AIRGAS MID AMERICA INC
Form 10-K
June 14, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended March 31, 2006 or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission File No. 1-9344
AIRGAS, INC.
(Exact name of registrant as specified in its charter)

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

(610) 687-5253
(Registrant s telephone number, including area code)
Securities Registered Pursuant to Section 12 (b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	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 þ NO o

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 o NO þ

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

The aggregate market value of the 68,905,400 shares of voting stock held by non-affiliates of the Registrant was approximately $2 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, 2005. For purposes of this calculation, only executive officers and directors were deemed to be affiliates.

The number of shares of common stock outstanding as of June 9, 2006 was 77,646,701.

DOCUMENTS INCORPORATED BY REFERENCE

The Company s Proxy Statement for the Annual Meeting of Stockholders to be held August 9, 2006 is partially incorporated by reference into Part III. Those portions of the Proxy Statement included in response to Item 402(k) and Item 402(l) of Regulation S-K are not incorporated by reference into Part III.

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Statement re: computation of earnings per share
Statement re: computation of the ratio of earnings to fixed charges
Subsidiaries of the Company
Consent of Independent Registered Public Accounting Firm
Certification of Peter McCausland, pursuant to Section 302
Certification of Roger F. Millay, pursuant to Section 302
Certification of Peter McCausland, pursuant to 18 U.S.C. Section 1350
Certification of Roger F. Millay, pursuant to 18 U.S.C. Section 1350

PART I

ITEM 1. BUSINESS.

GENERAL

Airgas, Inc. and subsidiaries (Airgas or the Company) became a publicly traded company in 1986. Since its inception, the Company has made over 330 acquisitions to become the largest U.S. distributor of industrial, medical and specialty gases (delivered in packaged or cylinder form), and welding, safety and related products (hardgoods). Airgas is the largest producer of nitrous oxide in the United States, a producer and leading supplier of dry ice and the largest supplier of liquid carbon dioxide in the Southeastern United States. The Company is also a leading distributor of process chemicals, refrigerants and ammonia. The Company markets these products to its diversified customer base through multiple sales channels including branch-based sales representatives, retail stores, strategic customer account programs, telesales, catalogs, e-business and independent distributors. Products reach customers through an integrated network of over 900 locations including production facilities, packaged gas fill plants, specialty gas labs, distribution centers, branches, and retail stores. In December 2005, the Company sold its subsidiary, Rutland Tool & Supply Co (Rutland Tool), which had been reflected in the Distribution segment. As a result of the sale, the Company reclassified the operating results of Rutland Tool to reflect them as Discontinued Operations in all periods presented. The Company s consolidated sales were $2.83 billion, $2.37 billion, and $1.86 billion in fiscal years 2006, 2005, and 2004, respectively.

The Company has two operating segments, Distribution and All Other Operations. The Distribution segment primarily engages in the distribution of packaged gases and hardgoods. All Other Operations consists of business units that principally produce and distribute carbon dioxide, dry ice, nitrous oxide, specialty gases and anhydrous ammonia. The Company s joint venture, National Welders Supply Company, Inc. (National Welders) is also reported in the All Other Operations segment. See note 16 to the Company s Consolidated Financial Statements under Item 8, Financial Statements and Supplementary Data for a description of National Welders and its consolidation as a variable interest entity under Financial Accounting Standards Board Interpretation No. 46R, *Consolidation of Variable Interest Entities,* (FIN 46R).

Financial information by business segment can be found in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A), and in Note 24 to the Company s Consolidated Financial Statements under Item 8, Financial Statements and Supplementary Data. More detailed descriptions of the operating segments are as follows:

DISTRIBUTION

The Distribution segment accounts for approximately 85% of consolidated sales in fiscal 2006 and reflects the distribution of industrial, medical and specialty gases, and hardgoods.

Principal Products and Services

The Distribution segment s principal products and services include packaged and small bulk gases, gas cylinder and welding equipment rental, and hardgoods. Gas sales include industrial, medical and specialty gases such as: nitrogen, oxygen, argon, helium, acetylene, carbon dioxide, nitrous oxide, hydrogen, welding gases, ultra high purity grades and special application blends. Rent is derived from gas cylinders, cryogenic liquid containers, bulk storage tanks, tube trailers and through the rental of welding and welding related equipment. Gas and rent represented approximately 52%, 52%, and 53% of the Distribution segment s sales in each of the fiscal years 2006, 2005 and 2004, respectively. Hardgoods consist of welding consumables and equipment, safety products, and maintenance, repair and operating (MRO) supplies. In each of the fiscal years 2006, 2005, and 2004, hardgoods sales represented approximately 48%, 48%, and 47% of the Distribution

segment s sales, respectively (see Note 24 of the Company s Consolidated Financial Statements for additional information regarding segment sales).

Principal Markets and Methods of Distribution

The industry has three principal modes of distribution: on-site supply, bulk or merchant supply, and cylinder or packaged gas supply. Airgas market focus has been on the packaged gas segment of the market, which generally consists of customers who purchase gases in cylinders and in less than truckload bulk quantities. The Company believes the U.S. packaged gas market to be approximately $4.5 billion annually. Generally, packaged gas distributors also sell welding hardgoods. The Company believes the U.S. market for welding hardgoods to be approximately $4.5 billion annually. Packaged gases and welding hardgoods are generally delivered to customers on Company owned trucks, although third party carriers are also used in the delivery of some welding and safety products and customers can pick up products at branch stores.

Airgas is the largest distributor of packaged gases and welding hardgoods in the United States, with approximately a 20% market share. The Company s competitors in this market include independent distributors that serve approximately 57% of the market through a fragmented distribution network and large distributors, such as Valley National Gases, Inc, and vertically integrated gas producers such as Praxair, Inc. (Praxair), Liquid Air Corporation of America (Air Liquide), and Linde, which serve the remaining 23% of the market. Packaged gas distribution is a regional business because it is generally uneconomical to transport gas cylinders more than 150 miles. The regionalized nature of the business makes these markets highly competitive. Competition is generally based on price, reliable product delivery, product availability and product quality. The Company also sells safety equipment. The Company believes the U.S. market for safety equipment is approximately $5.6 billion, of which Airgas share is approximately 7%.

Customer Base

The Company s operations are predominantly in the United States. The customer base is diverse and sales are not dependent on a single or small group of customers. No single customer accounts for more than 0.5% of total net sales. The Company estimates the following industry segments account for the indicated percentages of its total net sales:

Industrial Manufacturing (28%);
Repair & Maintenance (27%);
Construction (10%);
Medical (7%);
Wholesale Trade (6%);
Food Products (6%);
Petrochemical (5%);
Utilities and Mining (3%);
Analytical (3%);
Transportation (2%)
Other (3%).

Suppliers

The Company purchases industrial, medical and specialty gases pursuant to requirements contracts from national and regional producers of industrial gases. In February 2002, the Company entered into a 15-year take-or-pay supply agreement under which Air Products and Chemicals, Inc. (Air Products) supplies at least 35% of the Company s bulk nitrogen, oxygen and argon requirements, exclusive of the volumes purchased under the BOC supply agreements noted below. Additionally, the Company has commitments to purchase helium from

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Air Products under the terms of the supply agreement. The Company is committed to purchase approximately $47 million in annual bulk gases under the terms of the Air Products supply agreements. With the BOC acquisition in July 2004, the Company and BOC entered into reciprocal long-term supply agreements. The Company is the supplier for a substantial portion of BOC s resale packaged gas needs. BOC supplies the Company, under a 15-year take-or-pay supply agreement, with bulk nitrogen, oxygen, argon and helium. The BOC agreement represents approximately 85% of the liquid bulk gas volumes transferred to the Company in the acquisition or roughly $7 million in annual bulk gas purchases. Prior to the acquisition, the Company purchased oxygen, nitrogen, argon and helium under an agreement with BOC which expires in February 2007. Minimum purchases through February 2007 under the pre-acquisition supply agreement are approximately $19 million. Both the Air Products and BOC supply agreements contain market pricing subject to certain economic indices and market analysis. Furthermore, the Company believes the minimum product purchases under the agreements are well within the Company s normal product purchases.

The Company believes that, if a contractual arrangement with any supplier of gases or other raw materials was terminated, it would be able to locate alternative sources of supply without disruption of service. The Company purchases hardgoods from major manufacturers and suppliers. For certain products, the Company has negotiated national purchasing arrangements. The Company believes that if an arrangement with any supplier of hardgoods was terminated, it would be able to arrange comparable alternative supply arrangements.

ALL OTHER OPERATIONS

The All Other Operations segment consists of the Company s Gas Operations Division and its National Welders joint venture. The Gas Operations Division produces and distributes certain gas products, principally carbon dioxide, dry ice, nitrous oxide and specialty gases. Beginning in June 2005, the division began distributing anhydrous ammonia and related supplies, services and equipment. National Welders Supply Company, Inc. (National Welders) is a producer and distributor of industrial, medical and specialty gases based in Charlotte, North Carolina.

Gas Operations Division

The Gas Operations Division produces and distributes carbon dioxide and dry ice (solid form of carbon dioxide). Customers include food processors, food services, pharmaceutical and biotech industries, wholesale trade and grocery outlets. Food and beverage applications account for approximately 70% of the market. The dry ice business generally experiences a higher level of sales during the warmer months. The Gas Operations Division also operates 7 national specialty gas labs and a specialty gas equipment center. These labs generally provide quality management and technical support to approximately 50 regional labs operated by the Distribution segment. Specialty gas mixtures are predominantly used in research, which accounts for 40% of the market. Food, laser and environmental applications are also major uses of specialty gases. The Gas Operations Division is the largest manufacturer of nitrous oxide gas in North America. Nitrous oxide is used as an anesthetic in the medical and dental fields, as a propellant in the packaged food business and is utilized in the manufacturing process of certain electronics industries. In June 2005, Airgas Specialty Products was added to the Gas Operations Division through the acquisition of the Industrial Products Division of LaRoche Industries. Airgas Specialty Products is a distributor of anhydrous and aqua ammonia, which are used for nitrogen oxide abatement in the utility industry. Ammonia is also used in metal finishing, water treatment, chemical processing and refrigeration. The Gas Operations Division s market focus includes bulk customers as well as sales to the Distribution segment. The Company estimates that United States market for carbon dioxide, specialty gases, nitrous oxide and anhydrous ammonia total more than $1 billion annually.

National Welders Supply Company, Inc.

National Welders product requirements are principally met through its significant production capabilities consisting of three air separation plants, two acetylene plants and a specialty gas lab. The joint venture employs

over 900 associates and primarily delivers its products to customers using company owned trucks. It also distributes packaged gases and welding products through approximately 50 branch stores. The ownership interests in the joint venture consist of voting common stock and voting, redeemable preferred stock. The Company owns 100% of the joint venture s common stock, which represents a 50% voting interest. The National Welders joint venture structure, which limits the Company s control over the National Welders operations and cash flows, is the primary factor that led the Company to conclude that National Welders is most appropriately reflected in the All Other Operations segment.

Suppliers

The companies in the All Other Operations segment have significant production capacity. Together, the Gas Operations Division and National Welders operate five air separation plants that produce oxygen, nitrogen and argon which are sold to on-site customers and to the Distribution segment. The Gas Operations Division also operates 8 carbon dioxide production facilities. With 12 dry ice plants (converting liquid carbon dioxide into dry ice), the Gas Operations Division has the largest network of dry ice conversion plants in the United States. These internal sources of carbon dioxide are supplemented by long-term take-or-pay supply contracts. The 4 nitrous oxide production facilities operated by the Gas Operations Division supply both the Gas Operations Division and the Distribution segment. The raw materials utilized in nitrous oxide production are purchased under contracts with major manufacturers and suppliers. Airgas Specialty Products purchases ammonia from suppliers under agreements (annual purchase commitments of approximately $10 million), the largest of which requires a 180-day notice to terminate.

AIRGAS GROWTH STRATEGIES

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

- customer service strategies for growing our business with small and medium-sized core customers;
- high potential growth areas such as construction, Bulk Gases, Specialty Gases, Medical Sales, Carbon dioxide and Safety Products.;
- improved training, tools and resources for front line associates;
- continued account penetration; and
- acquisitions to complement and expand the distribution network.

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 2006 were not material.

INSURANCE

The Company has established insurance programs to cover workers compensation, business automobile, and general liability claims. During fiscal year 2006, these programs had self-insured retention of $500 thousand per occurrence and an additional annual aggregate retention for the next $2.2 million of claims in excess of $500 thousand. For fiscal year 2007, the self-insured retention has been raised to $1 million per occurrence with no additional aggregate retention. The Company s exposure to loss under the fiscal 2006 and fiscal 2007 programs are actuarially equivalent. The Company accrues estimated losses using actuarial methods and assumptions based on the Company s historical loss experience.

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National Welders maintains a high deductible workers compensation program for employees in North and South Carolina. Approximately three-quarters of its employees are covered by this program. Workers compensation claims are self-insured up to $300 thousand per occurrence. Provisions for expected future claim payments are accrued based on estimates of the aggregate retention for claims incurred using historical experience. Workers compensation exposure for the remaining employees is managed through traditional premium based programs.

EMPLOYEES

On March 31, 2006, the Company employed approximately 10,300 associates. National Welders employed over 900. Approximately 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 Registered Trademarks: Airgas, RADNOR, Gold Gas, SteelMIX, StainMIX AluMIX, Outlook, Ny-Trous+, Powersource, Red-D-Arc, RED-D-ARC WELDERENTALS, SightSense, SoundSense, Walk-O2-Bout, and Airgas Puritan Medical . The Company also holds trademarks for AcuGrav, Gasp and Freshblend 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:

Name	Age	Position
Peter McCausland (1)	56	Chairman of the Board, President and Chief Executive Officer
Michael L. Molinini	55	Executive Vice President and Chief Operating Officer
Roger F. Millay	48	Senior Vice President and Chief Financial Officer
Robert A. Dougherty	48	Senior Vice President and Chief Information Officer
Patrick M. Visintainer	42	Senior Vice President - Sales
Dwight T. Wilson	50	Senior Vice President - Human Resources
Michael E. Rohde	59	Senior Vice President - Distribution Operations
Max D. Hooper	46	Division President - West
B. Shaun Powers	54	Division President - East
Ted R. Schulte	55	Division President - Gas Operations
Dean A. Bertolino	37	Vice President, General Counsel and Secretary
Robert M. McLaughlin	49	Vice President and Controller

(1) Member of the Board of Directors

Mr. McCausland has been Chairman of the Board and Chief Executive Officer of the Company since May 1987. Mr. McCausland has also served as President from June 1986 to August 1988, from April 1993 to November 1995, from April 1997 to January 1999, and from January 2005 to present. Mr. McCausland also serves as a director of The Valspar Corporation, NiSource, Inc., the Fox Chase Cancer Center, the Independence Seaport Museum, the International Oxygen Manufacturers Association, Inc. and the Eisenhower Exchange Fellowships, Inc.

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. since 1991.

Mr. Millay has been Senior Vice President and Chief Financial Officer since November 1999. Prior to joining Airgas, Mr. Millay served as Senior Vice President and Chief Financial Officer of Transport International Pool, a division of General Electric Capital Corporation, from May 1995 to October 1999.

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

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

Mr. Wilson was appointed Senior Vice President Human Resources in January 2004. Prior to joining Airgas, Mr. Wilson served as Senior Vice President, Corporate Resources at DecisionOne Corporation from October 1995 to December 2003.

Mr. Rohde was appointed Senior Vice President-Distribution Operations in April 2005. Prior to this role, Mr. Rohde served as President of Airgas South from 2001 until 2005. Prior to that, Mr. Rohde was the President of Airgas Southwest since joining the company in 1999. Prior to joining Airgas, Mr. Rohde was Senior Vice President, Packaged and Specialty Gases at Tri-Gas and, before that, Senior Vice President, Packaged Gases at MG Industries. Mr. Rohde began his career in the packaged gas industry in 1977.

Mr. Hooper was appointed Division President of the West Division in December 2005. Prior to this role, Mr. Hooper had been President of Airgas West since 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. Powers has been Division President East since joining Airgas in April 2001. Prior to joining Airgas, Mr. Powers served as Senior Vice President of Industrial Gases at AGA from October 1995 to March 2001. Mr. Powers has more than 25 years of experience in the industrial gas industry.

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

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

Mr. McLaughlin has been Vice President and Controller since joining Airgas in June 2001. Prior to joining Airgas, Mr. McLaughlin served as Vice President Finance for Asbury Automotive Group from 1999 to 2001,

and was a Vice President and held various senior financial positions at Unisource Worldwide, Inc. from 1992 to 1999.

COMPANY INFORMATION

The Company s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed with or furnished to the Securities and Exchange Commission (SEC) are available free of charge on the Company s website (www.airgas.com) under the Investors section. The Company makes these documents available as soon as reasonably practicable after they are filed with or furnished to the SEC, but no later than the end of the day in which they are filed or furnished to the SEC.

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 Company Information. 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 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: 610.902.6206

Corporate Governance Guidelines

The Company has adopted Corporate Governance Guidelines as well as charters for its Audit 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 Certification of the Company s Chief Executive Officer required by Section 303A.12(a) of The New York Stock Exchange Listed Company Manual relating to the Company s compliance with The New York Stock Exchange s Corporate Governance Listing Standards was submitted to The New York Stock Exchange on September 6, 2005.

The Company also filed certifications of its Chief Executive Officer and Chief Financial Officer pursuant to Section 302 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, 2006, 2005 and 2004.

ITEM 1a. RISK FACTORS.

In addition to risk factors discussed 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.

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We have significant debt and our debt service obligations are substantial, which could diminish our ability to raise additional capital and limit our ability to engage in certain transactions.

We have substantial amounts of outstanding indebtedness. As of March 31, 2006, we had total consolidated debt of approximately $768 million, of which $132 million matures within the next 12 months. We also participate in a trade receivables securitization agreement with two commercial banks to sell up to $250 million in qualified trade receivables. At March 31, 2006, the amount of outstanding trade receivables under the program was $244 million. See Management s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7.

Our substantial indebtedness could have significant negative consequences, including:

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing for working capital, capital expenditures, acquisitions and other purposes;
- requiring the dedication of a significant portion of our expected cash flow from operations to service our indebtedness, thereby reducing the amount of our expected cash flow available for working capital, capital expenditures, acquisitions and other purposes;
- making it more difficult to satisfy our obligations with respect to our debt;
- limiting our flexibility in planning for, or reacting to, changes in our business and industry;
- placing us at a possible competitive disadvantage relative to less leveraged competitors;
- increasing the amount of our interest expense, because some of our borrowings are at variable rates of interest, which, if interest rates increase, would result in higher interest expense (at current debt levels and ratio of fixed to floating rate debt, we estimate that for every 25 basis point rise of LIBOR, interest expense would increase by $1.2 million); and
- limiting, through the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds, dispose of assets or make investments.

Our ability to meet our expenses and debt obligations will depend on our future performance, which will be affected by financial, business, economic and other factors. We will not be able to control many of these factors, such as economic conditions, governmental regulation and the availability of fuel supplies. We cannot be certain that our earnings will be sufficient to allow us to pay the principal and interest on our debt and meet our other obligations. If we do not have enough money, we may be required to refinance all or part of our existing debt, sell assets, borrow more money or sell equity. We cannot assure you that we will be able to accomplish any of these alternatives on terms acceptable to us, if at all.

Despite currently expected levels of indebtedness, we and our subsidiaries will be able to incur substantially more debt, which would increase the risk associated with our significant debt levels.

We and our subsidiaries will be able to incur substantial additional indebtedness in the future. Although our credit facility and indentures governing our subordinated notes contain limitations on the incurrence of additional indebtedness, those limitations are subject to a number of qualifications and exceptions that, depending on the circumstances at the time, would allow us to incur a substantial amount of additional indebtedness. As of March 31, 2006, we had additional availability under our bank credit facility of approximately $237 million. We can arrange to borrow, in addition to our credit facility, up to $269 million. To the extent new debt and other obligations are added to our and our subsidiaries currently anticipated debt levels, the substantial risks described in the immediately preceding risk factor would increase.

Demand for our products is affected by general economic conditions and by the cyclical nature of the industries many of our customers are in, which can cause significant fluctuations in our sales and results.

Demand for our products is affected by general economic conditions. A decline in general economic or business conditions in the industries served by our customers can have a material adverse effect on our business. In addition, many of our customers are in businesses that are cyclical in nature, such as the industrial

manufacturing, construction, petrochemical and transportation industries, which accounted for approximately 45% of our sales in fiscal 2006. Downturns in these industries, even during periods of strong general economic conditions, can adversely affect our sales and our financial results by affecting demand for and pricing of our products.

We may not be successful in generating market leading sales growth and in controlling expenses, which could limit our ability to achieve our expected growth.

Although one of our principal business strategies is to drive market leading sales growth, the achievement of this objective may be adversely affected by:

- competition from independent distributors and vertically integrated gas producers on products and pricing;
- changes in supply prices from gas producers and manufacturers of hardgoods; and
- general economic conditions in the industrial markets which we serve.

In addition, we may not be able to adequately control expenses due to inflation and potentially higher costs of our distribution infrastructure.

Increases in product and energy costs could reduce our profitability.

The cost of industrial gases represented a significant percentage of our operating costs in fiscal 2006. Because the production of industrial gases requires significant amounts of electric energy, industrial gas prices have historically increased as the cost of electric energy increases. Recent price increases in oil and natural gas have resulted in electric energy surcharges. Energy prices may continue to rise and, as a result, increase the cost of industrial gases. In addition, a significant portion of our distribution costs is comprised of diesel fuel costs, which have increased significantly during the current year. While we have historically been able to pass increases in the cost of our supplies and operating expenses on to our customers, we cannot assure you that we will be able to continue to do so in the future. Our ability to pass on increases in our costs is dependent on market conditions. So, raising prices could result in a loss of sales volume, which could significantly reduce our profitability.

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

We are the largest distributor of industrial, medical and specialty gases and have long term supply contracts with the major gas producers to mitigate supply disruptions. However, natural disasters, plant shut downs and other supply disruptions occur within our industry. Regional supply disruptions may create shortages of 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 in those regions until product sourcing can be restored. During fiscal 2006, hurricanes Katrina and Rita damaged the production facilities of a major gas supplier to the gulf coast region. Although we successfully met customer demand by arranging for alternative supplies and transporting product into the region, we can not assure you that we will be as successful in arranging alternative product supplies or passing the additional transportation cost on to customers in the event of future supply disruptions.

We may not be successful in completing acquisitions, which may adversely affect our growth and operating results.

We have historically expanded our business primarily through acquisitions. A part of our business strategy is to continue to grow through acquisitions that complement and expand our distribution network. During fiscal 2006, we completed 13 acquisitions. We are continuously evaluating acquisition opportunities, some of which are large and complex, and consolidation possibilities, and we are currently in various stages of due diligence or preliminary discussions with respect to a number of potential transactions. We cannot assure you that we will continue to be able to identify acquisition candidates, or that we will be able to complete acquisitions on terms acceptable to us. In addition, there is no assurance that we will be able to obtain financing on terms acceptable to us for future acquisitions and, in any event, such financing may be restricted by the terms of our credit facility or indentures related to our senior subordinated notes.

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

The process of integrating acquired operations into our operations and achieving targeted synergies may result in unexpected operating difficulties and may require significant financial and other resources that would otherwise be available for the ongoing development or expansion of the existing operations. Additionally, the failure to achieve targeted synergies or planed operating results could require us to recognize an impairment charge related to goodwill associated with the acquisition. Acquisitions involve numerous risks, including:

- difficulty with the assimilation of acquired operations, information systems and products;
- failure to achieve targeted synergies;
- inability to retain key employees, customers and business relationships of acquired companies; and
- diversion of the attention and resources of our management team.

Additionally, the acquired company may not have an internal control structure appropriate for a larger public company resulting in a need for significant remediation.

Acquisitions may have a material adverse effect on our business if we are required to assume debt and other liabilities of the acquired business.

We may be required to incur additional debt in order to consummate acquisitions in the future, which may be substantial. In addition, acquisitions may result in the assumption of the outstanding indebtedness of the acquired company, as well as the incurrence of contingent liabilities and other expenses. All of the foregoing could materially adversely affect our financial condition and operating results.

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, including our Chairman and Chief Executive Officer, and other executive officers 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 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 transactions. Litigation may, for example, relate to product liability claims, contractual disputes, or employment maters. The defense and ultimate outcome of lawsuits against us may result in higher operating expenses. Those higher operating expenses 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, auto and general liability claims with significant per claim deductibles and in some policy years aggregate per claim retentions above those deductibles. In the past, we have incurred significant workers compensation, auto, and general liability losses. Such losses could result in not achieving profitability goals. Additionally, claims in excess of our insurance limits could have a material adverse effect on our financial position, results of operation or liquidity.

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

Although our operations are relatively disbursed across the U.S., a catastrophic event such as a fire or explosion at one of the Company s fill plants or natural disasters, such as hurricanes, tornados and earthquakes, could result in significant property losses, employee injuries and third party damage 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. As a result of hurricanes Katrina and Rita, we incurred $2.2 million through March 31, 2006 principally in property losses.

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Our financial statements reflect the operating results of our joint venture, National Welders, over which we have limited control and any disagreement with National Welders could potentially adversely affect the business and operations of the joint venture.

Financial Accounting Standards Board Interpretation No. 46R, *Consolidation of Variable Interest Entities,* (FIN 46R) requires us to consolidate our joint venture, National Welders. The joint venture agreement, entered into in 1996, limits our control over National Welders operations and cash flows. National Welders is also a private company and is not subject to the internal control reporting requirements of the Sarbanes-Oxley Act. Should the management of National Welders fail to maintain an appropriate control environment, our financial results may be adversely impacted by the joint venture s mismanagement of risk exposures, incomplete due diligence on acquisitions, the misappropriation of assets at the joint venture, and/or poor operational performance.

In the event National Welders does not observe its venture obligations, it is possible that they would not be able to operate in accordance with their agreed upon plans. We run the risk of encountering differences of opinion or having difficulty reaching agreement with respect to certain business issues.

We are subject to environmental, health and safety regulations which could subject us to liability and we will have ongoing environmental costs.

We are subject to laws and regulations relating to the protection of the environment and natural resources. These include, among other things, the management of hazardous substances and wastes, air emissions and water discharges. Violations of some of these laws can result in substantial penalties, temporary or permanent plant closures and criminal convictions. 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.

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

The U.S. industrial gas industry is comprised of a small number of major producers. Additionally, there are hundreds of smaller, local distributors, some of whom operate on a low-cost basis, primarily in the packaged gas segment. Some of our competitors may have greater financial resources than we do. If we are unable to compete effectively with our competitors, we will suffer lower revenue and a loss of market share.

Although the current trend is for increasing prices, the industrial gas industry has experienced periods of falling prices, and if such a trend were to return, we could experience reduced revenues and/or cash flows.

Previously, our major competitors and we have had to reduce prices in order to maintain our market share. Although prices are now increasing, in part due to increased energy and raw materials prices, we cannot assure you that the prices of our products will not fall in the future, which could adversely affect our revenues and cash flows, or that we will be able to maintain current levels of profitability.

ITEM 1b. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

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

The Company s Distribution segment operates a network of multiple use facilities consisting of approximately 675 branches, 300 cylinder fill plants, including nearly 50 regional gas laboratories and 20

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acetylene manufacturing facilities, as well as 6 regional distribution centers, various customer call centers, buying centers and administrative offices. The Distribution segment conducts business in 48 states. The Company owns approximately 35% of these facilities. The remaining facilities are primarily leased from third parties. A limited number of facilities are leased from employees and are on terms consistent with commercial rental rates prevailing in the surrounding rental market.

The Company s All Other Operations segment consists of businesses, located throughout the United States, which operate multiple use facilities consisting of approximately 100 branch locations, 8 liquid carbon dioxide and 12 dry ice production facilities, 5 air separation plants, 7 national specialty gas laboratories, and 4 nitrous oxide production facilities. The Company owns 51% of these facilities. The remaining facilities are leased from third parties.

During fiscal 2006, the Company s production facilities operated at approximately 84% of capacity based on an average daily production shift of 16 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 its business and have not been fully adjudicated. These actions, when ultimately concluded and determined, will not, in the opinion of management, have a material adverse effect upon the Company s consolidated financial condition, results of operations or liquidity.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended March 31, 2006.

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PART II

ITEM 5. MARKET FOR THE COMPANY S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The Company s common stock (the common stock) is listed on the New York Stock Exchange (ticker symbol: ARG). The following table sets forth, for each quarter during the last two fiscal years, the high and low closing price per share for the common stock as reported by the New York Stock Exchange and cash dividends per share for the period from April 1, 2005 to March 31, 2006:

	High	Low	Dividend Per Share
Fiscal 2006			
First Quarter	$25.00	$21.58	$0.060
Second Quarter	29.75	24.73	0.060
Third Quarter	33.44	27.30	0.060
Fourth Quarter	39.58	31.83	0.060
Fiscal 2005			
First Quarter	$23.91	$20.83	$0.045
Second Quarter	24.20	21.10	0.045
Third Quarter	27.05	23.61	0.045
Fourth Quarter	26.96	23.28	0.045

The closing sale price of the Company s common stock as reported by the New York Stock Exchange on June 9, 2006, was $35.86 per share. As of June 2, 2006, there were approximately 19,000 stockholders of record of the Company s common stock.

At the end of each quarter during fiscal 2006 and 2005, the Company paid its stockholders regular quarterly cash dividends of $0.06 and $0.045 per share, respectively. In addition, on May 23, 2006, the Company s Board of Directors declared a regular quarterly cash dividend of $0.07 per share payable June 30, 2006 to stockholders of record as of June 15, 2006. 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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Stock Repurchase Plan

On November 15, 2005, the Company announced that its Board of Directors approved a share repurchase plan (the Plan). Under the terms of the Plan, the Company is authorized to repurchase up to $150 million of its common stock over a three-year period. Prior to the end of the three-year period, the Plan may be discontinued or suspended at any time by the Company. During the three months ended March 31, 2006, the Company repurchased the following shares:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plan
1/1/06-1/31/06				
2/1/06-2/28/06				
3/1/06-3/31/06	195,400	$ 36.86	195,400	$ 137,229,335
Total	195,400	$ 36.86	195,400	$ 137,229,335

Equity Compensation Plan Information

The following table sets forth information as of March 31, 2006 with respect to the shares of the Company s Common Stock that may be issued upon the exercise of options, warrants and rights under the 1997 Stock Option Plan, the 1997 Directors Stock Option Plan (the Directors Plan), the Amended and Restated 1984 Stock Option Plan, the 1989 Non-Qualified Stock Option Plan for Directors and the 2003 Employee Stock Purchase Plan (ESSP), which were approved by the stockholders.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))	
Equity compensation plans approved by security holders[1][2]	6,993,818	$ 16.36	243,874 2,272,012	ESPP shares [3] Stock Option Plans
Equity compensation plans not approved				

by security holders			
Total:	6,993,818	$ 16.36	2,515,886

(1) The Directors Plan, designed to provide equity compensation to directors of the Company who are not employees of the Company, authorizes the granting of stock options and restricted stock awards. As of March 31, 2006, no restricted stock awards have been granted under the Directors Plan. Restricted stock awards under the Directors Plan cannot exceed 100,000 shares in the aggregate, and restricted stock awards under the 1997 Stock Option Plan and the Directors Plan in any calendar year may

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not exceed, in the aggregate, 0.5% of shares of Common Stock of the Company s issued and outstanding shares on any date of grant.

(2) The 1997 Stock Option Plan (the 1997 Plan), designed to provide equity compensation to certain employees and independent contractors of the Company, authorizes the granting of stock options and restricted stock awards. As of March 31, 2006, no restricted stock awards had been granted under the 1997 Plan. Restricted stock awards granted under the 1997 Plan cannot exceed 1,000,000 shares in the aggregate, and restricted stock awards under the 1997 Plan and the Directors Plan in any calendar year may not exceed, in the

aggregate, 0.5% of shares of Common Stock of the Company s issued and outstanding shares on any date of grant.

(3) The 2003 Employee Stock Purchase Plan (the ESSP Plan) was adopted by the Board of Directors in May 2003 and approved by the Company s stockholders in July 2003. A maximum of 1,500,000 shares of common stock may be purchased under the ESPP Plan. Through March 31, 2006, 1,256,126 were issued under the ESPP Plan.

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ITEM 6. SELECTED FINANCIAL DATA.

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

	Years Ended March 31,				
(In thousands, except per share amounts):	2006 (1)	2005 (2)(7)	2004 (3)(7)	2003 (4)(7)	2002 (5)(7)
Operating Results:					
Net sales	$2,829,610	$2,367,782	$1,855,360	$1,745,891	$1,576,328
Depreciation and amortization	127,542	111,078	87,447	79,279	71,757
Special charges (recoveries), net			(776)	2,694	
Operating income	268,758	202,454	168,544	156,336	124,938
Interest expense, net	53,812	51,245	42,357	46,374	46,775
Discount on securitization of trade receivables	9,371	4,711	3,264	3,326	4,846
Other income (expense), net	2,462				