RED D ARC INC
Form 10-Q
November 10, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended: September 30, 2008

Commission file number: 1-9344

AIRGAS, INC.

(Exact name of registrant as specified in its charter)

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

(610) 687-5253

(Registrant s telephone number, including area code)

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

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 þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a 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 o No þ

Shares of common stock outstanding at November 5, 2008: 80,953,334 shares

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2008	2007	2008	2007
Net Sales	$ 1,161,947	$ 1,007,283	$ 2,278,648	$ 1,922,382
Costs and Expenses:				
Cost of products sold (excluding depreciation)	557,197	485,554	1,094,892	923,532
Selling, distribution and administrative expenses	404,732	357,742	795,377	679,154
Depreciation	48,931	44,767	97,028	86,332
Amortization	6,080	3,831	11,485	6,738
Total costs and expenses	1,016,940	891,894	1,998,782	1,695,756
Operating Income	145,007	115,389	279,866	226,626
Interest expense, net	(22,043)	(24,490)	(41,127)	(44,998)
Discount on securitization of trade receivables	(2,866)	(4,238)	(5,850)	(8,357)
Other income (expense), net	(208)	723	109	639
Earnings before income taxes and minority interest	119,890	87,384	232,998	173,910
Income taxes	(47,069)	(34,256)	(91,294)	(68,351)
Minority interest in earnings of consolidated affiliate		(2,519)		(3,230)
Net Earnings	$ 72,821	$ 50,609	$ 141,704	$ 102,329
Net Earnings Per Common Share:				
Basic earnings per share	$ 0.88	$ 0.62	$ 1.72	$ 1.27
Diluted earnings per share	$ 0.86	$ 0.60	$ 1.67	$ 1.23
Weighted Average Shares Outstanding:				
Basic	82,471	81,896	82,581	80,480
Diluted	84,706	84,209	84,848	83,955

Comprehensive income	$ 71,105	$ 51,076	$ 148,079	$ 106,342

See accompanying notes to consolidated financial statements.

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

	(Unaudited) September, 30 2008	March 31, 2008
ASSETS		
Current Assets		
Cash	$ 51,324	$ 43,048
Trade receivables, net	224,985	183,569
Inventories, net	404,621	330,732
Deferred income tax asset, net	24,846	22,258
Prepaid expenses and other current assets	71,689	67,110
Total current assets	777,465	646,717
Plant and equipment at cost	3,406,219	3,232,673
Less accumulated depreciation	(1,113,062)	(1,037,803)
Plant and equipment, net	2,293,157	2,194,870
Goodwill	1,054,620	969,059
Other intangible assets, net	186,660	148,998
Other non-current assets	33,713	27,620
Total assets	$ 4,345,615	$ 3,987,264
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable, trade	$ 204,948	$ 185,111
Accrued expenses and other current liabilities	284,784	288,883
Current portion of long-term debt	18,563	40,400
Total current liabilities	508,295	514,394
Long-term debt, excluding current portion	1,775,643	1,539,648
Deferred income tax liability, net	497,774	439,782
Other non-current liabilities	72,525	80,104
Commitments and contingencies		
Stockholders Equity		
Preferred stock, 20,030 shares authorized, no shares issued or outstanding at September 30, 2008 and March 31, 2008		

Common stock, par value $0.01 per share, 200,000 shares authorized, 84,924 and 84,076 shares issued at September 30, 2008 and March 31, 2008, respectively	849	841
Capital in excess of par value	508,959	468,302
Retained earnings	1,105,601	983,663
Accumulated other comprehensive income (loss)	1,662	(4,713)
Treasury stock, 3,421 and 1,788 common shares at cost at September 30, 2008 and March 31, 2008, respectively	(125,693)	(34,757)
Total stockholders equity	1,491,378	1,413,336
Total liabilities and stockholders equity	$ 4,345,615	$ 3,987,264

See accompanying notes to consolidated financial statements.

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

(In thousands)	Six Months Ended September 30, 2008	Six Months Ended September 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 141,704	$ 102,329
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	97,028	86,332
Amortization	11,485	6,738
Deferred income taxes	45,304	29,825
(Gain) loss on sales of plant and equipment	(86)	708
Minority interest in earnings		3,230
Stock-based compensation expense	12,751	10,029
Changes in assets and liabilities, excluding effects of business acquisitions:		
Securitization of trade receivables		20,600
Trade receivables, net	(24,625)	(8,940)
Inventories, net	(17,677)	(17,663)
Prepaid expenses and other current assets	(4,286)	(201)
Accounts payable, trade	7,924	(17,659)
Accrued expenses and other current liabilities	(1,618)	9,075
Other non-current assets	639	(4,314)
Other non-current liabilities	1,699	3,179
Net cash provided by operating activities	270,242	223,268
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(185,199)	(128,611)
Proceeds from sales of plant and equipment	4,812	3,630
Business acquisitions and holdback settlements	(194,704)	(341,212)
Other, net	(1,212)	(1,228)
Net cash used in investing activities	(376,303)	(467,421)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	1,010,741	676,694
Repayment of debt	(800,830)	(441,708)
Purchase of treasury stock	(95,549)	
Financing costs	(5,746)	
Minority interest in earnings		(711)
Proceeds from the exercise of stock options	11,619	12,175
Stock issued for the employee stock purchase plan	8,102	6,618

Tax benefit realized from the exercise of stock options		8,454		7,871
Dividends paid to stockholders		(19,766)		(14,475)
Change in cash overdraft		(2,688)		13,871
Net cash provided by financing activities		114,337		260,335
Change in cash	$	8,276	$	16,182
Cash Beginning of period		43,048		25,931
Cash End of period	$	51,324	$	42,113

See accompanying notes to consolidated financial statements.

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

(1) BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Airgas, Inc. and its subsidiaries (Airgas or the Company). Intercompany accounts and transactions are eliminated in consolidation. The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. These consolidated financial statements do not include all disclosures required for annual financial statements. These consolidated financial statements should be read in conjunction with the more complete disclosures contained in the Company s audited consolidated financial statements for the fiscal year ended March 31, 2008.

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

Prior Period Adjustments

The Consolidated Balance Sheet as of March 31, 2008 reflects adjustments that increase insurance receivables, reflected in the line item Prepaid expenses and other current assets, by $8 million and also increase business insurance reserves, reflected in the line item Accrued expenses and other current liabilities, by a corresponding $8 million. The insurance receivable and corresponding increase in the business insurance reserves at March 31, 2008 represents probable claim losses in excess of the Company s self insured retention for which the Company is fully insured. The adjustments to the March 31, 2008 balances were also reflected in Note 7 - Accrued Expenses and Other Current Liabilities. The Company does not consider these adjustments to be material to its financial position and the adjustments did not affect its results of operations or liquidity.

The March 31, 2008 balances of goodwill by segment as disclosed in Note 6 were adjusted to reflect a $4.8 million reclassification from the Distribution business segment to the All Other Operations business segment. The consolidated balance of goodwill at March 31, 2008 did not change.

(2) NEW ACCOUNTING PRONOUNCEMENTS

(a) *Accounting pronouncements adopted this fiscal year*

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements,* (SFAS 157), effective for financial statements issued for fiscal years beginning after November 15, 2007. SFAS 157 did not require any new fair value measurements, but rather replaces multiple existing definitions of fair value with a single definition, establishes a consistent framework for measuring fair value and expands financial statement disclosures regarding fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS 157 until fiscal years beginning after November 15, 2008 for non-financial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The Company adopted SFAS 157 for financial assets and liabilities on April 1, 2008 (see Note 10). The adoption of SFAS 157 for financial assets and liabilities did not have a material impact on the Company s financial position or results of operations. The Company is currently assessing the impact of SFAS 157, related to non-financial assets and liabilities, on the consolidated financial statements.

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AIRGAS, INC. AND SUBSIDIARIES
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(2) NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Effective April 1, 2008, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* which provides companies with an option to report selected financial assets and liabilities at fair value in an attempt to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The Company did not elect to re-measure any existing financial assets or liabilities under the provisions of this statement.

(b) *Accounting pronouncements not yet adopted*

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations*, (SFAS 141R), which replaces SFAS No. 141 of the same title (SFAS 141). SFAS 141R will significantly change the way the Company accounts for business combinations. The Company actively pursues new business opportunities through acquisitions and intends to maintain this strategy for the foreseeable future. Accordingly, the Company expects the adoption of SFAS 141R to impact its operating results when significant acquisitions are completed and during the subsequent acquisition measurement period when the fair values for the individual assets and liabilities acquired are determined. The principles contained in SFAS 141R are, in a number of ways, very different from those applied to business combinations today. Significant differences between SFAS 141R and SFAS 141 that will likely impact the Company s future acquisitions and operating results are outlined below:

The method of purchase price allocation will be based on individual fair values of assets and liabilities acquired as determined using the fair value principles outlined in the recently adopted SFAS 157.

The acquisition measurement period during which the fair values of the individual assets and liabilities acquired are determined cannot exceed one year. Material changes to the provisional values assigned to those assets and liabilities are to be reflected as of the acquisition date, potentially resulting in the recasting of financial statements for reporting periods falling within the acquisition measurement period.

Direct costs of an acquisition, such as legal fees, appraisal costs, etc., will no longer be considered elements of the purchase price to be allocated to the assets acquired and liabilities assumed. Rather, the direct costs of an acquisition, which can be substantial, will be expensed as incurred.

The cost of restructuring activities associated with the target business and contemplated while negotiating the acquisition purchase price will no longer be considered acquired liabilities. Rather, the cost of restructuring activities will be recognized as post acquisition operating costs.

Acquired contingencies will be identified as contractual and non-contractual. Contractual contingencies will be recorded at their acquisition date fair values as assessed using the principles of SFAS 157. Non-contractual contingencies will be recognized at their acquisition date fair values if it is more likely than not that that the obligations exist as of the acquisition date. For each subsequent

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AIRGAS, INC. AND SUBSIDIARIES
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(2) NEW ACCOUNTING PRONOUNCEMENTS (Continued)

reporting period, the fair values of the recognized contingencies will be reassessed. Once fair value is established, subsequent changes to recognized obligations will be reflected as an operating expense in the period of the change. Currently, pre-acquisition contingencies, such as a lawsuit or earn-out provision of the purchase agreement, are recorded at the estimated amount to settle the obligation if it is probable that the obligation exists. During the measurement period, a subsequent change to the estimated cost to settle the obligation is generally reflected as an adjustment to the allocation of the acquisition purchase price.

The Company will adopt SFAS 141R for our fiscal year beginning April 1, 2009. The provisions of SFAS 141R will only apply to acquisitions completed after the adoption date. Depending on the materiality of future acquisitions, the complexity of the terms in the purchase agreement and the nature of the operations acquired, the application of SFAS 141R may introduce earnings volatility. Earnings volatility may be driven by recognizing the direct costs of an acquisition, which can be substantial, as period costs when incurred, marking acquired contingencies to market through earnings and recasting previously issued financial statements as the provisional values assigned to the assets and liabilities acquired are trued-up to their acquisition date fair values. For many of the Company s acquisition targets, which tend to be privately held companies, determining the fair value of all the assets and liabilities acquired requires a substantial amount of work that typically extends beyond the acquisition closing date. For certain assets and liabilities, it often takes several months to assemble, verify and evaluate the information necessary to prepare a fair value measurement for the assets and liabilities acquired. The Company continues to assess its policies and procedures related to the acquisition process and will endeavor to refine the provisional values assigned to the assets and liabilities acquired and to shorten the acquisition measurement period, thereby minimizing the number of periods potentially impacted by recasting financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, (SFAS 160), which amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*. SFAS 160 establishes accounting and reporting standards that require (1) non-controlling interests held by non-parent parties be clearly identified and presented in the consolidated statement of financial position within equity, separate from the parent s equity and (2) the amount of consolidated net income attributable to the parent and to the non-controlling interest be clearly presented on the face of the consolidated statement of income. SFAS 160 also requires consistent reporting of any changes to the parent s ownership interest while retaining a controlling financial interest, as well as specific guidelines over how to treat the deconsolidation of controlling interests and any applicable gains or loses. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 with earlier adoption prohibited. The Company is currently assessing the impact of SFAS 160 on the consolidated financial statements and does not believe the guidance will impact its financial results, as all of the Company s subsidiaries are currently 100% owned subsidiaries.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, (SFAS 161), which enhances the requirements under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS 161 requires enhanced disclosures about an entity s derivative and hedging activities and how they affect an entity s financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently assessing the impact of SFAS 161 on the consolidated financial statements and believes this pronouncement, which addresses expanded disclosure requirements aimed to improve financial reporting will not have a material impact to its financial results.

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(2) NEW ACCOUNTING PRONOUNCEMENTS (Continued)

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. SFAS 162 will be effective on November 15, 2008. The Company does not expect the adoption of SFAS 162 to have an impact on the Company s financial position, results of operations or liquidity.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets,*(FSP 142-3), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*, (SFAS 142). FSP 142-3 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 with earlier adoption prohibited. The Company will adopt FSP 142-3 in conjunction with SFAS 141R to improve consistency between the useful life of intangible assets under SFAS 142 and the period of expected cash flows used to measure fair value at acquisition under SFAS 141R. The Company does not expect adoption of FSP 142-3 to have a material impact on its consolidated financial statements.

(3) ACQUISITIONS

Acquisitions have been recorded using the purchase method of accounting and, accordingly, results of their operations have been included in the Company s consolidated financial statements since the effective date of each respective acquisition.

Fiscal 2009

During the six months ended September 30, 2008, the Company purchased six businesses. The largest of these businesses was the July 31, 2008 acquisition of Refron, Inc., a New York-based distributor of refrigerant gases with annual sales of $93 million. Other acquisitions included Oilind Safety, an Arizona-based leading provider of industrial safety services offering a full array of rental equipment, safety supplies and technical support and training, and A&N Plant, a European-based supplier of positioning and welding equipment for sale and rent. A total of $195 million in cash was paid for the six businesses, including the settlement of holdback liabilities related to prior year acquisitions. These businesses had aggregate annual revenues of approximately $142 million. The Company acquired the businesses to expand its geographic coverage and strengthen its national network of branch-store locations, as well as strengthen its medical and refrigerant gas product offerings.

Purchase Price Allocation

The Company negotiated the respective purchase prices of the businesses based on the expected cash flows to be derived from their operations after integration into the Company s existing distribution network. The purchase price of each acquired business was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the date of each respective acquisition. Certain purchase price allocations continue to be based on preliminary estimates of fair value and are subject to revision as the Company finalizes appraisals and other analyses.

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AIRGAS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(3) ACQUISITIONS (Continued)

The table below summarizes the allocation of the purchase price of all fiscal 2009 acquisitions by business segment, as well as adjustments related to prior year acquisitions:

(In thousands)	Distribution Segment	All Other Operations Segment	Total
Current assets, net	$ 9,326	$ 71,541	$ 80,867
Property and equipment	10,586	964	11,550
Goodwill	17,344	69,074	86,418
Other intangible assets	28,435	21,284	49,719
Current liabilities	(8,214)	(13,755)	(21,969)
Long-term liabilities	(8,623)	(3,258)	(11,881)
Total cash consideration	$ 48,854	$ 145,850	$ 194,704

Fiscal 2008

On June 30, 2007, the Company purchased most of the U.S. packaged gas business (Packaged Gas Business) of Linde AG (Linde), for $310 million in cash and certain assumed liabilities. The operations acquired included 130 locations in 18 states, with more than 1,400 employees, and generated $346 million in revenues for the year ended December 31, 2006.

Pursuant to the Company s plan to integrate the Linde Packaged Gas Business into its regional company structure, the Company recorded accruals primarily associated with one-time severance benefits to acquired employees who are involuntarily terminated, facility exit related costs associated with exiting certain acquired facilities that overlap with the Company s existing operations and a multi-employer pension plan withdrawal liability associated with exiting certain union contracts. The table below summarizes the liabilities established through purchase accounting, adjustments to these liabilities based on revisions to the Company s integration plan and the related payments made during fiscal 2008 and during the six months ended September 30, 2008:

(In thousands)	Severence Accruals	Facility Exit Accruals	Other Integration Accruals	Total Integration Accruals
Amounts orginally included in purchase accounting	$ 5,265	$ 5,700	$	$ 10,965
Payments	(2,781)	(873)	(962)	(4,616)
Adjustments	892	369	6,213	7,474
Balance at March 31, 2008	$ 3,376	$ 5,196	$ 5,251	$ 13,823
Payments	(2,023)	(985)	(557)	(3,565)
Adjustments	(64)	70	21	27
Balance at September 30, 2008	$ 1,289	$ 4,281	$ 4,715	$ 10,285

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

(3) ACQUISITIONS (Continued)

Pro Forma Operating Results

The following represents unaudited pro forma operating results as if the fiscal 2009 and 2008 acquisitions had occurred on April 1, 2007. The pro forma results were prepared from financial information obtained from the sellers of the businesses as well as information obtained during the due diligence process associated with the acquisitions. Pro forma adjustments to the historic financial information of the businesses acquired were limited to those related to the Company s stepped-up basis in acquired assets and adjustments to reflect the Company s borrowing and tax rates. The pro forma operating results do not include benefits associated with anticipated synergies related to combining the businesses or integration costs. The pro forma operating results were prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisitions been made as of April 1, 2007 or of results that may occur in the future.

	Six Months Ended September 30,	
(In thousands, except per share amounts)	2008	2007
Net sales	$2,315,955	$2,151,084
Net earnings	142,107	103,948
Diluted earnings per share	$ 1.67	$ 1.25

(4) TRADE RECEIVABLES SECURITIZATION

The Company participates in a securitization agreement (the Agreement) with three commercial banks to which it sells qualifying trade receivables on a revolving basis. The maximum amount of the facility is $360 million. The Agreement will expire in March 2010, but may be renewed subject to renewal provisions contained in the Agreement. During the six month period ended September 30, 2008, the Company sold $2.1 billion of trade receivables and remitted to bank conduits, pursuant to a servicing agreement, $2.1 billion in collections on those receivables. The amount of receivables sold under the Agreement was $360 million at September 30, 2008 and March 31, 2008.

The transaction has been accounted for as a sale under the provisions of SFAS No. 140*, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Under the Agreement, trade receivables are sold to bank conduits through a bankruptcy-remote special purpose entity, which is consolidated for financial reporting purposes. The difference between the proceeds from the sale and the carrying value of the receivables is recognized as Discount on securitization of trade receivables in the accompanying Consolidated Statements of Earnings and varies on a monthly basis depending on the amount of receivables sold and market rates. The Company retains a subordinated interest in the receivables sold, which is recorded at the receivables previous carrying value.

Subordinated retained interests of approximately $189 million and $164 million are included in Trade receivables, net in the accompanying Consolidated Balance Sheets at September 30, 2008 and March 31, 2008, respectively. On a monthly basis, management measures the fair value of the retained interest at management s best estimate of the undiscounted expected future cash collections on the receivables sold. Changes in the fair value are recognized as bad debt expense. Actual cash collections may differ from these estimates and would directly affect the fair value of the retained interest. In accordance with a

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AIRGAS, INC. AND SUBSIDIARIES
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(4) TRADE RECEIVABLES SECURITIZATION (Continued)

servicing agreement, the Company continues to service, administer and collect the trade receivables on behalf of the bank conduits. The servicing fees charged to the bank conduits approximate the costs of collections. Accordingly, the net servicing asset is immaterial.

(5) INVENTORIES, NET

Inventories, net, consist of:

(In thousands)	September 30, 2008	March 31, 2008
Hardgoods	$ 287,559	$ 275,611
Gases	117,062	55,121
	$ 404,621	$ 330,732

Hardgoods inventories determined by the LIFO inventory method totaled $51 million at September 30, 2008 and $50 million at March 31, 2008. The balance of the hardgoods inventories is valued using the FIFO inventory method. If the FIFO inventory method had been used for all of the Company s hardgoods inventories, the carrying value of the inventory would have been $10.4 million higher at September 30, 2008 and $8.5 million higher at March 31, 2008. Substantially all of the inventories are finished goods. The increase in gas inventories was primarily due to the acquisition of Refron, Inc. (see Note 3).

(6) GOODWILL AND OTHER INTANGIBLE ASSETS

The valuations of other intangible assets and the resulting goodwill from recent acquisitions are based on preliminary estimates of fair value and are subject to revision as the Company finalizes appraisals and other analyses. Changes in the carrying amount of goodwill for the six months ended September 30, 2008 were as follows:

(In thousands)	Distribution Business Segment	All Other Operations Business Segment	Total
Balance at March 31, 2008	$ 733,792	$ 235,267	$ 969,059
Acquisitions	17,344	69,074	86,418
Other adjustments	(964)	107	(857)
Balance at September 30, 2008	$ 750,172	$ 304,448	$ 1,054,620

Other intangible assets that are not fully amortized amounted to $187 million and $149 million, net of accumulated amortization of $31 million and $28 million at September 30, 2008 and March 31, 2008, respectively. These intangible assets primarily consist of acquired customer lists amortized over 7 to 17 years and non-compete agreements entered into in connection with business combinations, which are amortized over the term of the agreements. There are no expected residual values related to these intangible assets. Intangible assets also include trade names with indefinite useful lives valued at $1.3 million. Estimated future amortization expense by fiscal year is as follows: remainder of 2009 $11.2 million; 2010 $21.6 million; 2011 $21.1 million; 2012 $18.7 million; 2013- $17.9 million and $94.9 million thereafter.

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

(7) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities include:

(In thousands)	September 30, 2008	March 31, 2008
Accrued payroll and employee benefits	$ 75,147	$ 86,490
Business insurance reserves	41,994	37,433
Taxes other than income taxes	23,102	22,628
Cash overdraft	54,051	56,739
Deferred rental revenue	22,437	22,641
Other accrued expenses and current liabilities	68,053	62,952
	$ 284,784	$ 288,883

With respect to the business insurance reserves above, the Company maintained corresponding insurance receivables of $8.5 million at September 30, 2008 and $8 million at March 31, 2008. The insurance receivables represent the balance of probable claim losses in excess of the Company s self insured retention for which the Company is fully insured.

(8) INDEBTEDNESS

Long-term debt consists of:

(In thousands)		September 30, 2008	March 31, 2008
Revolving credit borrowings	U.S.	$ 722,000	$ 859,500
Revolving credit borrowings	Multi-currency	23,006	
Revolving credit borrowings	Canadian	21,963	23,791
Term loans		442,500	487,500
Money market loan		6,000	30,000
Senior subordinated notes		550,000	150,000
Acquisition and other notes		28,737	29,257
Total long-term debt		1,794,206	1,580,048
Less current portion of long-term debt		(18,563)	(40,400)
Long-term debt, excluding current portion		$ 1,775,643	$ 1,539,648

Senior Credit Facility

The Company maintains a senior credit facility (the Credit Facility) with a syndicate of lenders. In July 2008, the Company amended its Credit Facility to, among other things, create a multi-currency borrowing facility. Under this multi-currency revolver, the Company and certain of the Company s foreign subsidiaries may borrow any foreign currency that is readily available and freely transferable and convertible into U.S. dollars, including Euros, pounds sterling and Mexican pesos. The Company may borrow up to $75 million (U.S. dollar equivalent) in U.S. dollars or any permitted foreign currency or multiple currencies in the aggregate. To accommodate the size of the multi-currency revolver, the Company s U.S. dollar revolving credit line was reduced by $75 million so that the total size of the Company s Credit Facility was not changed.

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(8) INDEBTEDNESS (Continued)

At September 30, 2008, the Credit Facility permitted the Company to borrow up to $991 million under a U.S. dollar revolving credit line, up to $75 million (U.S. dollar equivalent) under the multi-currency revolving credit line, and up to C$40 million (U.S. $38 million) under a Canadian dollar revolving credit line. The Credit Facility also contains a term loan provision through which the Company borrowed $600 million with scheduled repayment terms. The term loans are repayable in quarterly installments of $22.5 million through June 30, 2010. The quarterly installments then increase to $71.2 million from September 30, 2010 to June 30, 2011. Principal payments due in fiscal 2009 on the term loans are classified as Long-term debt in the Company s Consolidated Balance Sheets based on the Company s ability and intention to refinance the payments with borrowings under its long-term revolving credit facilities. As principal amounts under the term loans are repaid, no additional borrowing capacity is created under the term loan provision. The Credit Facility will mature on July 25, 2011.

As of September 30, 2008, the Company had approximately $1,209 million of borrowings under the Credit Facility: $722 million under the U.S. dollar revolver, $23 million (in U.S. dollars) under the multi-currency revolver, C$24 million (U.S. $22 million) under the Canadian dollar revolver and $442 million under the term loans. The Company also had outstanding letters of credit of $35 million issued under the Credit Facility. The U.S. dollar borrowings and the term loans bear interest at the London Interbank Offered Rate (LIBOR) plus 62.5 basis points. The multi-currency revolver bears interest based on a spread of 62.5 basis points over the Euro currency rate applicable to each foreign currency borrowing. The Canadian dollar borrowings bear interest at the Canadian Bankers Acceptance Rate plus 62.5 basis points. As of September 30, 2008, the average effective interest rates on the U.S. dollar revolver, the term loans, the multi-currency revolver and the Canadian dollar revolver were 3.78%, 4.39%, 5.53% and 3.89%, respectively.

As of September 30, 2008, approximately $300 million remained unused under the Credit Facility, and the financial covenants do not limit the Company s ability to borrow on the unused portion of the Credit Facility. The Credit Facility contains customary events of default, including nonpayment and breach covenants. In the event of default, repayment of borrowings under the Credit Facility may be accelerated.

The Company s domestic subsidiaries, exclusive of a bankruptcy remote special purpose entity (the domestic subsidiaries), guarantee the U.S. dollar revolver, multi-currency revolver and Canadian dollar revolver. The multi-currency revolver and Canadian dollar revolver are also guaranteed by the Company and the Company s foreign subsidiaries. The guarantees are full and unconditional and are made on a joint and several basis. The Company has pledged 100% of the stock of its domestic subsidiaries and 65% of the stock of its foreign subsidiaries as surety for its obligations under the Credit Facility. The Credit Facility provides for the release of the guarantees and collateral if the Company attains an investment grade credit rating and a similar release on certain other debt.

Money Market Loans

The Company has an agreement with a financial institution that provides access to short-term advances not to exceed $30 million for a maximum term of three months. The agreement expires on June 30, 2009, but may be extended subject to renewal provisions contained in the agreement. 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 September 30, 2008, the Company had no outstanding advances under the agreement.

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AIRGAS, INC. AND SUBSIDIARIES
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(8) INDEBTEDNESS (Continued)

The Company also has an agreement with another financial institution that provides access to short-term advances not to exceed $35 million. The agreement expires on December 1, 2008, but may be extended subject to renewal provision 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 September 30, 2008, the Company had advances under the agreement of $6 million bearing interest at 3.09%.

Senior Subordinated Notes

At September 30, 2008, the Company had $150 million of senior subordinated notes (the 2004 Notes) outstanding with a maturity date of July 15, 2014. The 2004 Notes bear interest at a fixed annual rate of 6.25%, payable semi-annually on January 15 and July 15 of each year. The 2004 Notes have an optional redemption provision, which permits the Company, at its option, to call the 2004 Notes at scheduled dates and prices. The first scheduled optional redemption date is July 15, 2009 at a price of 103.125% of the principal amount.

On June 5, 2008, the Company issued $400 million of senior subordinated notes (the 2008 Notes) at par with a maturity date of October 1, 2018. The net proceeds from the sale of the 2008 Notes were used to reduce borrowings under the Company s revolving credit line under the Credit Facility. The 2008 Notes bear interest at a fixed annual rate of 7.125%, payable semi-annually on October 1 and April 1 of each year, commencing October 1, 2008. The 2008 Notes have an optional redemption provision, which permits the Company, at its option, to call the 2008 Notes at scheduled dates and prices. The first scheduled optional redemption date is October 1, 2013 at a price of 103.563% of the principal amount.

The 2004 and 2008 Notes contain covenants that could restrict the payment of dividends, the repurchase of common stock, the issuance of preferred stock, and the incurrence of additional indebtedness and liens. The 2004 and 2008 Notes are fully and unconditionally guaranteed jointly and severally, on a subordinated basis, by each of the 100% owned domestic guarantors under the Credit Facility.

Acquisition and Other Notes

The Company s long-term debt also included acquisition and other notes, principally consisting of notes issued to sellers of businesses acquired, and are repayable in periodic installments. At September 30, 2008, acquisition and other notes totaled $29 million with an average interest rate of approximately 6% and an average maturity of approximately two years.

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(8) INDEBTEDNESS (Continued)

Aggregate Long-term Debt Maturities

The aggregate maturities of long-term debt at September 30, 2008 are as follows:

(In thousands)	Debt Maturities
September 30, 2009 [1]	$ 18,563
March 31, 2010	50,711
March 31, 2011	241,711
March 31, 2012	931,517
March 31, 2013	479
Thereafter	551,225
	$ 1,794,206

[1] The Company has the ability and intention of refinancing current maturities related to the term loans under its Credit Facility with its long-term revolving credit line. Therefore, principal payments due in the twelve months ending September 30, 2009 on the term loans have been reflected as long term in the aggregate maturity schedule.

(9) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company manages its exposure to changes in market interest rates. The Company s involvement with derivative instruments is limited to highly effective fixed interest rate swap agreements used to manage well-defined interest rate risk exposures. The Company monitors its positions and credit ratings of its counterparties and does not anticipate non-performance by the counterparties. Interest rate swap agreements are not entered into for trading purposes.

At September 30, 2008, the Company had 15 fixed interest rate swap agreements with a notional amount of $502 million. These swaps effectively convert $502 million of variable interest rate debt associated with the Company s Credit Facility to fixed rate debt. At September 30, 2008, these swap agreements required the Company to make fixed interest payments based on a weighted average effective rate of 4.85% and receive variable interest payments from the counterparties based on a weighted average variable rate of 3.34%. The remaining terms of each of these swap agreements range from 7 to 24 months. During the six months ended September 30, 2008, the fair value of the fixed interest rate swap agreements increased, and the Company recorded a corresponding increase to Accumulated other comprehensive income (loss) of $12.5 million, $8.1 million after tax. The Company s interest rate swap agreements were reflected at their fair value in the Consolidated Balance Sheets as an $8.3 million liability and a $20.8 million liability at September 30, 2008 and March 31, 2008, respectively, with corresponding deferred tax assets of $2.9 million and $7.3 million and accumulated other comprehensive losses, net of tax, of $5.4 million and $13.5 million, respectively.

(10) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Effective April 1, 2008, the Company adopted SFAS 157. SFAS 157 does not require any new fair value measurements, but rather replaces multiple existing definitions of fair value with a single definition, establishes a consistent framework for measuring fair value and expands financial statement disclosures regarding fair value measurements.

AIRGAS, INC. AND SUBSIDIARIES
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(10) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities recorded at fair value in accordance with SFAS 157 are classified based upon the level of judgment associated with the inputs used to measure their fair value. The hierarchical levels related to the subjectivity of the valuation inputs are defined by SFAS 157 as follows:

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

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

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

The carrying value of cash, trade receivables exclusive of the subordinated retained interest, other current receivables, trade payables, other current liabilities (e.g., deposit liabilities, cash overdrafts, etc.), short-term borrowings and variable rate debt approximate fair value and such items have not been impacted by the adoption of SFAS 157.

Assets and liabilities measured at fair value on a recurring basis at September 30, 2008 are categorized in the table below based on the lowest level of significant input to the valuation:

(In thousands)	Carrying value at September 30, 2008	Quoted prices in active markets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets:				
Subordinated retained interest in trade receivables sold under the Company s trade receivable seuritization	$189,463	$	$	$ 189,463
Deferred compensation plan assets	5,260	5,260		
Total assets measured at fair value on a recurring basis	$194,723	$ 5,260	$	$ 189,463
Liabilities:				
Deferred compensation plan liabilities	$ 5,260	$ 5,260	$	$
Derivative liabilities interest rate swap agreements	8,340		8,340	
Total liabilities measured at fair value on a recurring basis	$ 13,600	$ 5,260	$ 8,340	$

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**AIRGAS, INC. AND SUBSIDIARIES
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(10) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

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

Subordinated retained interest The Company s subordinated retained interest in trade receivables sold under its trade receivable securitization agreement are classified as trade receivables on the consolidated balance sheets. The fair value of the subordinated retained interest reflects expected future cash flows adjusted for unobservable inputs (Level 3), which management believes a market participant would use to assess the risk of credit losses. Those inputs reflect the diversified customer base, the short-term nature of the securitized asset, aging trends and historic collections experience. Adjustments to the fair value of the Company s secured receivables are recorded through the consolidated statement of earnings as bad debt expense.

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

Derivative liabilities interest rate swap agreements The Company s interest rate swap agreements are with highly rated counterparties and effectively convert variable rate debt to fixed rate debt. The swap agreements are valued using pricing models that rely on observable market inputs such as interest rate yield curves and treasury spreads (Level 2). Changes to the fair value measurement of the Company s interest rate swap agreements are reported on the consolidated balance sheet through Accumulated other comprehensive income (loss).

The following table presents the changes in financial assets for which Level 3 inputs were significant to their valuation for the six months ended September 30, 2008:

(In thousands)		Subordinated retained interest
Balance at April 1, 2008	$	163,561
Net realized losses included in earnings (bad debt expense)		(9,159)
Additional retained interest, net		35,061
Balance at September 30, 2008	$	189,463

The carrying value of fixed rate debt generally reflects the cash proceeds received upon its issuance. The fair value of the fixed rate instruments disclosed below have been determined based on quoted prices from the broker/dealer market (Level 1), observable market inputs for similarly termed treasury notes adjusted for the Company s credit spread (Level 2) and unobservable inputs management believes a market participant would use in determining imputed interest for obligations without a stated interest rate (Level 3).

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(10) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

(In thousands)	Carrying Value at September 30, 2008	Level 1 Fair Value at September 30, 2008	Level 2 Fair Value at September 30, 2008	Level 3 Fair Value at September 30, 2008
2004 Notes	$150,000	$ 141,000	$	$
2008 Notes	400,000	401,000		
Acquisition and other notes	28,737		8,911	18,753
Total fixed rate debt	$578,737	$ 542,000	$ 8,911	$ 18,753

(11) NATIONAL WELDERS EXCHANGE TRANSACTION

Since the December 2003 adoption of Interpretation No. 46R, *Consolidation of Variable Interest Entities*, the Company s National Welders joint venture was consolidated with the operations of the Company. As a consolidated entity, the assets and liabilities of the joint venture were included with the Company s assets and liabilities and the preferred stockholders interest in those assets and liabilities was reflected as Minority interest in affiliate on the Company s Consolidated Balance Sheet. Likewise, the operating results of the joint venture were reflected broadly across the Consolidated Statement of Earnings with the preferred stockholders proportionate share of the joint venture s operating results reflected, net of tax, as Minority interest in earnings of consolidated affiliate.

On July 3, 2007, the preferred stockholders of the National Welders joint venture exchanged their preferred stock for common stock of Airgas (the NWS Exchange Transaction). The Company issued 2.471 million shares of Airgas common stock to the preferred stockholders in exchange for all 3.2 million preferred shares of National Welders. As part of the negotiated exchange, the Company issued an additional 144 thousand shares (included in the 2.471 million shares) of Airgas common stock to the preferred shareholders which resulted in a one-time net after-tax charge of $2.5 million, or $0.03 per diluted share. The net after-tax charge was reflected in the Consolidated Statement of Earnings as Minority interest in earnings of consolidated affiliate and consisted of $7 million related to the additional shares issued net of the reversal of a deferred tax liability related to the undistributed earnings of the National Welders joint venture of $4.5 million. Upon the exchange, National Welders became a 100% owned subsidiary of Airgas.

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(12) STOCKHOLDERS EQUITY

Changes in stockholders equity were as follows:

(In thousands of shares)	Shares of Common Stock $0.01 Par Value	Treasury Stock
Balance at March 31, 2008	84,076	1,788
Common stock issuance (a)	848	
Purchase of treasury stock		1,633
Balance at September 30, 2008	84,924	3,421

(In thousands)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Comprehensive Income
Balance at March 31, 2008	$841	$468,302	$ 983,663	$ (4,713)	$ (34,757)	
Net earnings			141,704			$141,704
Common stock issuance employee benefit plans (a)	8	19,713				
Tax benefit from stock option exercises		8,454				
Foreign currency translation adjustment				(1,757)		(1,757)
Dividends paid on common stock ($0.24 per share)			(19,766)			
Stock-based compensation (b)		12,490				
Purchase of treasury stock					(90,936)	
Net change in fair value of interest rate swap agreements				12,510		12,510
Net tax expense of comprehensive income items				(4,378)		(4,378)
Balance at September 30, 2008	$849	$508,959	$1,105,601	$ 1,662	$(125,693)	$148,079

(a) Issuance of common stock for stock option exercises and purchases through the employee stock purchase plan.

(b) The Company recognized compensation expense with a corresponding amount recorded to Capital in excess of par value.

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(13) STOCK-BASED COMPENSATION

In accordance with SFAS No. 123R, *Share-Based Payment,* (SFAS 123R), the Company recognizes stock-based compensation expense for its stock option plans and employee stock purchase plan. The following table summarizes stock-based compensation expense recognized by the Company in the three and six months ended September 30, 2008 and 2007:

(In thousands)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Six Months Ended September 30, 2008	Six Months Ended September 30, 2007
Stock-based compensation expense related to:				
Stock option plans	$ 3,236	$ 3,182	$ 9,899	$ 8,126
Employee stock purchase plan options to purchase stock	1,542	956	2,852	1,903
	4,778	4,138	12,751	10,029
Tax benefit	(1,459)	(1,297)	(4,284)	(3,240)
Stock-based compensation expense, net of tax	$ 3,319	$ 2,841	$ 8,467	$ 6,789

The Company utilizes the Black-Scholes option pricing model to determine the fair value of stock options under SFAS 123R. The weighted-average grant date fair value of stock options granted during the six months ended September 30, 2008 and 2007 was $18.47 and $15.23, respectively.

Summary of Stock Option Activity

The following table summarizes the stock option activity during the six months ended September 30, 2008:

	Number of Stock Options (In thousands)	Weighted-Average Exercise Price
Outstanding at March 31, 2008	6,633	$ 23.52
Granted	1,068	$ 60.68
Exercised	(635)	$ 18.29
Forfeited	(53)	$ 35.46
Outstanding at September 30, 2008	7,013	$ 29.56
Vested or expected to vest at September 30, 2008	6,410	$ 29.56
Exercisable at September 30, 2008	4,615	$ 20.31

A total of 11.8 million shares of common stock were authorized under the 2006 Equity Incentive Plan and predecessor plans, of which 2.5 million shares were available for issuance at September 30, 2008.

As of September 30, 2008, $30.4 million of unrecognized compensation expense related to non-vested stock options is expected to be recognized over a weighted-average vesting period of 1.9 years.

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(13) STOCK-BASED COMPENSATION (Continued)

Employee Stock Purchase Plan

The Company s Employee Stock Purchase Plan (the ESPP) encourages and assists employees in acquiring an equity interest in the Company. The ESPP is authorized to issue up to 3.5 million shares of Company common stock, of which 1.2 million shares were available for issuance at September 30, 2008. During the six months ended September 30, 2008 and 2007, the Company granted 427 thousand and 413 thousand options to purchase common stock under the ESPP, respectively.

Compensation expense under SFAS 123R is measured based on the fair value of the employees option to purchase shares of common stock at the grant date and is recognized over the future periods in which the related employee service is rendered. The fair value per share of employee options to purchase shares under the ESPP was $12.20 and $9.57 for the six months ended September 30, 2008 and 2007, respectively. The fair value of the employees option to purchase shares of common stock was estimated using the Black-Scholes model.

The following table summarizes the activity of the ESPP during the six months ended September 30, 2008:

	Number of Purchase Options (In thousands)	Weighted-Average Exercise Price
Outstanding at March 31, 2008	109	$ 36.21
Granted	427	$ 40.02
Exercised	(213)	$ 38.04
Outstanding at September 30, 2008	323	$ 39.95

(14) EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net earnings by the weighted average number of shares of the Company s common stock outstanding during the period. Outstanding shares consist of issued shares less treasury stock. Diluted earnings per share is calculated by dividing net earnings by the weighted average common shares outstanding adjusted for the dilutive effect of common stock equivalents related to stock options and the Company s ESPP. For the six months ended September 30, 2007, the calculation of diluted earnings per share assumed the conversion of National Welders preferred stock to Airgas common stock (See Note (a) to the table below).

Outstanding stock options that are anti-dilutive are excluded from the Company s diluted earnings per share computation. There were approximately 1.6 million and 1.4 million outstanding stock options that were not dilutive for the three months ended September 30, 2008 and 2007, respectively. For the six months ended September 30, 2008 and 2007, there were approximately 1.3 million and 1.5 million outstanding stock options that were not dilutive, respectively.

The table below presents the computation of basic and diluted earnings per share for the three and six months ended September 30, 2008 and 2007:

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(14) EARNINGS PER SHARE (Continued)

	Three Months Ended September 30,		Six Months Ended September 30,	
(In thousands, except per share amounts)	2008	2007	2008	2007
Basic Earnings per Share Computation				
Numerator				
Net earnings	$ 72,821	$ 50,609	$ 141,704	$ 102,329
Denominator				
Basic shares outstanding	82,471	81,896	82,581	80,480
Basic earnings per share	$ 0.88	$ 0.62	$ 1.72	$ 1.27
Diluted Earnings per Share Computation				
Numerator				
Net earnings	$ 72,821	$ 50,609	$ 141,704	$ 102,329
Plus: Preferred stock dividends (a)				711
Plus: Income taxes on earnings of National Welders (a)				245
Net earnings assuming preferred stock conversion	$ 72,821	$ 50,609	$ 141,704	$ 103,285
Denominator				
Basic shares outstanding	82,471	81,896	82,581	80,480
Incremental shares from assumed exercises and conversions:				
Stock options and options under the employee stock purchase plan	2,235	2,313	2,267	2,293
Preferred stock of National Welders (a)				1,182
Diluted shares outstanding	84,706	84,209	84,848	83,955
Diluted earnings per share	$ 0.86	$ 0.60	$ 1.67	$ 1.23

(a) On July 3, 2007, the preferred stockholders of the National Welders joint venture exchanged their preferred stock for common stock of Airgas (see Note 11). Prior to July 3, 2007, the preferred stockholders of National Welders had the option to exchange their 3.2 million preferred shares of National Welders either for cash at a price of $17.78 per share or for approximately 2.3 million shares of Airgas common stock. If Airgas common stock had a market value of $24.45 per share or greater, exchange of the preferred stock was assumed because it provided greater value to the preferred stockholders. Based on the assumed exchange of the preferred stock for Airgas common stock, the 2.3 million shares were included in the diluted shares outstanding.

The National Welders preferred stockholders earned a 5% dividend, recognized as Minority interest in earnings of consolidated affiliate on the consolidated statement of earnings. Upon the exchange of the preferred stock for Airgas common stock, the dividend was no longer paid to the preferred stockholders, resulting in additional net earnings for Airgas. For the periods in which the exchange was assumed, the 5% preferred stock dividend was added back to net earnings in the diluted earnings per share computation.

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(14) EARNINGS PER SHARE (Continued)

For periods prior to the NWS Exchange Transaction, the earnings of National Welders for tax purposes were treated as a deemed dividend to Airgas, net of an 80% dividend exclusion. Upon the exchange of National Welders preferred stock for Airgas common stock, National Welders became a 100% owned subsidiary of Airgas. As a 100% owned subsidiary, the net earnings of National Welders are not subject to additional tax at the Airgas level. For the period in which the exchange was assumed, the additional tax was added back to net earnings in the diluted earnings per share computation.

Upon the July 3, 2007 NWS Exchange Transaction, the issued shares of Airgas common stock were reflected as outstanding shares for the basic and diluted earnings per share computation for the three month period ended September 30, 2007. The diluted earnings per share computation for the six month period ended September 30, 2007 includes the effect of the items described above, of which the exchange shares have been weighted to reflect the impact of the exchange transaction.

(15) COMMITMENTS, CONTINGENCIES AND UNCERTAINTIES

Litigation

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

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(16) SUMMARY BY BUSINESS SEGMENT

Information related to the Company s business segments for the three and six months ended September 30, 2008 and 2007 is as follows:

	Three Months Ended September 30, 2008				Three Months Ended September 30, 2007			
(In thousands)	Distribution	All Other Ops.	Elimination	Combined	Distribution	All Other Ops.	Elimination	Combined
Gas and rent	$ 515,299	$ 246,001	$ (56,802)	$ 704,498	$ 447,435	$ 180,731	$ (37,928)	$ 590,238
Hardgoods	426,891	33,321	(2,763)	457,449	387,331	31,291	&n	