential impairment. The implied fair value of goodwill is determined in a manner similar to how goodwill is calculated in a business combination. That is, the estimated fair value of the reporting unit, as calculated in step one, is allocated to the individual assets and liabilities as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded to write down the carrying value. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit and the loss establishes a new basis in the goodwill. Subsequent reversal of an impairment loss is not permitted.
The discount rate, sales growth and profitability assumptions, and perpetual growth rate are the material assumptions utilized in the discounted cash flow model used to estimate the fair value of each reporting unit. The Company's discount rate reflects a weighted average cost of capital (“WACC”) for a peer group of companies in the chemical manufacturing industry with an equity size premium added, as applicable, for each reporting unit. The WACC is calculated based on observable market data. Some of this data (such as the risk free or treasury rate and the pre-tax cost of debt) are based on market data at a point in time. Other data (such as beta and the equity risk premium) are based upon market data over time.
The discounted cash flow analysis requires estimates, assumptions and judgments about future events. The Company's analysis uses internally generated budgets and long-range forecasts. The Company's discounted cash flow analysis uses the assumptions in these budgets and forecasts about sales trends, inflation, working capital needs and forecasted capital expenditures along with an estimate of the reporting unit's terminal value (the value of the reporting unit at the end of the forecast period) to determine the implied fair value of each reporting unit. The Company's assumptions about working capital needs and capital expenditures are based on historical experience. The perpetual growth rate assumed in the discounted cash flow model was in line with the long-term growth rate as measured by the U.S. Gross Domestic Product and the industry's long-term rate of growth.
The Company believes the assumptions used in its discounted cash flow analysis are appropriate and result in reasonable estimates of the implied fair value of each reporting unit. However, the Company may not meet its sales growth and profitability targets, working capital needs and capital expenditures may be higher than forecast, changes in credit markets may result in changes to the Company's discount rate and general business conditions may result in changes to the Company's terminal value assumptions for its reporting units. In performing the October 31, 2011 annual goodwill impairment test, the Company bypassed the option to perform a qualitative assessment and proceeded directly to performing the first step of the two-step goodwill impairment test for all of its reporting units. The assessment indicated that the fair values of most reporting units exceeded their respective carrying values by a substantial amount. Furthermore, a hypothetical 10% reduction in the fair value of each reporting unit would not indicate that goodwill associated with any reporting unit was potentially impaired. For one reporting unit in the All Other Operations business segment, the excess of the estimated fair value over its carrying value declined from the prior year's goodwill impairment assessment. The Company will continue to monitor this business and consider interim analyses of goodwill as appropriate; however, the amount of goodwill associated with this reporting unit is not material to the Company's Consolidated Financial Statements.
Business Insurance Reserves

The Company has established insurance programs to cover workers' compensation, business automobile and general liability claims. During fiscal 2012, 2011 and 2010, these programs had deductible limits of $1 million per occurrence. For fiscal 2013, the deductible limits will remain $1 million per occurrence. The Company reserves for its deductible based on individual claim evaluations, establishing loss estimates for known claims based on the current facts and circumstances. These known claims are then "developed" through actuarial computations to reflect the expected ultimate loss for the known claims as well as incurred but not reported claims. Actuarial computations use the Company's specific loss history, payment patterns and insurance coverage, plus industry trends and other factors to estimate the required reserve for all open claims by policy year and loss type. Reserves for the Company's deductible are evaluated monthly. Semi-annually, the Company obtains a third-party actuarial report to validate that the computations and assumptions used are consistent with actuarial standards. Certain

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assumptions used in the actuarial computations are susceptible to change. Loss development factors are influenced by items such as medical inflation, changes in workers' compensation laws and changes in the Company's loss payment patterns, all of which can have a significant influence on the estimated ultimate loss related to the Company's deductible. Accordingly, the ultimate resolution of open claims may be for amounts that differ from the reserve balances. The Company's operations are spread across a significant number of locations, which helps to mitigate the potential impact of any given event that could give rise to an insurance-related loss. Over the last three years, business insurance expense has been approximately 0.6% of net sales.

Income Taxes

At March 31, 2012, the Company had deferred tax assets of $119.9 million (net of valuation allowances of $5.3 million), deferred tax liabilities of $864.2 million and a net $12.0 million of unrecognized tax benefits associated with uncertain tax positions (see Note 5 to the Consolidated Financial Statements).

The Company estimates income taxes based on diverse legislative and regulatory structures that exist in various jurisdictions where the Company conducts business. Deferred income tax assets and liabilities represent tax benefits or obligations that arise from temporary differences due to differing treatment of certain items for accounting and income tax purposes and net operating loss carryforwards. The Company evaluates deferred tax assets each period to ensure that estimated future taxable income will be sufficient in character (e.g., capital gain versus ordinary income treatment), amount and timing to result in their recovery. A valuation allowance is established to reduce the deferred income tax assets to their realizable value when management determines that it is more likely than not that a deferred tax asset will not be realized. Considerable judgments are required in establishing deferred tax valuation allowances and in assessing exposures related to tax matters. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences and carryforward deferred tax assets become deductible or utilized. Management considers the reversal of taxable temporary differences and projected future taxable income in making this assessment. As events and circumstances change, related reserves and valuation allowances are adjusted to income at that time. Based upon the level of historical taxable income and projections for future taxable income over the periods during which the deferred tax assets reverse, at March 31, 2012, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances.

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

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Contractual Obligations

The following table presents the Company's contractual obligations as of March 31, 2012:

(In thousands)		Payments Due by Period			
Contractual Obligations	Total	Less Than 1 Year [a]	1 to 3 Years [a]	3 to 5 Years [a]	More than 5 Years [a]
Long-term debt [1]	$1,766,406	$10,385	$996,718	$543,857	$215,446
Estimated interest payments on long-term debt [2]	225,641	61,580			