10-Q 1 form10q0813-02.txt FOR PERIOD ENDED 30 JUNE 2002 UNITED STATES SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 ----------------- FORM 10-Q (Mark One) |X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE - SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended 30 June 2002 ------------- OR |_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from_________ to _____________ Commission file number 1-4534 ------ AIR PRODUCTS AND CHEMICALS, INC. ----------- --- (Exact Name of Registrant as Specified in Its Charter)

~~Delaware 23-1274455 ------------ ------------ ------------ ------------ ------------ ------------ ------------ ------------ - (State of Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)~~

7201 Hamilton Boulevard, Allentown, Pennsylvania 18195-1501 -- (Address of Principal Executive Offices) (Zip Code) Registrant's Telephone Number, Including Area Code 610-481-4911 -------------------- Indicate by check |X| whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No | | --- --- Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Class Outstanding at 8 August 2002 --------------------------- ------------------------------------- Common Stock, $1 par value 227,219,388 AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries INDEX Page No. --------

BASIS OF PRESENTATION: The consolidated financial statements of Air Products and Chemicals, Inc. and its subsidiaries (the "company" or "registrant") included herein have been prepared by the company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of the company, the accompanying statements reflect all adjustments necessary to present fairly the financial position, results of operations and cash flows for those periods indicated, and contain adequate disclosure to make the information presented not misleading. Such adjustments are of a normal, recurring nature unless otherwise disclosed in the notes to consolidated financial statements. However, the interim results for the periods indicated herein do not reflect certain adjustments, such as the valuation of inventories on the LIFO cost basis, which can only be finally determined on an annual basis. It is suggested that these consolidated condensed financial statements be read in conjunction with the financial statements and notes thereto included in the company's latest annual report on Form 10-K. Results of operations for any three or nine month period are not necessarily indicative of the results of operations for a full year. AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries CONSOLIDATED BALANCE SHEETS

(Millions of dollars, except per share) -- 30 June 2002 30 September 2001 ASSETS (Unaudited) -- ~~CURRENT ASSETS Cash and cash items $185.8 $66.2 Trade receivables, less allowances for doubtful accounts 933.4 913.4 Inventories 366.4 410.5 Contracts in progress, less progress billings 84.7 67.9 Other current assets 210.7 226.8 -- TOTAL CURRENT ASSETS 1,781.0 1,684.8 -- INVESTMENTS IN NET ASSETS OF AND ADVANCES TO EQUITY AFFILIATES 568.5 499.5 PLANT AND EQUIPMENT, at cost 10,562.1 10,226.5 Less - Accumulated depreciation 5,413.8 5,108.0 -- PLANT AND EQUIPMENT, net 5,148.3 5,118.5 -- GOODWILL 381.9 384.7 OTHER NONCURRENT ASSETS 356.8 396.6 -- ------ TOTAL ASSETS $8,236.5 $8,084.1~~

~~LIABILITIES AND SHAREHOLDERS' EQUITY -- CURRENT LIABILITIES Payables, trade and other $486.7 $512.2 Accrued liabilities 352.5 341.6 Accrued income taxes 64.7 48.4 Short-term borrowings 33.4 255.7 Current portion of long-term debt 173.2 194.5 -- TOTAL CURRENT LIABILITIES 1,110.5 1,352.4 -- LONG-TERM DEBT 2,007.4 2,027.5 DEFERRED INCOME & OTHER NONCURRENT LIABILITIES 689.2 702.0 DEFERRED INCOME TAXES 779.2 778.4 -- TOTAL LIABILITIES 4,586.3 4,860.3 -- MINORITY INTEREST IN SUBSIDIARY COMPANIES 126.5 118.0 -- SHAREHOLDERS' EQUITY Common stock (par value $1 per share, issued 2002 and 2001-249,455,584 249.4 249.4 shares) Capital in excess of par value 429.1 384.9 Retained earnings 4,214.5 3,965.9 Accumulated other comprehensive income (loss) (392.0) (452.5) Treasury Stock, at cost (2002 - 22,236,196 shares; 2001 - 22,269,244 (767.8) (768.8) shares) Shares in trust (2002 - 8,917,158 shares; 2001 - 11,723,720 shares) (209.5) (273.1) -- TOTAL SHAREHOLDERS' EQUITY 3,523.7 3,105.8 -- TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY $8,236.5 $8,084.1~~

The accompanying notes are an integral part of these statements. 3 AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries CONSOLIDATED INCOME (Unaudited) (Millions of dollars, except per share) -- Three Months Ended Nine Months Ended 30 June 30 June 2002 2001 2002 2001 -- --------------- ~~SALES $1,374.0 $1,450.9 $4,003.2 $4,461.2 COSTS AND EXPENSES Cost of sales 976.7 1,039.3 2,856.1 3,239.9 Selling and administrative 172.9 173.3 531.3 536.3 Research and development 31.9 31.0 90.4 90.3 Other (income) expense, net (22.6) (8.1) (28.7) (12.4) -- OPERATING INCOME 215.1 215.4 554.1 607.1 Income from equity affiliates, net of 17.7 21.8 56.4 59.6 related expenses Gain on sale of packaged gas business -- -- 55.7 -- Interest expense 27.5 48.7 93.6 147.4 -- INCOME BEFORE TAXES AND MINORITY INTEREST 205.3 188.5 572.6 519.3 Income taxes 60.6 53.8 179.0 152.1 Minority interest (a) 3.4 2.4 12.5 4.7 -- NET INCOME $141.3 $132.3 $381.1 $362.5~~

~~BASIC EARNINGS PER $.65 $.62 $1.76 $1.69 COMMON SHARE -- DILUTED EARNINGS PER $.63 $.60 $1.71 $1.65 COMMON SHARE -- WEIGHTED AVERAGE 218.0 214.9 216.8 214.7 NUMBER OF COMMON SHARES (in millions) -- WEIGHTED AVERAGE 224.7 220.5 222.7 219.1 NUMBER OF COMMON AND COMMON EQUIVALENT SHARES (in millions) -- DIVIDENDS DECLARED PER $.21 $.20 $.61 $.58 COMMON SHARE - Cash -- --~~

(a) Minority interest primarily includes before-tax amounts. The accompanying notes are an integral part of these statements. 4 AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

(Millions of dollars) - -- ------- Three Months Ended Nine Months Ended 30 June 30 June 2002 2001 2002 2001 --------- -- ~~NET INCOME $141.3 $132.3 $381.1 $362.5 -- --- OTHER COMPREHENSIVE INCOME (LOSS),~~

~~net of tax Unrealized gains (losses) on investments: Unrealized holding gains (losses) arising 3.3 9.7 .8 9.4 during the period Less: reclassification adjustment for gains (2.9) -- (4.6) -- included in net income --- Net unrealized holding gains (losses) on .4 9.7 (3.8) 9.4 investments Net gain (loss) on derivatives (.2) 3.8 .2 5.1 Translation adjustments 105.9 (10.2) 64.1 (87.5) -- TOTAL OTHER COMPREHENSIVE INCOME (LOSS), net of 106.1 3.3 60.5 (73.0) tax --- COMPREHENSIVE INCOME $247.4 $135.6 $441.6 $289.5 ---~~

The accompanying notes are an integral part of these statements. 5 AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries CONSOLIDATED CASH FLOWS (Unaudited)

(Millions of dollars) -- Nine Months Ended 30 June 2002 2001 -- OPERATING ACTIVITIES ~~Net Income $381.1 $362.5 Adjustments to reconcile income to cash provided by operating activities: Depreciation 423.9 433.6 Deferred income taxes 30.8 26.5 Undistributed earnings of unconsolidated affiliates (33.2) (45.2) (Gain) loss on sale of assets and investments (66.6) 1.2 Other 12.1 (19.0) Working capital changes that provided (used) cash, excluding effects of acquisitions and divestitures: Trade receivables (16.8) 8.5 Inventories and contracts in progress 15.9 (33.2) Payables, trade and other (39.2) (38.1) Other 16.7 (8.4) -- CASH PROVIDED BY OPERATING ACTIVITIES 724.7 688.4 -- INVESTING ACTIVITIES Additions to plant and equipment (a) (459.8) (510.1) Investment in and advances to unconsolidated affiliates (35.2) (27.8) Acquisitions, less cash acquired (10.3) -- Proceeds from sale of assets and investments 283.7 42.4 Other 6.3 30.1 -- CASH USED FOR INVESTING ACTIVITIES (215.3) (465.4) -- FINANCING ACTIVITIES Long-term debt proceeds 43.6 120.5 Payments on long-term debt (174.1) (42.1) Net decrease in commercial paper and other short-term borrowings (229.6) (157.4) Purchase of treasury stock -- (75.0) Dividends paid to shareholders (129.8) (122.2) Issuance of stock for options and award plans 96.4 77.6 -- CASH USED FOR FINANCING ACTIVITIES (393.5) (198.6) -- Effect of Exchange Rate Changes on Cash 3.7 (2.4) -- Increase in Cash and Cash Items 119.6 22.0 Cash and Cash Items - Beginning of Year 66.2 94.1 -- Cash and Cash Items - End of Period $185.8 $116.1~~

(a) Excludes capital lease additions of $2.7 and $.6 in 2002 and 2001, respectively. The accompanying notes are an integral part of these statements. 6 AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries SUMMARY BY BUSINESS SEGMENTS (Unaudited)

Business segment information is shown below:

(Millions of dollars)

	Three Months Ended 30 June 2002	Three Months Ended 30 June 2001	Nine Months Ended 30 June 2002	Nine Months Ended 30 June 2001
Revenues from external customers				
Gases	$915.7	$1,018.9	$2,706.6	$3,125.0
Chemicals	385.4	374.7	1,092.5	1,158.3
Equipment	72.9	57.3	204.1	177.9
Segment Totals	1,374.0	1,450.9	4,003.2	4,461.2

~~-------------------- Consolidated Totals $1,374.0 $1,450.9 $4,003.2 $4,461.2 ---~~

~~Operating income~~

~~Gases $166.7 $175.2 $441.2 $523.4~~

~~Chemicals 47.9 39.7 130.4 95.2~~

~~Equipment 5.7 2.7 11.7 7.3 ---~~

~~Segment Totals 220.3 217.6 583.3 625.9 ---~~

~~Corporate research and development and (5.2) (2.2) (29.2) (18.8) other income (expense) ---~~

~~Consolidated Totals $215.1 $215.4~~

~~$215.4 $554.1 $607.1 -- Operating income (excluding special items) Gases $166.7 $175.2 $467.4(a) $549.7(c) Chemicals 47.9 39.7 135.0(b) 99.8(d) Equipment 5.7 2.7 11.7 7.3 --- Segment Totals 220.3 217.6 614.1 656.8 --- Corporate research and development and (5.2) (2.2) (29.2) (12.8)(e) other income (expense) -- Consolidated Totals $215.1 $215.4 $584.9 $644.0 -----~~

~~Equity affiliates' income~~				
~~Gases~~	~~$14.4~~	~~$17.8~~	~~$46.5~~	~~$53.1~~
~~Chemicals~~	~~3.4~~	~~3.7~~	~~8.5~~	~~5.2~~
~~Equipment~~	~~(.1)~~	~~.4~~	~~1.4~~	~~1.3~~
~~Segment Totals~~	~~17.7~~	~~21.9~~	~~56.4~~	~~59.6~~
~~Other~~	~~--~~	~~(.1)~~	~~--~~	~~--~~
~~Consolidated Totals~~	~~$17.7~~	~~$21.8~~	~~$56.4~~	~~$59.6~~

(Millions of dollars) -----

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	30 June 2002	2001
~~Identifiable assets (f)~~		
~~Gases~~	~~$5,771.1~~	~~$5,926.0~~
~~Chemicals~~	~~1,399.3~~	~~1,404.5~~
~~Equipment~~	~~202.4~~	~~206.8~~
~~Segment Totals~~	~~7,372.8~~	~~7,537.3~~
~~Corporate assets~~	~~295.2~~	~~169.6~~
~~Consolidated Totals~~	~~$7,668.0~~	~~$7,706.9~~

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~~Twelve Months Ended 30 June 2002 2001~~ ------- ------------ ------------ ------------ ------------ ------------ ------------ ------------ ------------
~~ORONA (f)~~
~~Gases 11.1% 12.6%~~
~~Chemicals 12.7% 9.1%~~
~~Equipment 8.1% 6.2%~~ - ------------ ------------ ------------ ------------ ------------ ------------ ------------ ------------ -----
~~Segment Totals 11.3% 11.7%~~ ----- ------------ ------------ ------------ ------------ ------------ ------------ ------------ ------------ -
~~Consolidated Totals 10.6% 11.1%~~ ----- ------------ ------------ ------------ ------------ ------------ ------------ ------------ ------------ -

(a) The results for the nine months ended 30 June 2002 excluded a cost reduction charge of $26.2. (b) The results for the nine months ended 30 June 2002 excluded a cost reduction charge of $4.6. (c) The results for the nine months ended 30 June 2001 excluded a cost reduction charge of $26.3. (d) The results for the nine months ended 30 June 2001 excluded a cost reduction charge of $4.6. (e) The results for the nine months ended 30 June 2001 excluded a litigation settlement charge of $6.0. (f) Operating return on net assets (ORONA) is calculated as the rolling four quarter sum of operating income divided by the rolling five quarter average of total assets less investments in equity affiliates (identifiable assets). The ORONA calculation excluded all special items impacting operating income. 8 AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries SUMMARY BY GEOGRAPHIC REGIONS (Unaudited)

(Millions of dollars) ---- ------------

----- Three
Months
Ended Nine
Months
Ended 30
June 30
June 2002
2001 2002
2001 ------

~~Revenues~~
~~from~~
~~external~~
~~customers~~
~~United~~
~~States~~
~~$845.8~~
~~$958.0~~
~~$2,503.6~~
~~$2,970.1~~
~~Canada~~
~~28.5 31.2~~
~~80.6 90.5 --~~
~~-----------~~
~~-----------~~
~~-----------~~
~~-----------~~
~~-----------~~
~~-----------~~
~~-----------~~
~~-----------~~
~~------- Total~~
~~North~~
~~America~~
~~874.3 989.2~~
~~2,584.2~~
~~3,060.6 ----~~
~~-----------~~
~~-----------~~
~~-----------~~
~~-----------~~
~~-----------~~
~~-----------~~
~~-----------~~
~~-----------~~
~~----- United~~
~~Kingdom~~
~~122.4 115.7~~
~~341.3 353.8~~
~~Spain 89.2~~
~~79.5 250.9~~
~~236.6 Other~~
~~Europe~~
~~173.8 151.0~~
~~506.2 458.5~~
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~~------------ ------------ ------------ ------------ ------------ ------------ --------- Total Europe 385.4 346.2 1,098.4 1,048.9 ---- ------------ ------------ ------------ ------------ ------------ ------------ ------------ ------------ ----- Asia 88.1 84.0 240.1 253.7 Latin America 26.1 31.4 80.3 97.8 All Other .1 .1 .2 .2 ---- ------------ ------------ ------------ ------------ ------------ ------------ ------------ ------------ ----- Total $1,374.0 $1,450.9 $4,003.2 $4,461.2 -- ------------ ------------ ------------ ------------ ------------ ------------ ------------ ------------ ------- Note: Geographic information is based on country of origin. The other Europe segment operates principally in France, Germany, Netherlands, and Belgium.~~

9 AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Millions of dollars, except per share) Goodwill -------- The company adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," on 1 October 2001. As required by SFAS No. 142, the company performed an impairment test on goodwill as of 1 October 2001, which indicated no impairment of goodwill. As of 1 October 2001, the company is no longer amortizing goodwill, including goodwill associated with investments in equity affiliates. Goodwill amortization in 2001 was $14.8 on an after-tax basis, or

$.07 per share. Goodwill amortization for the three and nine months ended 30 June 2001 was $3.6 and $11.0, on an after-tax basis, or $.02 and $.05 per share, respectively. Changes to the carrying amount of consolidated goodwill by segment for the nine months ended 30 June 2002, are as follows:

	Gases	Chemicals	Equipment	Total
Balance as of 30 September 2001	$289.2	$87.1	$8.4	$384.7
Acquisitions and adjustments	13.1	--	--	13.1
Currency translation and other	17.2	2.3	.9	20.4
Goodwill related to the sale of U.S. packaged gas business	(36.3)	--	--	(36.3)
Balance as of 30 June 2002	$283.2	$89.4	$9.3	$381.9

Goodwill associated with the divested U.S. packaged gas business was included in the carrying amount of the business in determining the gain on disposal. The amount of goodwill included in the carrying amount of the divested business was based on the relative fair value of the divested business to the total reporting unit. The fair values were determined using the expected present value of future cash flows. Acquisition ----------- In July 2002, the company increased its ownership in San Fu Chemical Company, Ltd. (San Fu) from 48% to 70%. Since 1987, the company has had a joint venture arrangement with San Fu, the largest industrial gas company in Taiwan. San Fu is a full service industrial gas and chemical company with a broad product portfolio supplying specialty gases, electronic piping and equipment, liquid/ bulk gases, pipeline/on-site gases and chemicals to the Taiwan marketplace. For the nine months ended 30 June 2002, San Fu had revenues of approximately $153. This investment is consistent with the company's strategy of investing in growth markets (Asia) and industries (electronics) and will provide a stronger foundation for growth in both Taiwan and China. As of 30 June 2002, the company accounted for its investment in San Fu using the equity method. In July 2002, the company obtained control through the acquisition of an additional 22% of the outstanding shares. As part of this transaction, put options have been issued which give other shareholders the right to sell San Fu stock to the company at market price when exercised. The options are effective from January 2005 thru January 2015 and allow for the sale of all stock owned by other shareholders to the company. 10 Divestiture ----------- On 28 February 2002, the company completed the sale of the majority of its U.S. packaged gas business, excluding the electronic gases and magnetic resonance imaging related helium operations, to Airgas, Inc. (Airgas). This sale included approximately 100 facilities in 30 states associated with the filling and distribution of cylinders, liquid dewars, tube trailers, and other containers of industrial gases and non-electronic specialty gases, and the retail selling of welding hardgoods, including customer service centers, warehouses, and other related assets. The company also sold its packaged gas operations in the Carolinas and in Southern Virginia to National Welders Supply Company, Inc., a joint venture between Airgas and the Turner family of Charlotte, N.C. The assets sold generated approximately $240 in revenues in 2001 with a modest contribution to operating income. For the five months ended 28 February 2002, the revenues were approximately $100 also with a modest contribution to operating income. These facilities employed 1,200 people. The cash proceeds from these transactions were $254.5. The results for the nine months ended 30 June 2002 included a gain of $55.7 ($25.7 after-tax, or $.12 per share). Earnings Per Share ------------------ The following table sets forth the computation of basic and diluted earnings per share:

Three
Months
Ended Nine
Months
Ended 30
June 30 June
2002 2001
2002 2001 -

~~Numerator~~
~~for basic~~
~~EPS and~~
~~diluted EPS-~~
~~net income~~
~~$141.3~~
~~$132.3~~
~~$381.1~~
~~$362.5~~
~~Denominator~~
~~for basic~~
~~EPS -~~
~~weighted~~
~~average~~
~~shares (in~~
~~218.0 214.9~~
~~216.8 214.7~~
~~millions)~~
~~Effect of~~
~~diluted~~
~~securities~~
~~Employee~~
~~stock~~
~~options (in~~
~~millions) 5.9~~
~~4.7 5.2 3.5~~
~~Other award~~
~~plans (in~~
~~millions) .8~~
~~.9 .7 .9 -----~~
~~-------------~~
~~-------------~~
~~-------------~~
~~-------------~~
~~-------------~~
~~-------------~~
~~-------------~~
~~-- 6.7 5.6~~
~~5.9 4.4 -----~~
~~-------------~~
~~-------------~~
~~-------------~~
~~-------------~~
~~-------------~~
~~-------------~~
~~-------------~~
~~--~~
~~Denominator~~
~~for diluted~~
~~EPS -~~

~~EPS - weighted average shares and assumed conversions (in 224.7 220.5 222.7 219.1 millions) ---- ------------ ------------ ------------ ------------ ------------ ------------ ------------ --- Basic EPS $.65 $.62 $1.76 $1.69 ------ ------------ ------------ ------------ ------------ ------------ ------------ ------------ - Diluted EPS $.63 $.60 $1.71 $1.65 ------ ------------ ------------ ------------ ------------ ------------ ------------ ------------~~

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11 Equity Affiliates' Income ------------------------ Income from equity affiliates contributed $.08 and $.09 to diluted earnings per share for the three months ended 30 June 2002 and 2001, respectively. Income from equity affiliates contributed $.24 and $.25 to diluted earnings per share for the nine months ended 30 June 2002 and 2001, respectively. Cost Reduction Programs ---------------------- The results for the nine months ended 30 June 2002 included a charge of $30.8 ($18.9 after-tax, or $.09 per share) for a global cost reduction plan (2002 Plan) including packaged gas divestiture related reductions. This charge included $27.1 for severance and pension related benefits and $3.7 for asset impairments related to the planned sale or closure of two small chemical facilities. The company will eliminate 333 positions in areas of manufacturing, engineering, distribution, and overheads. The restructuring charges included in cost of sales, selling and administrative, research and development, and other expense were $13.4, $14.1, $.4, and $2.9, respectively. The results for the nine months ended 30 June 2001 included a charge of $30.9 ($20.0 after-tax, or $.09 per share) for a global cost reduction plan. The plan included 311 position eliminations, resulting in a charge of $22.4 for severance and termination benefits. A charge of $8.5 was recognized for asset impairments and other related restructuring costs. The restructuring charges included in cost of sales, selling and administrative, and other expense were $14.4, $9.4, and $7.1, respectively. The results for the nine months ended 30 June 2001 also included a charge of $6.0 ($3.7 after-tax, or $.02 per share) related to a litigation settlement. The following table summarizes changes to the carrying amount of the accrual for cost reduction plans for the nine months ended 30 June 2002: Severance Pension Other (1) Total -- Balance at 30 September 2001 $49.1 $ -- $1.5 $50.6 Provision 16.4 10.7 3.7 30.8 Noncash charges -- (10.7) (3.7) (14.4) Cash expenditures (29.1) -- -- (29.1) Adjustments 2001 Plan (2.4) -- (.6) (3.0) -- Balance at 30 June 2002 $34.0 $ -- $.9 $34.9 -- -- (1) Asset impairments and related expenses are included in the other category. New Accounting Standards ----------------------- In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations." The Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. The Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred. The asset retirement obligations will be capitalized as part of the carrying amount of the long-lived asset. The Statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and normal operation of long-lived assets. The company will adopt the Statement effective 1 October 2002 and is currently evaluating its impact. 12 In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The Statement also supersedes Accounting Principles Board Opinion (APB) No. 30 provisions related to the accounting and reporting for the disposal of a segment of a business. This Statement establishes a single accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale. The Statement retains most of the requirements in SFAS No. 121 related to the recognition of impairment of long-lived assets to be held and used. Additionally, SFAS No. 144 broadens the definition of businesses that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations. The company will adopt the Statement effective 1 October 2002. The company does not believe this Statement will have a material effect on the company's financial statements. In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." The Statement requires gains and losses from debt extinguishments that are used as part of the company's risk management strategy to be classified as income from operations rather than as extraordinary items, net of tax. The company adopted this Statement as of 1 July 2002. The impact on the company will be to reclassify the extraordinary item recorded in the fourth quarter of the prior year to other (income) expense. In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses the accounting for costs associated with disposal activities covered by SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," and with exit (restructuring) activities previously covered by Emerging Issues

Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." This Statement nullifies EITF 94-3 in its entirety and requires that a liability for all costs be recognized when the liability is incurred. This Statement also establishes a fair value objective for initial measurement of the liability. The Statement will be applied prospectively to exit or disposal activities initiated after 31 December 2002. The company is currently evaluating the impact of adopting this Statement. Reclassification --------------- As of 1 October 2001, the company changed its reporting of the demurrage/ cylinder income to include it in revenues. Previously, it was included as an offset to cost of sales. The consolidated income statements of the prior periods have been adjusted to reflect this reclassification. 13 AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries MANAGEMENT'S DISCUSSION AND ANALYSIS THIRD QUARTER FISCAL 2002 VS. THIRD QUARTER FISCAL 2001 -- (Millions of dollars, except per share) RESULTS OF OPERATIONS Consolidated - Sales in the third quarter of 2002 of $1,374.0 declined 5%, or $76.9, mainly due to the lower contractual natural gas cost pass-through compared with the same quarter in the prior year. Operating income of $215.1 remained relatively flat compared with $215.4. Income from equity affiliates was down $4.1 to $17.7. Net income was $141.3, or $.63 diluted earnings per share, compared to net income of $132.3, or $.60 diluted earnings per share. There were no special items impacting the quarter's results of operations. All comparisons in the discussion are to the corresponding period in the prior year unless otherwise stated. Gases - Sales declined $103.2, or 10%, to $915.7 in the third quarter of 2002. Excluding natural gas cost pass-through, acquisitions, divestitures, and currency effects, sales declined 1%. This decline of 1% was principally due to the recessionary impact on merchant gases demand. Operating income of $166.7 declined $8.5, or 5%. This decline was principally due to higher maintenance spending in Chemicals and Process Industries (CPI) and the first full quarter effect of the U.S. packaged gas divestiture. Favorable currency and exchange, modest improvements in electronics demand, and continued margin improvement in the worldwide liquid bulk business partially offset the operating income decline. Operating margin of 18.2% was up 1% compared to 17.2%. This operating margin improvement resulted from lower natural gas cost pass-through. The electronics business showed improvement with sales increasing 2%. Worldwide CPI tonnage volume increased 9% overall with hydrogen and carbon monoxide (HYCO) experiencing 5% growth. CPI posted record HYCO volumes and experienced a recovery in gaseous oxygen and nitrogen (GOX/GAN) volumes due to higher petrochemical demand. Liquid bulk volume declined 4% in North America, reflecting continued softness in demand across a number of end markets. Average liquid oxygen and nitrogen (LOX/LIN) prices decreased 2% as a direct result of the removal of national surcharges. Excluding the negative surcharge removal effect of 5%, the underlying average LOX/LIN price increased 3%. In the European liquid bulk business, a 2% increase in the European LOX/LIN price index and lower operating costs were offset by a 2% decline in European liquid bulk volumes due to weakness in United Kingdom and Southern Europe manufacturing. The Asian liquid bulk volume increased 11% primarily due to rapid volume growth in Southern and Eastern China. Gases equity affiliates' income was $14.4 down $3.4 from $17.8. This decline resulted from the absence of income from two cogeneration facilities that were divested in the fourth quarter of 2001 and lower results of electronics equity affiliates. 14 Chemicals - Sales in the third quarter of 2002 of $385.4 increased $10.7, or 3%. Excluding the effects of natural gas cost pass-through and currency impacts, sales were up 4%. This increase was a result of an 8% volume increase offset by an unfavorable price/mix variance of 4%. In the performance chemicals division, volumes were up 11% led by emulsions with its improved U.S. demand in the adhesives, non-wovens, and coatings end markets. Chemical intermediates volumes increased 4%. Higher polyurethane intermediate shipments were partially offset by lower shipments of amines primarily due to continued weakness in the herbicide end market. Operating income of $47.9 increased $8.2, or 21%, due primarily to higher chemical volumes. The operating margin of 12.4% improved from prior year's 10.6%. Equipment - Sales of $72.9 were up $15.6, or 27%, and operating income increased $3.0, to $5.7, primarily due to higher liquid natural gas (LNG) exchanger activity coupled with higher shipments of helium containers. The sales backlog for the equipment segment at 30 June 2002 was $145.7 compared to $132.4 at 30 June 2001 and $227.2 at 30 September 2001. INTEREST Interest expense of $27.5 decreased $21.2, or 44%. A third of this decline resulted from lower average interest rates with the remainder driven by lower average debt outstanding. INCOME TAXES The effective tax rate for the third quarter of 2002 was 30.0%, after minority interest of $3.4. The comparable rate in the prior year was 28.9%. Excluding the impact of special items, the effective tax rate for the nine months ended 30 June 2002 and 2001 was 30.0%, respectively. 15 AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries MANAGEMENT'S DISCUSSION AND ANALYSIS NINE MONTHS FISCAL 2002 VS. NINE MONTHS FISCAL 2001 -- (Millions of dollars, except per share) RESULTS OF OPERATIONS Consolidated - Sales for the nine months ended 30 June 2002 of $4,003.2 were 10% lower than the $4,461.2 reported in the prior year. Operating income of $554.1 declined $53.0, or 9%. Income from equity affiliates was $56.4 compared with $59.6. Net income was $381.1, or $1.71 diluted earnings per share, compared to net income of $362.5, or $1.65 diluted earnings per share. The results for the nine months ended 30 June 2002 were impacted by two special items: an after-tax gain of $25.7, or $.12 per share, on the sale of the U.S. packaged gas business; and an after-tax charge of $18.9, or $.09 per share, for a global cost reduction plan. The results for the nine months ended 30 June 2001 included an after-tax charge of $20.0 million, or $.09 per share, for a cost reduction program and an after-tax charge of $3.7 million, or $.02 per share, related to a litigation settlement. Excluding these special items, net income for the nine months ended 30 June 2002 of $374.3 declined $11.9, or 3%, from the prior year. Excluding special items, diluted earnings per share of $1.68 declined $.08, or 5%, from prior year. Operating income benefited from global cost reduction plans initiated in 2002 and prior years. See Note 3 to the consolidated financial statements in the 2001 annual report on Form 10-K for details of the 2001, 2000, and 1999 plans. Benefits generated from the plans of $58 for fiscal year 2001 resulted primarily from reduced personnel costs. Benefits of $87 are expected for fiscal year 2002 and $110 for fiscal year 2003. The remaining discussion and analysis of the results of operations excludes the impact of special items. The exclusion of special items focuses the discussion of the results on the ongoing operations of the company and its segments. See Summary of Business Segments for details of special items by segment. All comparisons in the discussion are to the corresponding period in the prior year unless otherwise stated. Gases - Sales in the first nine months of 2002 were $2,706.6 compared to $3,125.0, down $418.4 or 13%. Excluding natural gas cost pass-through, acquisitions, divestitures, and currency effects, sales declined 3% due principally to lower shipments to the electronics industry. The decline in sales was partially offset by higher prices for merchant gases and volume growth in CPI. Operating income of $467.4 declined $82.3, or 15%, due principally to the depressed conditions in the global electronics market. North American operating results included a write-off of $7.3 million in receivables associated with three bankrupt steel customers. Higher maintenance spending in CPI and the effect of the U.S. packaged gas divestiture also contributed to the decline in operating income. Higher merchant gases pricing partially offset the operating income decline. Currency and exchange related effects had minimal impact on operating income. Operating margin of 17.3% was down 0.3% compared to 17.6%. Electronics volume decline resulted from continued depressed conditions in the global electronics market. Electronics was affected by a sharp reduction in customers' global silicon wafer processing due to soft demand. Overall CPI tonnage volume grew 6% as significantly increased HYCO demand was coupled with modest recovery in GOX/GAN. Liquid bulk volume declined 7% in North America, reflecting continued soft demand across a number of end markets. Improved pricing, lower operating costs, and lower overheads in liquid bulk were able to more than offset the volume decline. Average LOX/LIN prices increased 3% as a direct result of pricing and surcharge initiatives. The surcharges were discontinued in the third quarter of 2002. A 4% increase in the European LOX/LIN price was tempered by a 4% decline in European liquid bulk volumes due to weakness in United Kingdom and Southern Europe manufacturing. The Asian liquid bulk volume increase 16 of 2% due to growth in Southern and Eastern China and Thailand was partially offset by lower demand by northern Chinese steel makers. Gases equity affiliates' income was down $6.6, or 12%, mainly due to the absence of income from two cogeneration facilities that were divested in the fourth quarter of 2001 which more than offset a $5.0 one-time tax benefit related to an asset revaluation in an Italian affiliate. Chemicals - Sales in the first nine months of 2002 were $1,092.5 compared to $1,158.3, down 6%. Excluding the effects of natural gas cost pass-through and some prior year polyvinyl alcohol (PVOH) post-sale export revenues, sales declined 2%. Unfavorable currency impacts had minimal effect on revenues. The overall volume index increase was 1%, excluding the impact of PVOH. Performance chemicals experienced a volume increase of 3%, while chemical intermediates volume declined 3%. This decline in chemicals intermediates volume resulted primarily from weaker demand in specialty and higher amines. Operating income of $135.0 increased 35%, or $35.2. Improved margins resulting from lower natural gas and feedstock costs, and reduced overhead costs drove the significant increase in operating income. Currency and exchange related effects had minimal impact on operating income. The operating margin of 12.4% was significantly improved from 8.6%. Equity affiliates' income increased $3.3 primarily due to the improved profitability of the global polymers joint venture. A long-term supplier of sulfuric acid, which is used in the production of dinitrotoluene (DNT), has been operating under Chapter 11 bankruptcy protection since 8 May 2001. The company's DNT operation and supply to its customers have not been materially impacted. The company expects this supplier to be successful in its reorganization. In the unlikely event of unsuccessful reorganization, the profitability of the chemicals segment could be materially impacted on an annual basis. The company extended an $8.0 line of credit to this supplier, of which $5.6 was drawn at 30 June 2002. The company also entered into a product prepayment agreement with this supplier. At 30 June 2002, the unamortized balance was $5.4. The company expects to fully recover these advances. Equipment - Sales of $204.1 grew $26.2 while operating income of $11.7 increased $4.4. The improved results reflected increased activity across several product lines. INTEREST Interest expense of $93.6 decreased $53.8, or 36%. The decrease resulted from a combination of lower average debt outstanding and lower interest rates. INCOME TAXES The effective tax rate for the first nine months of 2002 was 32.0%, after minority interest of $12.5. The effective rate excluding the impact of special items was 30.0% for both 2002 and 2001. LIQUIDITY, CAPITAL RESOURCES, AND OTHER FINANCIAL DATA Capital expenditures during the first nine months of 2002 totaled $508.0 compared to $538.5. Additions to plant and equipment were $459.8 during the first nine months of 2002 compared to $510.1. Investments in and advances to unconsolidated affiliates were $35.2 during the current period versus $27.8. Capital expenditures for new plant and equipment are expected to be between $650 and $700 in 2002. In addition, the company intends to 17 continue to pursue acquisition opportunities and investments in affiliated entities. It is anticipated these expenditures will be funded with cash from operations and proceeds from asset sales. Total debt at 30 June 2002 and 30 September 2001, expressed as a percentage of the sum of total debt, shareholders' equity, and minority interest, was 38% and 43%, respectively. Total debt decreased from $2,477.7 at 30 September 2001 to $2,214.0 at 30 June 2002. There was no commercial paper outstanding at 30 June 2002. The company's total revolving credit commitments amounted to $600.0 at 30 June 2002. No borrowings were outstanding under these commitments. Additional commitments totaling $63.4 are maintained by the company's foreign subsidiaries, of which $27.2 was utilized at 30 June 2002. The estimated fair value of the company's long-term debt, including current portion, as of 30 June 2002 is $2,253.1 compared to a book value of $2,180.6. There have been no material changes to the company's commitments for future payments of long-term debt, leases, and unconditional purchase obligations. The company's off-balance sheet arrangements include the sale and leaseback of cryogenic vessel equipment with a third party and the debt of its equity affiliates. In September 2001, the company sold and leased back certain cryogenic vessel equipment for $301.9. This operating lease has a five-year term with purchase and renewal options. This lease includes a residual value guarantee by the company not to exceed $256. The probability of incurring a material loss under this guarantee is remote. Summarized financial information of equity affiliates was provided in Note 7 to the consolidated financial statements in the company's 2001 annual report on Form 10-K. The company has not entered into any off-balance sheet arrangements with a limited or special purpose entity. Liquidity and availability of capital resources are not dependent on the use of off-balance sheet arrangements. The company has no material obligations to provide funding for lines of credit, take-or-pay contracts, throughput agreements, or similar types of arrangements. As discussed in Note 16 to the consolidated financial statements in the company's 2001 annual report on Form 10-K, the company has guaranteed repayment of borrowings of certain foreign affiliates and has equity support agreements related to the financing by equity affiliates for cogeneration projects. The company does not expect that any sum it may have to pay in connection with these matters will have a materially adverse effect on its consolidated financial position or results of operations. The company's principal related parties are equity affiliates operating in industrial gas and chemicals businesses. During 2001 and the nine months ended 30 June 2002, the company did not engage in any material transactions involving related parties that included terms or other aspects that differ from those which would be negotiated with clearly independent parties. FINANCIAL INSTRUMENTS The net financial instrument position of the company was reduced from $2,300.5 at 30 September 2001 to $2,243.1 at 30 June 2002 primarily due to scheduled repayments of outstanding long-term debt partially offset by the impact of a weaker U.S. Dollar on the translation of foreign currency debt. All financial instruments are entered into for other than trading purposes and there was no material change to market risk sensitivity since 30 September 2001. CRITICAL ACCOUNTING POLICIES The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and 18 liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant accounting policies of the company are described in the notes to the consolidated financial statements included in the annual report on Form 10-K. Judgments and estimates of uncertainties are required in applying the company's accounting policies in many areas. Following are some of the areas requiring significant judgments and estimates: useful lives of plant and equipment; cash flow and valuation assumptions in performing asset impairment tests of long-lived assets and goodwill; and estimated costs to be incurred for environmental matters, contract disputes, and settlement of litigation. NEW ACCOUNTING STANDARDS In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations." In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." See the notes to the consolidated financial statements for information concerning the company's implementation and impact of these new standards. FORWARD-LOOKING STATEMENTS The forward-looking statements contained in this document are based on current expectations regarding important risk factors. Actual results may differ materially from those expressed. Factors that might cause forward-looking statements to differ materially from actual results include those specifically referenced as future events of outcomes that the company anticipates, as well as, among other things, overall economic and business conditions and demand for Air Products' goods and services during that time; competitive factors in the industries in which it competes; the ability to recover increased energy and raw material costs from customers; spikes in the pricing of natural gas; changes in government regulations; consequences of acts of terrorism impacting the United States' and other markets; the success of implementing cost reduction programs; the timing, impact, and other uncertainties of future acquisitions or divestitures; significant fluctuations in interest rates and foreign currencies; the impact of tax and other legislation and regulations in jurisdictions in which Air Products and its affiliates operate; and the timing and rate at which tax credits can be utilized. 19 PART II. OTHER INFORMATION Item 6. Exhibits and Reports on Form 8-K. (a)(10.1) Confidential Transition and Retirement Agreement and General Release (a)(10.2) Employment Agreement (a)(12) Computation of Ratios of Earnings to Fixed Charges (a)99.1 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (a)99.2 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (b) During the quarter ended 30 June 2002, the Registrant filed Current Reports on Form 8-K dated 23 April 2002, 10 May 2002 and 4 June 2002 in which Item 5 of such form was reported, and 23 April 2002 in which Item 5 and Item 9 of such form were reported. 20 SIGNATURES Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. Air Products and Chemicals, Inc. -------------------------------- (Registrant) Date: August 13, 2002 By: /s/John R. Owings --------------------------------------- John R. Owings Vice President and Chief Financial Officer 21

UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549 ----------------------------- EXHIBITS To FORM 10-Q QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarter ended 30 June 2002 Commission File No. 1-4534 ------------------- AIR PRODUCTS AND CHEMICALS, INC. (Exact name of registrant as specified in its charter)

INDEX TO EXHIBITS (a)(10.1) Confidential Transition and Retirement Agreement and General Release (a)(10.2) Employment Agreement (a)(12) Computation of Ratios of Earnings to Fixed Charges (a)99.1 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002 (a)99.2 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002