AIRGAS INC
Form DEFA14A
August 18, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

x Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Airgas, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 240.0-11 and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

It s All About Value (Updated)
It s All About Value (Updated)
August 18, 2010
August 18, 2010

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1
IMPORTANT INFORMATION
In
connection
with
its
2010
Annual
Meeting
of
Stockholders,
Airgas,
Inc.
has
filed
a
definitive
proxy
statement
on
Schedule
14A
with
the
Securities
and
Exchange
Commission
(the
SEC).
INVESTORS
AND
STOCKHOLDERS
OF
AIRGAS
ARE
URGED
TO
READ
THE
PROXY
STATEMENT

FOR THE 2010 ANNUAL MEETING IN ITS ENTIRETY BECAUSE IT CONTAINS IMPORTANT INFORMATION. In response to the tender offer proposed by Air Products and Chemicals, Inc. referred to in this communication, Airgas has filed with the SEC a Solicitation/Recommendation Statement on Schedule 14D-9, as amended. STOCKHOLDERS OF AIRGAS ARE ADVISED

TO READ AIRGAS SOLICITATION/ RECOMMENDATION STATEMENT ON SCHEDULE 14D-9, AS AMENDED, IN ITS ENTIRETY BECAUSE IT CONTAINS IMPORTANT INFORMATION. This communication does not constitute an offer to sell or the solicitation of an offer to buy any securities of Air Products. Investors and stockholders will be able to obtain free copies of Airgas definitive proxy statement, the Solicitation/Recommendation Statement on Schedule 14D-9, any amendments or supplements to the proxy statement and/or the Schedule 14D-9, any other documents filed by Airgas in connection with the 2010 Annual Meeting and/or the tender offer by Air Products, and other documents filed with the

SEC by Airgas at the SEC s website at www.sec.gov. Free copies of the definitive proxy statement, the Solicitation/ Recommendation Statement on Schedule 14D-9, and any amendments and supplements to these documents are also available in the Investor Information section of the Company s website at www.airgas.com, or through the following web address: http://investor.shareholder.com/arg/airgascontent.cfm. Airgas and its directors and certain of its executive officers may be deemed to be participants in the solicitation of proxies in connection with its 2010 Annual Meeting. Detailed information regarding the names, affiliations and interests of Airgas directors and executive officers is available in the definitive

proxy
statement
for
the
2010
Annual
Meeting,
which
was
filed
with
the
SEC
on
July
23,
2010.
To
the
extent
holdings
of
Airgas
securities
have
changed,
such
changes
have
been
or
will
be
reflected
on
Statements
of
Change
in
Ownership
on
Form
4
filed with the SEC.
FORWARD-LOOKING STATEMENTS
This
presentation
contains
statements
that

are forward looking. Forward-looking statements include the statements identified as forward-looking in the Company s press release announcing its quarterly earnings, as well as any statement that is not based on historical fact, including statements containing the words believes, may, plans, will, could, should, estimates, continues, anticipates, intends, expects and similar expressions. All forward-looking statements are based on current expectations regarding important risk factors and should not be regarded as a representation by us or any other person that the results expressed therein will be achieved. Airgas assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law. Important factors that could cause actual results to differ materially from those contained in any forward-looking statement include the factors identified in the Company s press release announcing its quarterly earnings, as well as other factors described in the Company s reports, including its March 31, 2010 Form

10-K, subsequent Forms 10-Q, and other forms filed by the Company with the Securities and Exchange Commission. The Company notes that forward-looking statements made in connection with a tender offer are not subject to the safe harbors created by the Private Securities Litigation Reform Act of 1995. The Company is

not
waiving
any
other
defenses
that
may
be
available
under
applicable
law.
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1

2
2
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Slide

3
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3
3
3
3
Airgas Has Consistently Created
Airgas Has Consistently Created

Shareholder Value
Shareholder Value
Absolute Total Shareholder Return
Since Airgas
IPO (a)
4,201%
Total Shareholder Return CAGR
Since Airgas
IPO (a)
18%
Total Shareholder Return Since January 1, 1987
Ranking in S&P 500 (b)
#26 highest out of 500
Officer and Director Stock Beneficial Ownership (c)
11.9%
Officer and Director Stock Beneficial Ownership
Ranking in S&P 500
#28 highest out of 500
Note: Market data measured through market close on February 4, 2010, prior to date of announcement of the Air Products offe
(a)
Split-adjusted,
since
Airgas
IPO
in
1986.
Total
Shareholder
Return
calculated
as
share
price
plus
dividends
reinvested.
(b)
Excludes current S&P 500 constituents which were not public at January 1, 1987.
(c)
Includes all options and other rights to acquire shares exercisable on or within 60 days of May 31, 2010.

4
4

Airgas
management has a proven track record of exceptional shareholder
value
creation

The Airgas Board unanimously believes that Air Products
offer grossly
undervalues Airgas and is not a sensible starting point for any discussions or negotiations

The Airgas Board has always been prepared to engage in discussions if and when it believes those conversations will result in an appropriate value for Airgas stockholders

We believe strongly that Airgas will generate more value for stockholders by executing its strategic plan than by pursuing Air Products
proposed transaction

FY Q1 2011 announced results demonstrate the strength of our earnings growth, underpinned by an economic recovery that is just beginning

In addition, Airgas has significant scarcity value
as the largest independent
packaged gas business in the world
Our Board Believes That Air Products
Our Board Believes That Air Products
Offer
Offer
Would Deprive Shareholders of Full Value
Would Deprive Shareholders of Full Value
We believe that Airgas is poised to deliver significant value driven by a material recovery in our earnings through 2012

5
5
5
5
5
5
5
5
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5
5
Time Has Provided Additional Value
Time Has Provided Additional Value
to Our Shareholders
to Our Shareholders
10-Year U.S. Treasury Yield
Source: Bloomberg market data as of August 13, 2010, public filings
Note: All data shown from February 5, 2010, the date of the announcement of the initial Air Products public offer, and August
* Represents quarterly Adjusted EPS. See attached reconciliations of non-GAAP measures.
(1) Shown indexed to close as of February 5, 2010, and denominated in local currencies.
Peer Stock Prices[1]
Our Earnings*
90%

100%
110%
120%
130%
Feb-2010
May-2010
Aug-2010
Air
Liquide:
18.4%
Praxair:
17.9%
Linde:
15.9%
$ 0.65
$ 0.69
$ 0.83
FQ3
2010
FQ4
2010
FQ1
2011
2.5%
3.0%
3.5%
4.0%
4.5%
Feb-2010
May-2010
Aug-2010
2.7 %

Additionally, from December 31, 2009 to August 13, 2010,
Airgas reduced adjusted debt by more than $230 million

6
6

Agenda
Agenda

Airgas Is the Only Remaining Independent
Airgas Is the Only Remaining Independent
Packaged Gas Company of Scale in the World
Packaged Gas Company of Scale in the World
$12B+ U.S. Packaged Gases &
Welding Hardgoods
Market
~900

Independents
50%
Airgas
25%
Praxair
Taiyo Nippon Sanso
Air Liquide
Linde
Packaged Gases
$6.5B+
Welding Hardgoods
$5.5B+

Air Liquide

Air Products

Linde

Praxair

Air Liquide

Linde

Praxair

Taiyo Nippon Sanso

Regional Competitors

Independents

Air Liquide

Linde

Praxair

Taiyo Nippon Sanso

Regional Competitors

Independents
Safety PPE
$6B+
Other MRO
$50B+
Pipeline & bulk
~$10B

The 100 largest
independents
account for nearly
25% of the
total market

8
8

Leader in the U.S. packaged gas market

Leading position in U.S. packaged industrial, medical, and specialty gas market

Significant position in U.S. bulk market

Leading platform for U.S. refrigerants, ammonia, and process chemicals markets

We also produce various gases

Fifth largest U.S. producer of atmospheric gases

Leading U.S. supplier of liquid CO_2 and dry ice

Largest U.S. producer of nitrous oxide

Leading supplier of hardgoods
in U.S.

Welding, safety and related MRO supplies

Red-D-Arc
®
rental welders

National platform supports multiple
sales channels:

Branch-based field sales

Retail stores

Strategic Accounts

Distributors
With an Unparalleled Distribution Platform
With an Unparalleled Distribution Platform
and Significant Production of Gases
and Significant Production of Gases

Telesales

Catalog

eBusiness
8
8

Known Locally Nationwide
Known Locally Nationwide
9
9
~1,100 Locations

875+ branches

325+ HP fill plants

16 ASU s

18 acetylene plants

6 liquid CO_2 production plants

63 regional spec gas labs

8 national spec gas labs

6 hardgoods distribution centers
14,000+ Associates

~1,500 sales people
(25% specialists)

5,000+ drivers
10M+ Cylinders
13,500+ Bulk Tanks
5,000+ Vehicles
Branch / Retail Store / Other
Air Separation Unit (ASU)
Hardgoods Distribution Center

10
10
Packaged Gases
Packaged Gases
Bulk Gases
Bulk Gases
Creating Value for Customers
Creating Value for Customers
Through the Right Supply Modes
Through the Right Supply Modes

Cylinders
Cylinders
Dewars
Dewars
MicroBulk
MicroBulk
Bulk,
Bulk,
Tube Trailers
Tube Trailers
Size of Supply Mode
Onsite,
Onsite,
Pipeline
Pipeline

Our full range of supply modes enables our customers to optimize their production processes and reduce total costs
10
10

11
11
Hardgoods
Hardgoods
Supply Modes
Supply Modes
6 national hardgoods distribution centers

Drop-ship large and small order quantities to end customers

1-2 day delivery to 95% of U.S.; next-day delivery to 60% of U.S.
875+ regional company branches

Service walk-in customers with inventory on-hand

Deliver to customers on truck routes or via common carrier

Direct to customer from manufacturer

Vendor managed inventory (VMI)
11
11

Airgas 2000
Airgas 2000
Airgas 2010
Airgas 2010
Creating operating culture
Building out infrastructure
Repositioning company
(40+ hub companies)
Early stages of establishing

Strategic Products
Gas/Rent = ~50% of sales
Balance sheet leverage high
Operating culture firmly in place
Scalable infrastructure
12 regional operating companies form our national distribution platform
11 strategically-aligned companies complement our core business
Strategic Products established
(account for more than 40% of sales)
Gas/Rent = ~65% of sales
Operating efficiency programs
Significant Bulk capabilities
Spec Gas innovation & marketing
Ammonia and Refrigerants offerings
Tech expertise / Engineering capabilities
Demand planning / Buying Centers
Brand management / RADNOR private label
Comfortable balance sheet leverage
12
12
We Are Stronger Than Ever...
We Are Stronger Than Ever...
12
12

Note: Dollars in millions.
13
13
$27
$41
$109
$196
$191
$190
$197
$236
$256

$314
$397
$489
$666
$746
$665
$50
$145
$139
$62
$38
$79
$194
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
Fiscal Year Adjusted EBITDA
13
13
In the midst of the worst recession
since the Great Depression, FY 2010
was Airgas
only significant annual
EBITDA decline in 22 years
And Have Delivered Significant
And Have Delivered Significant
EBITDA Growth Over the Last 22 Years
EBITDA Growth Over the Last 22 Years

14
14
Track Record of Double-Digit Growth
Track Record of Double-Digit Growth
in Revenue, EBITDA and EPS
in Revenue, EBITDA and EPS
14
14
Revenue
2001-2009 CAGR
EBITDA *
2001-2009 CAGR
EBITDA *
Capex
2001-2009 CAGR
Diluted EPS
2001-2009 CAGR
Source: Financials based on company filings calendarized to December year end.
Note: CAGR = Compound Annual Growth Rate

* See attached reconciliation of non-GAAP measures.
Airgas
Air Products
11%
5%
Airgas
Air Products
17%
5%
Airgas
Air Products
15%
5%
Airgas
Air Products
20%
7%

15
15
Actual EPS vs. Consensus EPS Estimates
Source:
FactSet
and
consensus
Wall
Street
estimates

as
of
August
13,
2010.
15
15
Consistently Meeting or Exceeding
Consistently Meeting or Exceeding
Consensus Analyst Estimates
Consensus Analyst Estimates

Consensus Estimates
Actual
$0.00
$0.50
$1.00
$1.50
$2.00
$2.50
$3.00
$3.50
$4.00
Mar-01
Mar-02
Mar-03
Mar-04
Mar-05
Mar-06
Mar-07
Mar-08
Mar-09
Mar-10

16
16
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Moderate macro-economic recovery underpins our Same-Store Sales (SSS) growth of ~7% per year

Comparable to SSS growth in the prior recovery period

As SSS increase, the operating leverage inherent in Airgas business model has historically translated to a higher EBITDA margin on every dollar of incremental revenue, and we expect this to continue

Business mix is focused on higher-margin activities

e.g. Gas & Rent now comprises 65% of total sales versus 55% 1 in the prior recovery period

Margin expansion is expected to be further

enhanced
by
continued
focus
on operating efficiencies

Investment of nearly $2.5 billion in capex
and acquisitions in the last
three years is not yet fully reflected in current performance

Our goal of CY2012 EPS of $4.20+ reflects all of the costs of the SAP
implementation but none of the benefits
17
17
Why We Expect a Clear Path to EPS of
Why We Expect a Clear Path to EPS of
$4.20+ by CY 2012
$4.20+ by CY 2012
1
CY2002.

18
18
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18
18
18

18
What Happened in the Last Recovery?
What Happened in the Last Recovery?
* See attached reconciliations of non-GAAP measures.
Note: CAGR
= Compound Annual Growth Rate.
18% CAGR

19
19
19
19
Source: Airgas Management and Wall Street research.
* See attached reconciliations of non-GAAP measures.
Airgas
earnings recovery is clearly underway and reinforces our confidence
in our CY2012 EPS goal of $4.20+
We have exceeded the high end of

our guidance and consensus
estimates by **15%**
and
Q1 2010 by **26%**
Strong operating momentum
is reflected in our **7+%**
raise in
guidance
1Q11 has resulted in the highest
EBITDA margin in ARG
history and is already
within our
CY 12 Goals
1Q FY2011
Adj. EPS*
FY2011
Adj. EPS*
EBITDA Margin*
Announced
First Fiscal Quarter
Revised Guidance
Actual 1QF11
CY12 Goal
Recovery is Demonstrated
Recovery is Demonstrated
in Our 1Q FY2011 Earnings
in Our 1Q FY2011 Earnings

20
20
20
20
20
20
20
20
20
20

Five key factors drive our earnings goal of $4.20+ in
CY 2012
I.
Expected recovery of Same-Store Sales growth
II.
Demonstrated operating leverage in the business
model
III.
Continued focus on cutting operating costs
IV.
Maintaining higher margin business mix
V.
Realization of anticipated returns on capital
investments made in recent years
20
20
Expected Earnings Growth and
Expected Earnings Growth and
Strong Cash Flow Are Projected to
Strong Cash Flow Are Projected to
Underpin Our Shareholder Value Creation
Underpin Our Shareholder Value Creation

21
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21
I. Our Projections Assume SSS Growth
I. Our Projections Assume SSS Growth
Comparable to the Last Expansion
Comparable to the Last Expansion
21
21
Calendar Year Same-Store Sales Growth Rate
Note: Represents calendar year ended December 31. 2010 Non-Tech Industrial Production Growth Rate and ISM Index repres
[1]
The ISM Purchasing Managers
Index is a measure of the overall economic health of the manufacturing sector; a value above or below 50 represents an expansion or a contraction, respectively.
2010-2012 Avg: ~7%
Airgas Calendar Year Sales
2003-2005 Avg: 6%
(2)%
0 %
8 %
11 %
10 %
7 %
6 %
(16)%
30.0
40.0
50.0
60.0
70.0
(20)%
(10)%
0 %
10 %
20 %
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011E
2012E
-
Tech IP

Non-Tech IP Growth Rate
ISM Index[1]
$1.8
$1.8
$2.2
$2.7
$3.1
$3.8
$4.4
$3.9
$5.2+
$0.0
$1.0
$2.0
$3.0
$4.0
$5.0
$6.0
2002
2003
2004
2005
2006
2007
2008
2009
2012E

14%
24%
23%
19%
0 %
10 %
20 %
30 %
2003-2005 Avg
2006
2007
2008

2009
2010-2012 Avg
22
22
22
22
22
22
22
22
22
22
22
22
22
22
II. SSS Growth Drives Substantial EBITDA*
II. SSS Growth Drives Substantial EBITDA*
Growth Due to Operating Leverage
Growth Due to Operating Leverage
Calendar Year Same-Store Sales Growth Rate
Operating Leverage Drives Improved Fall Through
1
(Change in EBITDA* / Change in Sales)
* See attached reconciliations of non-GAAP measures.
1
Fall through has been adjusted for special items.
2
Not meaningful due to negative change in sales in 2009.
Not
Meaningful [2]
22+%
6 %
10 %
7 %
6 %
(16)%
(20)%
(10)%
0 %
10 %
20 %
2003-2005 Avg
2006
2007
2008
2009
2010-2012 Avg
~**7%**

23
23
23
23
23
23
23
23
23
23

III. Operating Leverage Expected to be
III. Operating Leverage Expected to be
Further Enhanced by Ongoing Cost Savings
Further Enhanced by Ongoing Cost Savings

Achieved original goal of aggregate $25M annual run-rate cost savings

Target announced in September 2007

Achieved three quarters ahead of schedule in December 2009

In December 2009, we announced incremental savings target of $30M to be achieved by CY 2012

Logistics, plant studies and cylinder testing drive savings

Cost savings after 2012 expected to be further enhanced by realization of SAP benefits

Actual Savings
Through CY09
CY10
CY11
CY12
Expected
Cumulative Savings
Through CY12
Routing logistics
$7M+
$5M
$6M
$7M
$25M+
Cylinder testing
$6M+
$2M
$2M
$1M
$11M+
Freight
$5M+
$1M
$1M
$1M
$8M+
Plant studies
$3M+
$2M
$1M
$1M
$7M+

Fuel
$2M+
-
-
-
$2M+
Indirect spend
$2M
-
-
-
$2M
Total
$25M+
$10M
$10M
$10M
$55M+
Expected Incremental Savings CY10-CY12

24
24
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24
IV. Business Mix Improvement
IV. Business Mix Improvement
Produces Higher Margins
Produces Higher Margins
Gas/Rent
Gas/Rent

55%
55%
Hardgoods
Hardgoods
45%
45%
Last Recession[1]
CY 2009
CY 2009
CY 2012E
CY 2012E

Gas/Rent
%
of
Sales:
Significantly
higher
margins
than
Hardgoods

RADNOR
Private
Label
%
of
Hardgoods
Sales:
Gross
margins
1.5-2.0x
comparable
OEM
products

Atmospheric
Gas
Production
%
of
Total
Atmospheric
Gas
Consumption:
Improves
sourcing
position
to
achieve

lowest
landed
cost
and
higher
margins
Gas/Rent
Gas/Rent
65%
65%
Hardgoods
Hardgoods
35%
35%
Gas/Rent
Gas/Rent
65%
65%
Hardgoods
Hardgoods
35%
35%
Sales
$1.7B
$1.7B
$3.9B
$3.9B
$5.2B+
$5.2B+
RADNOR Private Label
(% of Hardgoods
Sales)
~7%
~7%
7%
~12%
~12%
12%
12-15%
Atmospheric Gas Production
(% Total Atmos. Consumption)
10%
10%
60%+
60%+
65%+
65%+
EBITDA Margin*
14%

14%
17%
17%
18.0-18.5%
1
CY2002.
* See attached reconciliations of non-GAAP measures.

25
25
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25
25
25
V. Substantial Investments Since Last Cycle
V. Substantial Investments Since Last Cycle
Should Generate Higher Margins
Should Generate Higher Margins

Distribution Footprint:
established national distribution platform, leveraging customer density, enabling service of large multi-location customers

Production Capacity:

increased ASU production capacity has enhanced our sourcing
position
to
achieve
the
lowest
landed
product
cost
1
1
Landed
product
cost
is
the
full
cost
of
a
product
from
sourcing
up
until
the
point
of
sale.
*
See
attached
reconciliations
of
non-GAAP
measures.
Last
Recession
CY 02
CY 09
Goals
CY 12
Cylinders (in millions)
5+
10+
Bulk Tanks
6,000+
13,500+
Locations
~800

~1,100
ASU Production Capacity (liquid tons per day)
475
6,700
ASU Capacity Utilization
~87%
~70%
Revenue per Employee (in thousands)
$200
$279
Adjusted EBITDA Margin*
13.6%
17.3%
18%-18.5%
Adjusted EPS*
$0.94
$2.67
$4.20+
Substantial
Investments
Operational
Efficiency

26
26
26
26
26
26
Source: Airgas Management.
* See attached reconciliations of non-GAAP measures.
First Quarter Fiscal 2011 Already Within the
First Quarter Fiscal 2011 Already Within the

Range of Our CY 2012 EBITDA Margin Goal
Range of Our CY 2012 EBITDA Margin Goal
EBITDA Margin

27
27
27
27
27
27
Source: Airgas Management.
* See attached reconciliations of non-GAAP measures.
On Track To Achieve CY 2012 EPS Goal
On Track To Achieve CY 2012 EPS Goal

1H CY2010 Adjusted EPS* increased **+13%** vs. 1H CY2009

1Q FY2011 Adjusted EPS* increased **+26%** vs. 1Q FY2010
$ 3.30 -
$ 3.15

$ 3.05 -
$ 2.95
18-23% Increase
16% CAGR
$4.20+
$2.67
7 quarters between
7 quarters between
March 31, 2011 and
March 31, 2011 and
December 31, 2012
December 31, 2012
CY 2009
Actual
Original
FY11 Guidance
(12 Mos. Ended
March 2011)
Revised
FY11 Guidance
(12 Mos. Ended
March 2011)
CY 2012
Goal

28
28
28
28
28
28
* See attached reconciliations of non-GAAP measures.
Note: CAGR
= Compound Annual Growth Rate.

As a Result, We Expect EPS Growth
As a Result, We Expect EPS Growth
Consistent with Past Recoveries
Consistent with Past Recoveries
$2.20
$2.60
$3.00
$3.40
$3.80
$4.20
$4.60
Dec
-09
Dec
-10
Dec
-11
Dec
-12
Calendar Year EPS 2009-2012
$0.80
$0.90
$1.00
$1.10
$1.20
$1.30
$1.40
$1.50
$1.60
Dec
-02
Dec
-03
Dec
-04
Dec
-05
Calendar Year Adjusted EPS* 2002-2005
$4.20+
(CY12 Goal)
$2.67*
$1.53
$0.94
16% CAGR
18% CAGR
Adj. EPS*
EPS
FY11
Guidance*
(Updated)

$3.30
$3.15

29
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29
29

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29
* See attached reconciliations of non-GAAP measures.
Case 1: FY05
(Goals Published May 2001 Analyst Meeting)
Case 2: FY08
(Goals Published November 2004 Analyst Meeting)
Case 3: CY08
(Goals Represent CY08 Component of FY11 Goals
Published September 2007 Analyst Meeting)
We Have a Track Record of Meeting or
We Have a Track Record of Meeting or
Beating Our Mid-Term Goals
Beating Our Mid-Term Goals
Performing well toward FY11 goals
prior to recession
$3.0B
$315M
10-11%
11-12%
$4.0B
$476M
11.9%
13.2%
Sales
Op. Profit
Op. Margin
ROC*
FY08 Goals
FY08 Results
$4.3B
$541M
12.1%-
12.6%
13.2%-
13.7%
$4.4B
$541M
12.2%
13.5%
Sales
Op. Profit
Op. Margin
ROC*
CY08 Goals
CY08 Results
$2.0B

$200M
10.0%
10.0%
$2.4B
$209M
8.8%
10.3%
Sales
Op. Profit*
Op. Margin*
ROC*
FY05 Goals
FY05 Results

30
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30
30
30
Note: Further benefits expected to be realized from ongoing SAP implementation.
In Addition, Returns from Significant Recent
In Addition, Returns from Significant Recent

Investments Have Yet to be Fully Realized...
Investments Have Yet to be Fully Realized...
($ in millions)
Total Capital Deployed
Since January 1, 2007
ASUs (Carrollton, New Carlisle)
$ 80
SAP Implementation to Date
62
CO_2 Plants
25
Plant Upgrades / Consolidation
100
Other Capital Expenditures
344
Total Capital Expenditures
$ 990
Linde Bulk Assets
$ 495
Linde Packaged Gas Assets
310
Other Acquisitions
563
Total Acquisitions
$ 1,368
Total Capital Deployed
$ 2,358
Capital
Expenditures
Acquisitions
Total Capital
Deployed
Cylinders & Bulk Tanks
379

31
31
31
31
31
31
Note: Dollars in millions.
*See attached reconciliations of non-GAAP measures.
Air Products
Initial Proposal
...While Airgas Has Continued to Repay Debt

...While Airgas Has Continued to Repay Debt
and Build Value for Shareholders
and Build Value for Shareholders

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32

Agenda
Agenda

I.
Historical average next-twelve-months (NTM) trading multiples of Airgas

Airgas
5-year median NTM multiple is 16.7x P/E[1], which includes negative impact of recession

Over the past 5 years, Airgas
NTM
P/E has averaged:
17.7x when GDP growth is between 0% and 3% (current 2011E consensus of 2.8%) [2]
17.0x when ISM Index is between 50 and 55 and 17.2x when ISM index is 55 or greater[2]
II.
Increase
in
peer
equity
values
and
trading
multiples
since
Air
Products
February
4
proposal

Peers
share prices have increased by 16% to 18%

Peers
multiples have increased by median of 8% on P/E and 9% on EV/EBITDA[3]
III.
We

believe
Airgas
shareholders
are
not
receiving
adequate
value
for
Air
Products
estimated
synergies

At
Air
Products
$250
million
announced
value,
synergies
are
worth
over
$20
per
Airgas
share
4

Prior to February 4 proposal, Air Products indicated to Airgas that $350 million of synergies could be achieved
IV.
Air Products can significantly increase its offer price while maintaining an accretive transaction post-synergies

At $63.50 offer, Air Products expects transaction to be immediately accretive to both GAAP and Cash EPS even though full synergies not expected until after year 2
V.
Airgas
strong future growth prospects and significant leverage to recovering economy
VI.
Airgas
scarcity value as the largest, most valuable packaged gas business and the only remaining independent packaged gas company of scale in the world
Building Blocks of Value
Building Blocks of Value
Why We Believe
Why We Believe

Air Products
Air Products
Offer Is Inadequate and Opportunistic
Offer Is Inadequate and Opportunistic
33
33
[1] Represents five-year median multiple as of February 4, 2010, prior to date of announcement of the Air Products offer, based
[2] Represents U.S. real quarterly GDP growth, ISM Purchasing Managers Index, and five-year average NTM consensus P/E mu
3
Based on CY2011 consensus estimates. Peer set comprises Praxair, Air Liquide, and Linde.
4
Refer to slide 42.
Source: FactSet consensus estimates, Bloomberg market data

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Wall Street Analysts View Our FY11 Guidance
Wall Street Analysts View Our FY11 Guidance
and Our $4.20+ EPS Goal in CY12 Favorably
and Our $4.20+ EPS Goal in CY12 Favorably

FY11 Consensus EPS = $3.26, within our FY11 Adjusted EPS* guidance range of $3.15 to $3.30

FY13 Consensus EPS = $4.25, growth of 14.8% over FY12 Consensus EPS of $3.70

Analysts generally don t include future acquisitions in estimates

Our FY13 encompasses three quarters of CY12

Management
also
reaffirmed
its
goal
of
achieving
CY 12
EPS
of
$4.20,
and
indicated
it
is
on
a
trajectory
to
meet
or
exceed

this even absent any M&A contribution. When this goal was first posited, acquisition was seen as a component of getting there, but margin/execution has made that moot.

BB&T Capital Markets, July 22, 2010

Including acquisitions, we believe earnings power for ARG could approach $4.50 per share by FY13. While we believe the company's internal goal of earnings of $4.20 per share in calendar 2012 is certainly attainable given significant leverage to volume recovery and ongoing productivity initiatives, it does not appear to be conservative to us given the need to generate high single-digit organic sales growth.

KeyBanc Capital Markets, July 22, 2010

ARG s CY12 EPS

guidance of $4.20 looks increasingly attainable. APD s recently raised $63.50/share hostile bid looks less attractive to ARG shareholders given the strong results and lower net debt.

First Analysis Securities, July 22, 2010

For FY12 we are forecasting EPS of $3.82 which management has not provided guidance for although they have expressed an EPS goal of $4.20 for CY12 which would include 4QFY12 and the following three quarters. An acceleration in end market recovery in the next year would produce upside to our estimate and management's guidance; we believe both reflect a steady albeit modest ongoing recovery. For FY12 we are looking for further top-line growth of 9% as the sales initiatives that are currently being implemented gain full traction.

Piper Jaffray & Co., July 22, 2010
Note: Permission to use quotations neither sought nor obtained.
* See attached non-GAAP reconciliations.

5 x
10 x
15 x
20 x
25 x

Feb-2000
Feb-2001
Feb-2002
Feb-2003
Feb-2004
Feb-2005
Feb-2006
Feb-2007
Feb-2008
Feb-2009
Feb-2010
Median P/E
2/2000 - 2002
15.1
x
2003 - 2005
16.9
x
2006 - 2008
17.5
x
2009 - 2/2010
14.8
x
Last 5 Years
16.7
x
35
35
35
35
35
35
35
35
35
35
35
35
35
35
35
35
Airgas
Next
Twelve
Months
P/E
Multiple
for

10
Years
Before
Air
Products
Unsolicited
Proposal
Source: Bloomberg market data as of February 4, 2010, consensus analyst estimates
Timing Matters: Our Trading History
Timing Matters: Our Trading History
Demonstrates Air Products
Demonstrates Air Products
Opportunism
Opportunism
Airgas
Stock
Price
for
10
Years
Before
Air
Products
Unsolicited
Proposal
$43.53
$ 0
$ 15
$ 30
$ 45
$ 60
$ 75
Feb-2000
Feb-2001
Feb-2002
Feb-2003
Feb-2004
Feb-2005
Feb-2006
Feb-2007
Feb-2008
Feb-2009
Feb-2010

36
36
36
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36
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36
Source: Bloomberg consensus estimates as of August 13, 2010.
1
Data indexed to January 2006.

Timing Matters:
Timing Matters:
U.S. Economic Recovery is Just Beginning
U.S. Economic Recovery is Just Beginning
2.7 %
1.9 %
0.0 %
(2.6)%
3.0 %
2.8 %
3.1 %
2006
2007
2008
2009
2010E
2011E
2012E
U.S. GDP Growth
2.9 %
2.7 %
0.5 %
(4.1)%
1.2 %
1.3 %
1.6 %
2006
2007
2008
2009
2010E
2011E
2012E
European GDP Growth
50
60
70
80
90
100
110
120
Jan-06
Feb-07
Apr-08
May-09
Jul-10
U.S. Industrial Indicators Since 2006[1]
ISM Manufacturing Index
Non-Tech Industrial Production

4.6 %
4.6 %
5.8 %
9.3 %
9.6 %
9.1 %
8.1 %
2006
2007
2008
2009
2010E
2011E
2012E
U.S. Unemployment

37
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37
and Our Multiple Strengthens in Periods of
and Our Multiple Strengthens in Periods of
Economic Growth -
Economic Growth -
GDP
GDP
37
37
EV / NTM EBITDA
Price / NTM EPS
Q-o-Q GDP Growth
Airgas Multiple
37
37
3.0x
6.0x
9.0x
12.0x
Feb-05
Jan-06
Dec-06
Nov-07
Oct-08
Sep-09
Aug-10
(8.0%)
(4.0%)
0.0%
4.0%
8.0%
6.0x
12.0x
18.0x
24.0x
Feb-05
Jan-06
Dec-06
Nov-07
Oct-08
Sep-09
Aug-10
(8.0%)
(4.0%)
0.0%

4.0%
8.0%
8.5x
8.4x
7.5x
7.0x
(3%) or
less
(3%) -
0%
0% -
3%
3% or
greater
12.4x
14.4x
17.7x
17.8x
(3%) or
less
(3%) -
0%
0% -
3%
3% or
greater
Average
Multiple
(1)
Average
Multiple
(1)
Source:
FactSet
estimates
as
of
August
13,
2010.
Gross
Domestic
Product,
Real
%
Change
P/P

United
States

Quarterly.
(1) Represents 5 years of data prior to February 4, 2010.
February 4, 2010
Proposal
February 4, 2010
Proposal

38
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38
EV / NTM EBITDA
Price / NTM EPS
ISM Index
Airgas Multiple
and Our Multiple Strengthens in Periods of
and Our Multiple Strengthens in Periods of
Economic Growth -
Economic Growth -
ISM
ISM
38
38
3.0x
6.0x
9.0x
12.0x
Feb-05
Jan-06
Dec-06
Nov-07
Oct-08
Sep-09
Aug-10
30
40
50
60
70
6.0x
12.0x
18.0x
24.0x
Feb-05
Jan-06
Dec-06
Nov-07
Oct-08
Sep-09
Aug-10
30
40
50

60
70
80
8.2x
8.1x
8.0x
6.5x
40 or
less
40-50
50-55
55 or
greater
11.1x
15.8x
17.0x
17.2x
40 or
less
40-50
50-55
55 or
greater
Average
Multiple
(1)
Average
Multiple
(1)
February 4, 2010
Proposal
February 4, 2010
Proposal
Source: FactSet estimates as of August 13, 2010. ISM Manufacturing, Purchasing Managers Index- United States.
(1) Represents 5 years of data prior to February 4, 2010.

Source: Factset
and company filings.
Note: Current multiples as of August 13, 2010.
(1) Next Twelve Months
(2) Represents median multiple of an equally-weighted index comprising Praxair, Air Liquide, and Linde.
Although Lagging Pre-Recession Levels, Sector Trading
Although Lagging Pre-Recession Levels, Sector Trading
Multiples Have Significantly Increased Since Air Products
Multiples Have Significantly Increased Since Air Products
February 4 Proposal

February 4 Proposal
Calendar 2010E EV / EBITDA
39
39
Calendar 2011E EV / EBITDA
Calendar 2012E EV / EBITDA
Calendar 2010E P / EPS
Calendar 2011E P / EPS
Calendar 2012E P / EPS
Current Median: 9.0x
2/4/10 Median: 8.4x
Current Median: 8.4x
2/4/10 Median: 7.7x
Current Median: 7.7x
2/4/10 Median: 7.3x
Current Median: 17.0x
2/4/10 Median: 15.9x
Current Median: 15.5x
2/4/10 Median: 14.4x
Current Median: 14.0x
2/4/10 Median: 13.4x
Multiple as of February 4, 2010
Current Multiple
39
39
8%
9%
5%
7%
8%
5%
10.6x
9.0x
8.1x
8.0x
8.4x
9.4x
PX
AL
LIN
9.8x
8.4x
7.6x
8.5x
7.7x
7.4x
PX
AL
LIN
9.1x

7.7x
7.1x
7.8x
7.3x
7.1x
PX
AL
LIN
18.6x
17.0x
15.6x
16.1x
15.9x
14.9x
PX
AL
LIN
16.5x
15.5x
13.9x
14.3x
14.4x
13.0x
PX
AL
LIN
15.0x
14.0x
12.2x
12.8x
13.4x
12.0x
PX
AL
LIN
3-Year Median
NTM[1]
P / EPS
Pre-Lehman Filing
on Sep. 15, 2008
Peers[2]: 17.8x
3-Year Median
NTM[1]
EV / EBITDA
Pre-Lehman Filing
on Sep. 15, 2008
Peers[2]: 9.1x

$20
$30
$40
$50
$60
$70
$80
Aug-09
Sep-09
Oct-09

Nov-09
Dec-09
Jan-10
Feb-10
Air Products
Air Products
February 4 Proposal Followed a
February 4 Proposal Followed a
Temporary Market Anomaly
Temporary Market Anomaly
Source: Bloomberg market data as of February 4, 2010
Airgas Stock Price
January 15
February 4
(14)%
(12)%
(10)%
(8)%
(6)%
(4)%
(2)%
0%
2%
15-Jan
22-Jan
29-Jan
January 28, 2010
Airgas announces
Q3 FY 2010
earnings
miss guidance by
just 2 cents (3.0%),
stock falls 10%
(10)
$43.53
40
40
40
40

Source: Bloomberg market data as of August 13, 2010
Note:
Share
price
changes
of
Praxair,
Air
Liquide,
and
Linde
taken
between
February

5, 2010, the date Air Products $60 proposal was made public, and August 13, 2010. Share price changes denominated in the local currencies.
1 Average change in share price of Praxair, Air Liquide, and Linde between February 5, 2010, the date Air Products $60 proposal was made public, and July

8,
2010,
the
date
of
Air
Products
offer
of
$63.50.
Share
price
changes
denominated
in
the
local
currencies.
41
41
41
41
Air Products
Air Products
Offer Premium
Offer Premium
Does Not Adequately Reflect the
Does Not Adequately Reflect the
Growth in Peer Equity Values
Growth in Peer Equity Values
Price
Change
Since
Air
Products
Initial
Public
Proposal
2.4%
5.8%
11.7%
15.9%
17.9%
18.4%
Increase in APD
Proposal from $62 to
$63.50
Increase in APD
Proposal from $60 to
$63.50

Peer Equity Growth
(as of $63.50 offer date)[1]
Linde
Praxair
Air Liquide

42
42
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42
We Believe Airgas Shareholders Are
We Believe Airgas Shareholders Are
Not Being Adequately Compensated for
Not Being Adequately Compensated for
the Value of Air Products
the Value of Air Products
Estimated Synergies
Estimated Synergies

Air Products has stated that an acquisition of Airgas would have substantial cost synergies yielding $250 million run-rate by the end of year two

However, prior to February 4 proposal, Air Products indicated to Airgas that $350 million of synergies could be achieved

Air Products has also publicly estimated cash costs of implementing synergies to be somewhere in the $350 million to $400 million range

$250M of annual synergies and $400M implementation costs implies a value of synergies in excess of $20 per Airgas share[1]
Source: Air Products

Offer to Acquire Airgas
presentation dated February 5, 2010, and associated transcript
1

Assumes that synergies are capitalized at median peer EV / CY2010E EBITDA multiple of 9.0x. 9.0 x $250M in annual syner
implement, equals $1.85B, divided by total diluted share count based on the most recent Air Products offer price of $63.50 per

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The Industrial Gas Sector
The Industrial Gas Sector
has Steadily Consolidated
has Steadily Consolidated
Major Industrial Gas Players in 2000

Company
AGA
Air Liquide
Air Products
Airgas
The BOC Group
Hede Nielsen
Japan Air Gases
Linde
Linweld
Messer Griesheim
Nippon Sanso
Praxair
Taiyo Toyo Sanso
Valley National Gases

Company	Enterprise Value ($bn)
Air Liquide	$38
Praxair	33
Linde	29
Air Products	20
Airgas	7
Taiyo Nippon Sanso	6

Major Industrial Gas Players in 2010
Source: Bloomberg market data as of August 13, 2010, public filings

44
44
44
44
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44
44

As an independent company, Airgas has demonstrated a strong track record of earnings growth and stock price appreciation

Strongly positioned to grow leading share in packaged gas

Also strongly positioned to grow share in bulk gases

As a result, we believe that Airgas is well positioned to continue to deliver shareholder value

Delivering robust SSS growth

Continuing to deliver operating efficiencies

Proven history of successful acquisition integration

The Airgas Board understands the unique strategic value of the company

...Airgas Represents
...Airgas Represents
Significant Strategic Value
Significant Strategic Value

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Agenda
Agenda
Slide
Slide

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46
46
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Air Products
proposal would amend Airgas
bylaws to require Airgas to hold
future Annual Meetings in January

Requires Airgas to accelerate its 2011 meeting to elect directors on January
18, 2011 (and all subsequent meetings in January of each year)

We believe that implementation of Air Products
proposals would prevent Airgas
shareholders from benefiting from the Company s earnings recovery and
resulting value creation
Full text of the Schedule TO text that was subsequently deleted:
Given that the economy is just beginning to emerge from recession, Air Products concluded
that the timing is ideal because the combined company would be able to take full advantage of the substantial growth potential
synergies unique to this transaction.
-
Air Products Schedule TO dated February 11, 2010 (deleted in Schedule 14A dated June 16, 2010)
Given that the economy is just beginning to
Given that the economy is just beginning to
emerge from recession, Air Products concluded
emerge from recession, Air Products concluded
that the timing is ideal...
that the timing is ideal...

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47
47
47
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47
47

Peter McCausland

Chairman and CEO of Airgas since 1987

Airgas Director since 1986 IPO

Beneficial ownership of ARG nearly 8.6 million shares*

4,201%
Total
Shareholder
Return
since
joining
the
Airgas
Board
1

W. Thacher
Brown

Chairman, President and a director of 1838 Investment Advisors LLC from 1988 until retirement in 2004

Airgas Director since August 7, 1989

Beneficial ownership of ARG nearly 192,000 shares*

1,409%
Total
Shareholder
Return
since
joining
the
Airgas
Board
1

Richard C. Ill

President, CEO, and a director of Triumph Group (NYSE: TGI) since 1993

Airgas Director since August 4, 2004

Beneficial ownership of ARG 48,500 shares*

110%
Total
Shareholder
Return

since
joining
the
Airgas
Board
1
* Source: 2010 proxy statement.
1
Total Shareholder Returns are calculated as share price plus dividends reinvested, measured through the market close on Febru
announcement of the Air Products offer. Returns are split-adjusted and are measured since the later of the director s start date
Airgas
Airgas
Nominees Are Keenly Aware
Nominees Are Keenly Aware
of Their Fiduciary Duties
of Their Fiduciary Duties
Eight of our Board members are independent and our Board has significant
equity ownership, which we believe closely aligns the existing Airgas Board
with Airgas
shareholders
interests

48
48
48
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48

While Air Products' nominees may not be controlled by Air Products, we believe their views could be colored by their relationship with Air Products

To consider strategies other than the Air Products offer, we believe it would be in the best interests of our stockholders if our directors are not associated in any way with Air Products

If shareholders vote for Air Products
bylaw proposals, they could reduce Airgas
ability to create stockholder value and determine strategic direction
We recommend that you discard any Gold proxy cards
you receive and promptly vote the WHITE proxy card
FOR
the three highly qualified Airgas Directors and
AGAINST
Air Products
proposed By-Law amendments
We Believe Air Products
We Believe Air Products
Nominees and
Nominees and
Proposals Would Deprive Airgas
Proposals Would Deprive Airgas
Shareholders of Full Value
Shareholders of Full Value

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Agenda
Agenda
Slide
Slide

Airgas
Airgas
Acquisition History vs. Non-Tech IP
Acquisition History vs. Non-Tech IP
1988-Present
1988-Present
50
50
$0

$100
$200
$300
$400
$500
$600
-10%
-9%
-8%
-7%
-6%
-5%
-4%
-3%
-2%
-1%
0%
1%
2%
3%
4%
5%
6%
FY88
FY89
FY90
FY91
FY92
FY93
FY94
FY95
FY96
FY97
FY98
FY99
FY00
FY01
FY02
FY03
FY04
FY05
FY06
FY07
FY08
FY09
FY10
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I
P
a
n
d
G
D
P
G
r
o
w
t
h
Sales Acquired
Non-Tech IP
Refron
BOC Packaged
Linde
Bulk
Linde

Packaged
Air Products Packaged

51
51
Airgas
Airgas
Superior Track Record
Superior Track Record
in Executing Acquisitions
in Executing Acquisitions
51
51
Since 2000
Airgas
Air Products
Number of Acquisitions
91

21
Total Disclosed Value of
Acquisitions
$2,210 million
$1,765 million
Acquisition and Restructuring
Related Charges ($mm)
$21 million
$393 million (1)
Acquisition Value Leakage (2)
1%
22%
Source: Company public filings through January 2010
(1) Includes impairment charge on sale of U.S. Healthcare operations in 2009 and HPPC Business in 2007. Excludes charges a
related to aborted BOC transaction.
(2) Defined as acquisition and restructuring related charges as percentage of total disclosed value of acquisitions.

52
52
52
52
Total Shareholder Returns outperforming
the S&P 500
Since
1/1/1987,
#26
highest
out
of

500
(Top
5%)
(b)
3-year returns +22%
5-year returns +89%
10-year returns +516%
Officer and Director compensation
practices favorable to peers
Incentive and equity based comp for officers
Equity component to Director comp
No repricing
of options
Officer and Director stock beneficial
ownership
11.9% (#28 highest out of S&P 500)
Employee compensation leveraged,
consistent
Simple options; gainsharing
plans
Incentive-based components at all levels
Clean balance sheet
No material legacy liabilities
No material contingent liabilities
Strong cash flow
Free
Cash
Flow
(c)
$411
million
in
FY10
Cash
from
Operations
(c)
$648
million
in
FY10
(20% CAGR since FY01)
Note:
Market
data
as
of
February
4,
2010

(a) Split-adjusted, since Airgas IPO in 1986. Total Shareholder Return calculated as share price plus dividends reinvested.
(b) Excludes current S&P 500 constituents which were not public at January 1, 1987.
(c) See attached reconciliations of non-GAAP measures.
A History of Value Creation
A History of Value Creation
and Alignment with Shareholders
and Alignment with Shareholders

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53
53
53
Strong Cash Flow
Strong Cash Flow
Drives Shareholder Value Creation
Drives Shareholder Value Creation
Strong Cash Flow from Operations*

Funds growth / maint. capex
Returns cash to stockholders through
Funds acquisitions
dividends and share repurchases
Accelerates debt paydown
* See attached reconciliations of non-GAAP measures
Note: CAGR
= Compound Annual Growth Rate
$0
$100
$200
$300
$400
$500
$600
$700
FY01
FY02
FY03
FY04
FY05
FY06
FY07
FY08
FY09
FY10
Maint. Capex
(~3%
of Sales)
Growth Capex
Free
Cash
Flow
Cash from
Operations*
Total Capex*
$411M
$66M
20% CAGR
in
Cash from
Operations*

54
54
54
54
54
54
54
54
(in millions)
2009
2001
CAGR
Net earnings (loss)
213
$
(18)

$
Cumulative effect of change in accounting principle
-

59

Earnings before the cumulative effect of a change
in accounting principle
213

41

Plus:
Income Taxes
136

26

Equity in earnings of unconsolidated subsidiary
-

(3)

Interest expense, net
70

48

Discount on securitization of trade receivables
6

5

Loss on the extinguishment of debt
9

-

Other (income) expense, net
(1)

(1)

Depreciation
210

62

Amortization
22

12

Multi-employer pension plan withdrawal charge
7

-

Adjusted EBITDA
672

190

17%
Capital expenditures
(261)

(59)

Adjustments to capital expenditures:
Proceeds from the sale of plant and equipment
11

3

Operating lease buyouts
2

-

Adjusted Capital Expenditures
(248)

(56)

Adjusted EBITDA less Adjusted Capital Expenditures
424
$
134
$
15%
Twelve Months Ended
December 31,
The Company believes this presentation of the cumulative average growth rates ("CAGR") of adjusted EBITDA and adjusted EBITDA less adjusted capital expenditures helps investors better assess the Company's growth. Non-GAAP metrics should be read in conjunction with GAAP financial measures, as non GAAP metrics are merely a supplement to, and not a replacement f GAAP financial measures. It should be noted as well that our adjusted EBITDA and adjusted capital expenditures metrics may different from adjusted EBITDA and adjusted capital expenditures metrics provided by other companies.
Non-GAAP Reconciliations:
Non-GAAP Reconciliations:

Adjusted EBITDA and Adjusted EBITDA Less Capital Expenditures
Adjusted EBITDA and Adjusted EBITDA Less Capital Expenditures

55
55
55
55
55
55
55
55
55
55
Fiscal Year Ended
March 31, 2005
Sales
2,367,782
$
Operating Income
202,454

Adjustment:
Acquisition integration costs
6,400

Adjusted Operating Income
208,854
$
Adjusting Operating Margin

8.8%

The Company believes the above adjusted operating income and adjusted operating margin computations help investors assess the Company s operating performance without the impact of charges associated with the integration of major acquisitions. Non-GAAP metrics should be read in conjunction with GAAP financial measures, as non-GAAP metrics are merely a supplement to, and not a replacement for, GAAP financial measures. It should be noted as well that our adjusted operating income and adjusted operating margin metrics may be different from the adjusted operating income and adjusted operating margin metrics provided by other companies.

Non-GAAP Reconciliations:
Non-GAAP Reconciliations:
Adjusted
Adjusted
Operating
Operating
Income
Income
and
and
Adjusted
Adjusted
Operating
Operating
Margin
Margin

FY2005
FY2005

56
56
56
56
56
56
Calendar Year
(In thousands)
2005
2008
2008
Operating Income - Trailing Four Quarters
210,454
$
476,146
$
541,422
$
Five Quarter Average of Total Assets
2,134,362
$
3,708,389
$
4,122,411
$
Five Quarter Average of Securitized Trade Receivables
183,300

310,880

360,000

Five Quarter Average of Current Liabilities (exclusive of debt)
(274,035)

(421,589)

(459,362)

Five Quarter Average Capital Employed
2,043,627
$
3,597,680
$
4,023,049
$
Return on Capital
10.3%

13.2%

13.5%

Fiscal Year Ended March 31,
The Company believes this return on capital computation helps investors assess how effectively the Company uses the capital i
its operations. Our management uses return on capital as one of the metrics for determining employee compensation. Non-GA
should be read in conjunction with GAAP financial measures, as non-GAAP metrics are merely a supplement to, and not a rep
GAAP financial measures. It should be noted as well that our return on capital computation information may be different from
capital computations provided by other companies.
56
56
Non-GAAP Reconciliation:
Non-GAAP Reconciliation:
Return on Capital
Return on Capital

57
57
57
57
57
57
57
57
Three Months Ended
Low
High
June 30, 2010
2009
2005
2004
2003
2002
Earnings per diluted share
3.08
$
3.23
$
0.76

$
2.55
$
1.48
$
1.18
$
1.04
$
0.82
$
Adjustments:
Costs related to unsolicited takeover attempt
0.03

0.03

0.03

-

-

-

-

-

Debt extinguishment charges
0.02

0.02

0.02

0.07

-

-

-

-

Multi-employer pension plan withdrawal charges
0.02

0.02

0.02

0.05

-

-

-

-

Legal Settlement
-

-

-

-

-

-

-

0.08

Restructuring charge (recovery)
-

-

-

-

-

(0.01)

-

0.03

Insurance gain
-

-

-

-

-

-

(0.02)

-

Fire Losses
-

-

-

-

-

-

0.02

-

Acquisition integration costs
-

-

-

-

0.01

0.03

-

-

Employee separation costs
-

-

-

-

0.01

-

-

-

Hurricane losses
-

-

-

-

0.02

-

-

-

Losses from discontinued operations
-

-

-

-

0.01

-

0.01

0.01

Adjusted earnings per diluted share

3.15
$
3.30
$
0.83
$
2.67
$
1.53
$
1.20
$
1.05
$
0.94
$
(Updated Guidance)
Fiscal Year Ending March 31, 2011
Calendar Year

The Company believes that the adjusted earnings per diluted share above provide investors meaningful insight into the Compar
charges, multi-employer pension plan withdrawal charges, the settlement of material litigation, restructuring charges, insurance
employee separation costs, hurricane losses, and losses from discontinued operations. Non-GAAP metrics should be read in co
are merely a supplement to, and not a replacement for, GAAP financial measures. It should be noted as well that our adjusted
earnings per diluted share metrics provided by other companies.

Non-GAAP Reconciliation:
Non-GAAP Reconciliation:
Adjusted Earnings Per Diluted Share
Adjusted Earnings Per Diluted Share

58
58
58
58
58
58
58
58
Three Months Ended
Six Months Ended
(in thousands)
Low
High
2009
2002
June 30, 2010
June 30, 2010
Sales
5,200,000
$
5,200,000
$
3,886,671

$
1,714,527
$
1,052,656
$
2,035,964
$
Operating Income
648,000
$
675,000
$
432,221
$
142,442
$
122,751
$
204,634
$
Adjustments:
Depreciation & Amortization
286,000

286,000

231,518

79,294

60,467

121,440

Costs related to unsolicited takeover attempt
-

-

-

-

3,787

27,222

Multi-employer pension plan withdrawal charges
-

-

6,650

-

3,204

3,204

Legal Settlement
-

-

-

8,500

-

-

Restructuring charges
-

-

-

2,700

-

-

Other
-

-

400

-

-

-

Adjusted EBITDA

934,000
$
961,000
$
670,790
$
232,936
$
190,209
$
356,500
$
Adjusted EBITDA Margin
18.0%

18.5%

17.3%

13.6%

18.1%

17.5%

Calendar Year
2012 Target
The Company believes the above adjusted EBITDA margin computations help investors assess the Company s operating perf
amortization and charges associated with the Company s withdrawal from multi-employer pension plans, costs related to Air
settlements and restructuring charges. Non-GAAP numbers should be read in conjunction with GAAP financial measures, as n
a replacement for, GAAP financial measures. It should be noted as well that our Adjusted EBITDA metric may be different fr
Non-GAAP Reconciliation:
Non-GAAP Reconciliation:
Adjusted EBITDA Margin
Adjusted EBITDA Margin

59
59
59
59
59
59
59
59
Average
Average
(in thousands)
2003 to 2005
2006
2007
2008
2010E to 2012E
Sales
2,246,184

$
3,098,086
$
3,792,509
$
4,456,256
$
4,700,000
$
Change in sales
337,518
$
371,006
$
694,423
$
663,747
$
435,000
$
Operating Income
201,877
$
322,300
$
437,733
$
541,422
$
565,000
$
Adjustments:
Depreciation & Amortization
104,021

142,021

179,545

211,885

264,283

Costs related to unsolicited takeover attempt
-

-

-

-

9,074

Multi-employer pension plan withdrawal charge
-

-

-

-

1,068

Restructuring charge (recovery)
(267)

-

-

-

-

Fire Losses
933

-

-

-

-

Acquisition integration costs
1,600

-

10,100

-

-

Employee separation costs
533

-

-

-

-

Hurricane losses
733

-

-

-

-

Adjusted EBITDA
309,431
$
464,321
$
627,378
$
753,307
$
839,425
$
Change in adjusted EBITDA
47,869
$
87,777
$
163,057
$
125,929
$
97,000
$
Percentage adjusted EBITDA fall through
14%

24%

23%

19%

22%

Calendar Year

The Company believes that using adjusted EBITDA in its percentage of adjusted EBITDA fall through metric provides investo
adjusted EBITDA for every dollar of increased sales without the impact of costs related to the unsolicited takeover attempt, mu
restructuring charges, fire losses, significant acquisition integration costs, employee separation costs and hurricane losses. Nor
GAAP financial measures, as non-GAAP measures are merely a supplement to, and not a replacement for, GAAP financial me
adjusted EBITDA fall through metric may be different from similar metrics provided by other companies.

Non-GAAP Reconciliation:

Non-GAAP Reconciliation:

Adjusted EBITDA Fall Through

Adjusted EBITDA Fall Through

Non-GAAP Reconciliations:
Non-GAAP Reconciliations:
Adjusted Debt and Adjusted EBITDA
Adjusted Debt and Adjusted EBITDA
Quarterly
Quarterly
60
60

Non-GAAP Reconciliation:
Non-GAAP Reconciliation:
Adjusted
Adjusted
EBITDA
EBITDA
FY89-FY10
FY89-FY10
61
61
(In thousands)
FY89
FY90

FY91
FY92
FY93
FY94
FY95
FY96
FY97
FY98
FY99
Operating income
15,958
$
23,221
$
17,286
$
26,316
$
34,367
$
48,667
$
72,600
$
92,987
$
80,480
$
111,709
$
112,607
$
Add:
Depreciation & amortization
11,147
17,387
21,158
23,420
28,042
30,571
36,868
45,762
64,428
82,227
83,839
Costs related to unsolicited takeover attempt
-
-
-
-

-
-
-
-
-
-
-
Multi-employer pension plan withdrawal charges
-
-
-
-
-
-
-
-
-
-
-
Adjusted EBITDA
27,105
40,608
38,444
49,736
62,409
79,238
109,468
138,749
144,908
193,936
196,446
(Uses)/sources of cash excluded from adjusted
EBITDA, included in cash from operations:
Interest expense, net
(12,245)
(16,198)
(15,179)
(12,838)
(11,403)
(12,486)
(17,625)
(24,862)
(39,367)
(52,603)
(59,677)
Discount on securitization of receivables
-
-
-
-

-
-
-
-
-
-
-
Current income taxes
404
1,700
(599)
(3,591)
(5,653)
(7,838)
(12,345)
(17,654)
(20,012)
(16,502)
(17,244)
Other income (expense)
215
157
870
214
546
453
1,607
781
1,695
9,811
29,491
Equity in earnings of Elkem
joint venture
1,415
1,435
2,009
2,019
(897)
(1,258)
(840)
(1,428)
(1,356)
(1,478)
(869)
(Gains)/losses on divestitures
-
-
-
-
-

-
(560)
-
-
(1,452)
(25,468)
(Gain)/losses on sale of PP&E
(32)
2
(715)
(76)
(292)
(63)
110
12/20/07

0.75 % $ 1,969 Dow Jones CDX 3,250 6/20/10 3.60 % 104,462 Dow Jones CDX 3,000 6/20/10 3.60 % 120,276 Starwood Hotels & Reso

(d) Interest rate swap agreements outstanding at July 31, 2005:

			Rate Type		
Swap Counterparty	Notional Amount (000)	Termination Date	Payments made by Fund	Payments received by Fund	Unrealized Appreciation
Bank of America	$ 115,000	1/07/25	3 month LIBOR	5.13%	$ 3,286,392
Bank of America	115,000	6/15/25	5.25%	3 month LIBOR	1,152,656
					$ 4,439,048

LIBOR-London Interbank Offered Rate

PIMCO Floating Rate Income Fund Notes to Financial Statements

July 31, 2005

3. Investments in Securities (continued)

(e) Forward foreign currency contracts outstanding at July 31, 2005:

		U.S. $ Value on Origination Date	U.S. $ Value July 31, 2005	Unrealized Appreciation (Depreciation)
Purchased:	750,912,000 Japanese Yen settling 8/12/05	$ 6,727,487	$ 6,707,983	$ (19,504)
Sold:	€4,130,000 settling 8/25/05	5,023,443	5,021,722	1,721
				$ (17,783)

(f) At July 31, 2005, the Fund had the following unfunded loan commitments which could be extended at the option of the borrower:

Borrower	Unfunded Commitments
Allegheny Energy Supply Term C	$ 1,725,819
El Paso Nova Scotia Revolver	4,950,000
Host Marriott LP Revolver A	3,245,833
Host Marriott LP Revolver B	1,622,917
MotorCity Casino Term D	1,000,000
Venetian Casino, Term DD	172,863
Warner Chilcott Co., Inc.	623,990
Warner Chilcott Co., Inc.	124,798
	$ 13,466,220

4. Income Tax Information

The tax character of dividends and distributions paid for the year ended July 31, 2005 and for the period August 29, 2003 (commencement of operations) through July 31, 2004 of $29,057,023 and $15,873,574, respectively was comprised entirely of ordinary income.

At July 31, 2005, the tax character of distributable earnings of $2,206,321 was comprised entirely of ordinary income.

In accordance with U.S. Treasury regulations, the Fund elected to defer realized capital losses of $8,084,607 arising after October 31, 2004. Such losses are treated for tax purposes as arising on August 1, 2005.

The cost basis of portfolio securities for federal income tax purposes is $577,252,731. Aggregated gross unrealized appreciation for securities in which there is an excess value over tax cost is $7,192,597, aggregate gross unrealized depreciation for securities in which there is an excess of tax cost over value is $1,147,028, unrealized appreciation for federal income tax purposes is $6,045,569.

The difference between book and tax appreciation/depreciation is primarily attributable to wash sales and fees received from loans.

5. Auction Preferred Shares

The Fund has issued 2,800 shares of Preferred Shares Series T, 2,800 shares of Preferred Shares Series W, 2,800 shares of Preferred Shares Series Th, each with a net asset and liquidation value of $25,000 per share plus accrued dividends.

Dividends and distributions of net realized long-term capital gains, if any, are accumulated daily at an annual rate (typically re-set every seven days) through auction procedures.

PIMCO Floating Rate Income Fund Notes to Financial Statements

July 31, 2005

5. Auction Preferred Shares (continued)

For the year ended July 31, 2005, the annualized dividend rate ranged from:

	High	Low	At July 31, 2005
Series T	3.49%	1.55%	3.04%
Series W	3.52%	1.20%	3.20%
Series TH	3.46%	1.60%	3.24%

The Fund is subject to certain limitations and restrictions while Preferred Shares are outstanding. Failure to comply with these limitations and restrictions could preclude the Fund from declaring any dividends or distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of Preferred Shares at their liquidation value.

Preferred Shares, which are entitled to one vote per share, generally vote together with the common stock but vote separately as a class to elect two Trustees and on any matters affecting the rights of the preferred shares.

6. Subsequent Common Dividend Declarations

On August 5, 2005, a dividend of $0.11233 per share was declared to common shareholders payable September 2, 2005 to shareholders of record on August 19, 2005.

On September 2, 2005, a dividend of $0.12136 per share was declared to common shareholders payable October 7, 2005 to shareholders of record on September 16, 2005.

7. Legal Proceedings

On September 13, 2004, the Securities and Exchange Commission (the "Commission") announced that the Investment Manager and certain of its affiliates (together with the Investment Manager, the "Affiliates") had agreed to a settlement of charges that they and certain of their officers had, among other things, violated various antifraud provisions of the federal securities laws in connection with an alleged market-timing arrangement involving trading of shares of certain open-end investment companies ("open-end funds") advised or distributed by these certain Affiliates. In their settlement with the Commission, the Affiliates consented to the entry of an order by the Commission and, without admitting or denying the findings contained in the order, agreed to implement certain compliance and governance changes and consented to cease-and-desist orders and censures. In addition, the Affiliates agreed to pay civil money penalties in the aggregate amount of $40 million and to pay disgorgement in the amount of $10 million, for an aggregate payment of $50 million. In connection with the settlement, the Affiliates have been dismissed from the related complaint the Commission filed on May 6, 2004 in the U.S. District Court in the Southern District of New York. Neither the complaint nor the order alleges any inappropriate activity took place with respect to the Fund.

In a related action on June 1, 2004, the Attorney General of the State of New Jersey ("NJAG") announced that it had entered into a settlement agreement with Allianz Global and the Affiliates, in connection with a compla int filed by the NJAG on February 17, 2004. The NJAG dismissed claims against the Sub-Adviser, which had been part of the same complaint. In the settlement, Allianz Global and other named affiliates neither admitted nor denied the allegations or conclusions of law, but did agree to pay New Jersey a civil fine of $15 million and $3 million for investigative costs and further potential enforcement initiatives against unrelated parties. They also undertook to implement certain governance changes. The complaint relating to the settlement contained allegations arising out of the same matters that were the subject of the Commission order regarding market-timing described above and does not allege any inappropriate activity took place with respect to the Fund.

On September 15, 2004, the Commission announced that the Affiliates had agreed to settle an enforcement action in connection with charges that they violated various antifraud and other provisions of federal securities laws as a result of, among other things, their failure to disclose to the board of trustees and shareholders of various open-end funds advised or distributed by the Affiliates material facts and conflicts of interest that arose from their use of brokerage commissions on portfolio transactions to pay for so-called "shelf space" arrangements with certain broker-dealers. In their settlement with the Commission, the Affiliates consented to the entry of an order by the Commission without admitting or denying the findings contained in the order. In connection with the settlement, the Affiliates agreed to undertake certain compliance and disclosure reforms and consented to cease-and-desist orders and censures. In addition, the Affiliates agreed to pay a civil money penalty of $5 million and to pay disgorgement of approximately $6.6 million based upon the aggregate amount of brokerage commissions alleged to have been paid by such open-end funds in connection with these shelf-space arrangements (and related interest). In a related action,

PIMCO Floating Rate Income Fund Notes to Financial Statements

July 31, 2005

7. Legal Proceedings (continued)

the California Attorney General announced on September 15, 2004 that it had entered into an agreement with an affiliate of the Investment Manager in resolution of an investigation into matters that are similar to those discussed in the Commission order. The settlement agreement resolves matters described in a complaint filed contemporaneously by the California Attorney General in the Superior Court of the State of California alleging, among other things, that this affiliate violated certain antifraud provisions of California law by failing to disclose matters related to the shelf-space arrangements described above. In the settlement agreement, the affiliate did not admit to any liability but agreed to pay $5 million in civil penalties and $4 million in recognition of the California Attorney General's fees and costs associated with the investigation and related matters. Neither the Commission order nor the California Attorney General's complaint alleges any inappropriate activity took place with respect to the Fund.

On April 11, 2005, the Attorney General of the State of West Virginia filed a complaint in the Circuit Court of Marshall County, West Virginia (the "West Virginia Complaint") against the Investment Manager and certain of its Affiliates based on the same circumstances as those cited in the 2004 settlements with the Commission and NJAG involving alleged "market timing" activities described above. The West Virginia Complaint alleges, among other things, that the Investment Manager and certain of its Affiliates improperly allowed broker-dealers, hedge funds and investment advisers to engage in frequent trading of various open-end funds advised or distributed by the Affiliates in violation of the funds' stated restrictions on "market timing." As of the date of this report, the West Virginia Complaint has not been formally served upon the Investment Manager or the Affiliates. The West Virginia Complaint also names numerous other defendants unaffiliated with the Affiliates in separate claims alleging improper market timing and/or late trading of open-end investment companies advised or distributed by such other defendants. The West Virginia Complaint seeks injunctive relief, civil monetary penalties, investigative costs and attorney's fees. The West Virginia Complaint does not allege that any inappropriate activity took place with respect to the Fund.

Since February 2004, certain of the Affiliates and their employees have been named as defendants in a total of 14 lawsuits filed in one of the following: U.S. District Court in the Southern District of New York, the Central District of California and the Districts of New Jersey and Connecticut. Ten of those lawsuits concern "market timing," and they have been transferred to and consolidated for pre-trial proceedings in the U.S. District Court for the District of Maryland; the remaining four lawsuits concern "revenue sharing" with brokers offering "shelf space" and have been consolidated into a single action in the U.S. District Court for the District of Connecticut. The lawsuits have been commenced as putative class actions on behalf of investors who purchased, held or redeemed shares of affiliated funds during specified periods or as derivative actions on behalf of the funds.

The lawsuits generally relate to the same facts that are the subject of the regulatory proceedings discussed above. The lawsuits seek, among other things, unspecified compensatory damages plus interest and, in some cases, punitive damages, the rescission of investment advisory contracts, the return of fees paid under those contracts and restitution. The Investment Manager believes that other similar lawsuits may be filed in federal or state courts naming as defendants the Investment Adviser, the Affiliates, Allianz Global, the Fund, other open- and closed-end funds advised or distributed by the Investment Manager and/or its affiliates, the boards of directors or trustees of those funds, and/or other affiliates and their employees. Under Section 9(a) of the 1940 Act, if any of the various regulatory proceedings or lawsuits were to result in a court injunction against the Investment Manager, Allianz Global/or their affiliates, they and their affiliates would, in the absence of exemptive relief granted by the Commission, be barred from serving as an investment manager/sub-adviser or principal underwriter for any registered investment company, including the Fund. In connection with an inquiry from the Commission concerning the status of the New Jersey settlement described above under Section 9(a), the Investment Manager and certain of its affiliates (together, the "Applicants") have sought exemptive relief from the Commission under Section 9(c) of the 1940 Act.

The Commission has granted the Applicants a temporary exemption from the provisions of Section 9(a) with respect to the New Jersey settlement until the earlier of (i) September 13, 2006 and (ii) the date on which the Commission takes final action on their application for a permanent order. There is no assurance that the Commission will issue a permanent order. If the West Virginia Attorney General were to obtain a court injunction against the Investment Manager or the Affiliates, the Investment Manager or the Affiliates would, in turn, seek exemptive relief under Section 9(c) with respect to that matter, although there is no assurance that such exemptive relief would be granted.

A putative class action lawsuit captioned Charles Mutchka et al. v. Brent R. Harris, et al., filed in January 2005 by and on behalf of individual shareholders of certain open-end funds that hold equity securities and that are sponsored by

PIMCO Floating Rate Income Fund Notes to Financial Statements

July 31, 2005

7. Legal Proceedings (continued)

the Investment Manager and the Affiliates, is currently pending in the federal district court for the Central District of California. The plaintiff alleges that fund trustees, investment advisers and affiliates breached fiduciary duties and duties of care by failing to ensure that the open-end funds participated in securities class action settlements for which those funds were eligible. The plaintiff has claimed as damages disgorgement of fees paid to the investment advisers, compensatory damages and punitive damages.

The Investment Manager believes that the claims made in the lawsuit against the Investment Manager and the Affiliates are baseless, and the Investment Manager and the Affiliates intend to vigorously defend the lawsuit. As of the date hereof, the Investment Manager believes a decision, if any, against the defendants would have no material adverse effect on the Fund or the ability of the Investment Manager or the Sub-Adviser to perform their duties under the investment management or portfolio management agreements, as the case may be. It is possible that these matters and/or other developments resulting from these matters could lead to a decrease in the market price of the Fund's shares or other adverse consequences to the Fund and its shareholders. However, the Investment Manager and the Sub-Adviser believe that these matters are not likely to have a material adverse effect on the Fund or on the Investment Manager's or the Sub-Adviser's ability to perform their respective investment advisory services related to the Fund.

The foregoing speaks only as of the date hereof. There may be additional litigation or regulatory developments in connection with the matters discussed above.

PIMCO Floating Rate Income Fund Financial Highlights

For a share of common stock outstanding throughout each period:

	Year ended July 31, 2005	For the Period August 29, 2003* through July 31, 2004
Net asset value, beginning of period	$ 19.38	$ 19.35**
Investment Operations:		
Net investment income	1.36	0.71
Net realized and unrealized gain on investments, futures contracts, options written, swaps, unfunded loan commitments and foreign currency transactions	0.39	0.39
Total from investment operations	1.75	1.10
Dividends on Preferred Shares from Net Investment Income	(0.29)	(0.11)
Net increase in net assets applicable to common shareholders resulting from investment operations	1.46	0.99
Dividends and Distributions to Common Shareholders from:		
Net investment income	(1.19)	(0.78)
Net realized gains	(0.14)	
Total dividends and distributions to common shareholders	(1.33)	(0.78)
Capital Share Transactions:		
Common stock offering costs charged to paid-in capital in excess of par		(0.04)
Preferred shares offering costs/underwriting discounts charged to paid-in capital in excess of par		(0.14)
Total capital share transactions		(0.18)
Net asset value, end of period	$ 19.51	$ 19.38
Market price, end of period	$ 18.75	$ 20.47
Total Investment Return (1)	(2.05)%	6.55%
RATIOS/SUPPLEMENTAL DATA:		
Net assets applicable to common shareholders, end of period (000)	$ 351,708	$ 346,749
Ratio of expenses to average net assets (2)(3)	1.52%	1.36%(4)
Ratio of net investment income to average net assets (2)	6.93%	4.04%(4)
Preferred shares asset coverage per share	$ 66,856	$ 66,274
Portfolio turnover	83%	94%

* Commencement of operations.

** Initial public offering price of $20.00 per share less underwriting discount of $0.65 per share.

(1) Total investment return is calculated assuming a purchase of a share of common stock at the current market price on the first day of each period and a sale of a share of common stock at the current market price on the last day of each period reported. Dividends and distributions are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges. Total investment return for a period of less than one year is not annualized.

(2) Calculated on the basis of income and expenses applicable to both common shares and preferred shares relative to the average net assets of common shareholders.

(3) Inclusive of expenses offset by custody credits earned on cash balances at the custodian bank. (See note 1(m) in Notes to Financial Statements).

(4) Annualized.

PIMCO Floating Rate Income Fund Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Trustees of
PIMCO Floating Rate Income Fund

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations, of changes in net assets applicable to common shareholders and of cash flows and the financial highlights present fairly, in all material respects, the financial position of PIMCO Floating Rate Income Fund (the "Fund") at July 31, 2005, the results of its operations and cash flows for the year then ended, and the changes in its net assets applicable to common shareholders and the financial highlights for the year then ended and for the period August 29, 2003 (commencement of operations) through July 31, 2004, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at July 31, 2005 by correspondence with the custodian, brokers and agent banks, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
New York, New York
September 29, 2005

PIMCO Floating Rate Income Fund Matters Relating to the Trustees Consideration of the Investment Management and Portfolio Management Agreements

(unaudited)

The Investment Company Act of 1940 requires that both the full Board of Trustees (the "Trustees") and a majority of the non-interested ("independent") Trustees, voting separately, annually approve the continuation of the Fund's Investment Management Agreement with the Investment Manager and Portfolio Management Agreement between the Investment Manager and the Sub-Adviser (together, the "Agreements"). The Trustees consider matters bearing on the Fund and its investment management arrangements at their meetings throughout the year, including a review of performance data at each regular meeting. In addition, the Trustees met on June 15 and 16, 2005 (the "contract review meeting") for the specific purpose of considering whether to approve the continuation of the Investment Management Agreement and the Portfolio Management Agreement. The independent Trustees were assisted in their evaluation of the Agreements by independent legal counsel, from whom they received separate legal advice and with whom they met separately from Fund management during the contract review meeting.

Based on their evaluation of factors that they deemed to be material, including those factors described below, the Board of Trustees, including a majority of the independent Trustees, unanimously concluded that the Fund's Investment Management Agreement and Portfolio Management Agreement should be continued for an additional one-year period.

In connection with their deliberations regarding the continuation of the Agreements, the Trustees, including the Independent Trustees, considered such information and factors as they believed, in light of the legal advice furnished to them and their own business judgment, to be relevant. As described below, the Trustees considered the nature, quality, and extent of the various investment management, administrative and other services performed by the Investment Manager and the Sub-Adviser under the Agreements.

In connection with their contract review meeting, the Trustees received and relied upon materials provided by the Investment Manager which included, among other items: (i) information provided by Lipper Inc. on the total return investment performance (based on net assets) of the Fund for various time periods and the investment performance of a group of funds with substantially similar investment classifications/objectives, (ii) information provided by Lipper Inc. on the Fund's management fee and other expenses and the management fee and other expenses of comparable funds identified by Lipper Inc. (iii) information regarding the investment performance and management fees of comparable portfolios of other clients of the Sub-Adviser, including institutional separate account and other clients, (iv) an estimate of the profitability to the Investment Manager from its relationship with the Fund for the twelve months ended March 31, 2005, (v) descriptions of various functions performed by the Investment Manager and the Sub-Adviser for the Fund, such as compliance monitoring and portfolio trading practices, and (vi) information regarding the overall organization of the Investment Manager and the Sub-Adviser, including information regarding senior management, portfolio managers and other personnel providing investment management, administrative and other services to the Fund.

The Trustees' conclusions as to the continuation of the Agreements were based on a comprehensive consideration of all information provided to the Trustees and not the result of any single factor. Some of the factors that figured particularly in the Trustees' deliberations are described below, although individual Trustees may have evaluated the information presented differently from one another, giving different weights to various factors.

As part of their review, the Trustees examined the Investment Manager's and Sub-Adviser's abilities to provide high quality investment management and other services to the Fund. The Trustees considered the investment philosophy and research and decision-making processes of the Sub-Adviser; the experience of key advisory personnel of the Sub-Adviser responsible for portfolio management of the Fund; the ability of the Investment Manager and Sub-Adviser to attract and retain capable personnel; the capability and integrity of the senior management and staff of the Investment Manager and Sub-Adviser; and the level of skill required to manage the Fund. In addition, the Trustees reviewed the quality of the Investment Manager's and Sub-Adviser's services with respect to regulatory compliance and compliance with the investment policies of the Fund; the nature and quality of certain administrative services the Investment Manager is responsible for providing to the Fund; and conditions that might affect the Investment Manager's or Sub-Adviser's ability to provide high quality services to the Fund in the future under the Agreements, including each organization's respective business reputation, financial condition and operational stability. Based on

PIMCO Floating Rate Income Fund Matters Relating to the Trustees Consideration of the Investment Management and Portfolio Management Agreements

(continued) (unaudited)

the foregoing, the Trustees concluded that the Sub-Adviser's investment process, research capabilities and philosophy were well suited to the Fund given its investment objectives and policies, and that the Investment Manager and Sub-Adviser would be able to meet any reasonably foreseeable obligations under the Agreements.

Based on information provided by Lipper Inc., the Trustees also reviewed the Fund's total return investment performance as well as the performance of comparable funds identified by Lipper Inc. In the course of their deliberations, the Trustees took into account information provided by the Investment Manager in connection with the contract review meeting, as well as during investment review meetings conducted with portfolio management personnel during the course of the year regarding the Fund's performance. After reviewing these and related factors, the Trustees concluded, within the context of their overall conclusions regarding the Agreements, that they were satisfied with the Investment Manager's and Sub-Adviser's responses and efforts relating to investment performance.

In assessing the reasonableness of the Fund's fees under the Agreements, the Trustees considered, among other information, the Fund's management fee and the total expense ratio as a percentage of average net assets attributable to common shares and the management fee and total expense ratios of comparable funds identified by Lipper Inc.

The Trustees also considered the management fees charged by the Sub-Adviser to other clients, including institutional separate accounts with investment strategies similar to those of the Fund. Regarding the institutional separate accounts, they noted that the management fee paid by the Fund is generally higher than the fees paid by these clients of the Sub-Adviser, but were advised that the administrative burden for the Investment Manager and the Sub-Adviser with respect to the Fund are also relatively higher, due in part to the more extensive regulatory regime to which the Fund is subject in comparison to institutional accounts. The Trustees noted that the management fee paid by the Fund is generally higher than the fees paid by the open-end Funds but were advised that there are additional portfolio management challenges in managing the Fund such as the use of leverage and meeting a regular dividend. The Trustees noted that the Fund was in the top decile among its peer group for the twelve months ended May 31, 2005. Its year to date performance, however, through May 31, 2005 is poor although the month of May was strong. The Trustees also noted that the Fund's expense ratio was below the average and median for its peer group.

The Trustees also took into account that the Fund has preferred shares outstanding, which increases the amount of fees received by the Investment Manager and Sub-Adviser under the Agreements (because the fees are calculated based on the Fund's total managed assets, including assets attributable to preferred shares and other forms of leverage outstanding). In this regard, the Trustees took into account that the Investment Manager and Sub-Adviser have a financial incentive for the Fund to continue to have preferred shares outstanding, which may create a conflict of interest between the Investment Manager and Sub-Adviser, on one hand, and the Fund's common shareholders, on the other. In this regard, the Trustees considered information provided by the Investment Manager and Sub-Adviser indicating that the Fund's use of leverage through preferred shares continues to be appropriate and in the interests of the Fund's common shareholders.

Based on a profitability analysis provided by the Investment Manager, the Trustees also considered the estimated profitability of the Investment Manager from its relationship with the Fund and determined that such profitability was not excessive.

The Trustees also took into account that, as a closed-end investment company, the Fund does not currently intend to raise additional assets, so the assets of the Fund will grow (if at all) only through the investment performance of the Fund. Therefore, the Trustees did not consider potential economies of scale as a principal factor in assessing the fee rates payable under the Agreements.

Additionally, the Trustees considered so-called "fall-out benefits" to the Investment Manager and Sub-Adviser, such as reputational value derived from serving as investment manager and sub-adviser to the Fund.

After reviewing these and other factors described herein, the Trustees concluded, within the context of their overall conclusions regarding the Agreements, that the fees payable under the Agreements represent reasonable compensation in light of the nature and quality of the services being provided by the Investment Manager and Sub-Adviser to the Fund.

PIMCO Floating Rate Income Fund Tax Information & Privacy Policy (unaudited)

Tax Information (unaudited)

Pursuant to the Jobs and Growth Tax Relief Reconciliation Act of 2003, the Fund designates qualified dividend income of $184,807 or the maximum allowable amount.

The percentage of ordinary dividends paid by the Fund during the year ended July 31, 2005 which qualified for the Dividends Received Deduction available to corporate shareholders was 100% or the maximum allowable amount.

Since the Fund's tax year is not the calendar year, another notification will be sent with respect to calendar year 2005. In January 2006, shareholders will be advised on IRS Form 1099 DIV as to the federal tax status of the dividends and distributions received during calendar 2005. The amount that will be reported, will be the amount to use on your 2005 federal income tax return and may differ from the amount which must be reported in connection with the Fund's tax year ended June 30, 2005. Shareholders are advised to consult their tax advisers as to the federal, state and local tax status of the dividend income received from the Fund.

Privacy Policy:

Our Commitment to You

We consider customer privacy to be a fundamental aspect of our relationship with clients. We are committed to maintaining the confidentiality, integrity, and security of our current, prospective and former clients' personal information. We have developed policies designed to protect this confidentiality, while allowing client needs to be served.

Obtaining Personal Information

In the course of providing you with products and services, we may obtain non-public personal information about you. This information may come from sources such as account applications and other forms, from other written, electronic or verbal correspondence, from your transactions, from your brokerage or financial advisory firm, financial adviser or consultant, and/or from information captured on our internet web sites.

Respecting Your Privacy

We do not disclose any personal or account information provided by you or gathered by us to non-affiliated third parties, except as required or permitted by law. As is common in the industry, non-affiliated companies may from time to time be used to provide certain services, such as preparing and mailing prospectuses, reports, account statements and other information, conducting research on client satisfaction, and gathering shareholder proxies. We may also retain non-affiliated companies to market our products and enter in joint marketing agreements with other companies. These companies may have access to your personal and account information, but are permitted to use the information solely to provide the specific service or as otherwise permitted by law. We may also provide your personal and account information to your brokerage or financial advisory firm and/or to your financial adviser or consultant.

Sharing Information with Third Parties

We do reserve the right to disclose or report personal information to non-affiliated third parties in limited circumstances where we believe in good faith that disclosure is required under law, to cooperate with regulators or law enforcement authorities, to protect our rights or property, or upon reasonable request by any mutual fund in which you have chosen to invest. In addition, we may disclose information about you or your accounts to a non-affiliated third party at your request or if you consent in writing to the disclosure.

Sharing Information with Affiliates

We may share client information with our affiliates in connection with servicing your account or to provide you with information about products and services that we believe may be of interest to you. The information we share may include, for example, your participation in our mutual funds or other investment programs, your ownership of certain types of accounts (such as IRAs), or other data about your accounts. Our affiliates, in turn, are not permitted to share your information with non-affiliated entities, except as required or permitted by law.

Implementation of Procedures

We take seriously the obligation to safeguard your non-public personal information. We have implemented procedures designed to restrict access to your non-public personal information to our personnel who need to know that information to provide products or services to you. To guard your non-public personal information, physical, electronic, and procedural safeguards are in place.

PIMCO Floating Rate Income Fund Proxy Voting Policies & Procedures and Other Information (unaudited)

Proxy Voting Policies & Procedures:

A description of the policies and procedures that the Fund has adopted to determine how to vote proxies relating to portfolio securities and information about how the Fund voted proxies relating to portfolio securities held during the twelve months ended June 30, 2005 is available (i) without charge, upon request, by calling the Fund's transfer agent at (800) 331-1710; (ii) on the Fund's website at www.allianzinvestors.com; and (iii) on the Securities and Exchange Commission's website at www.sec.gov.

Other Information:

Since July 31, 2004, there have been no: (i) material changes in the Funds' investment objectives or policies; (ii) changes to the Fund's charter or by-laws; (iii) material changes in the principal risk factors associated with investment in the Fund; (iv) change in person primarily responsible for the day-to-day management of the Fund's portfolio.

PIMCO Floating Rate Income Fund Dividend Reinvestment (unaudited)

Pursuant to the Fund's Dividend Reinvestment Plan (the "Plan"), all Common Shareholders whose shares are registered in their own names will have all dividends, including any capital gain dividends, reinvested automatically in additional Common Shares by PFPC Inc., as agent for the Common Shareholders (the "Plan Agent"), unless the shareholder elects to receive cash. An election to receive cash may be revoked or reinstated at the option of the shareholder. In the case of record shareholders such as banks, brokers or other nominees that hold Common Shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of Common Shares certified from time to time by the record shareholder as representing the total amount registered in such shareholder's name and held for the account of beneficial owners who are to participate in the Plan. Shareholders whose shares are held in the name of a bank, broker or nominee should contact the bank, broker or nominee for details. All distributions to investors who elect not to participate in the Plan (or whose broker or nominee elects not to participate on the investor's behalf), will be paid cash by check mailed, in the case of direct shareholder, to the record holder by PFPC Inc., as the Fund's dividend disbursement agent.

Unless you (or your broker or nominee) elects not to participate in the Plan, the number of Common Shares you will receive will be determined as follows:

(1) If Common Shares are trading at or above net asset value on the payment date, the Fund will issue new shares at the greater of (i) the net asset value per Common Share on the payment date or (ii) 95% of the market price per Common Share on the payment date; or

(2) If Common Shares are trading below net asset value (minus estimated brokerage commissions that would be incurred upon the purchase of Common Shares on the open market) on the payment date, the Plan Agent will receive the dividend or distribution in cash and will purchase Common Shares in the open market, on the New York Stock Exchange or elsewhere, for the participants' accounts. It is possible that the market price for the Common Shares may increase before the Plan Agent has completed its purchases. Therefore, the average purchase price per share paid by the Plan Agent may exceed the market price on the payment date, resulting in the purchase of fewer shares than if the dividend or distribution had been paid in Common Shares issued by the Fund. The Plan Agent will use all dividends and distributions received in cash to purchase Common Shares in the open market on or shortly after the payment date, but in no event later than the ex-dividend date for the next distribution. Interest will not be paid on any uninvested cash payments.

You may withdraw from the Plan at any time by giving notice to the Plan Agent. If you withdraw or the Plan is terminated, you will receive a certificate for each whole share in your account under the Plan and you will receive a cash payment for any fraction of a share in your account. If you wish, the Plan Agent will sell your shares and send you the proceeds, minus brokerage commissions.

The Plan Agent maintains all shareholders' accounts in the Plan and gives written confirmation of all transactions in the accounts, including information you may need for tax records. The Plan Agent will also furnish each person who buys Common Shares with written instructions detailing the procedures for electing not to participate in the Plan and to instead receive distributions in cash. Common Shares in your account will be held by the Plan Agent in non-certificated form. Any proxy you receive will include all Common Shares you have received under the Plan.

There is no brokerage charge for reinvestment of your dividends or distributions in Common Shares. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases.

Automatically reinvested dividends and distributions are taxed in the same manner as cash dividends and distributions.

The Fund and the Plan Agent reserve the right to amend or terminate the Plan. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants. Additional information about the Plan may be obtained from the Fund's transfer agent, PFPC Inc., P.O. Box 43027, Providence, RI 02940-3027, telephone number (800)-331-1710.

PIMCO Floating Rate Income Fund Board of Trustees (unaudited)

Name, Age, Position(s) Held with Fund, Length of Service, Other Trusteeships/Directorships Held by Trustee; Number of Portfolios in Fund Complex/Outside Fund Complexes Currently Overseen by Trustee *The address of each trustee is 1345 Avenue of the Americas, New York, NY 10105*	**Principal Occupation(s) During Past 5 Years:**
Robert E. Connor Age: 70 *Chairman of the Board of Trustees since: 2004* *Trustee since: 2003* *Term of office: Expected to stand for re-election at 2007 annual meeting of shareholders.* *Trustee/Director of 24 funds in Fund Complex* *Trustee/Director of no funds outside of Fund Complex*	Corporate Affairs Consultant; Formerly, Senior Vice President, Corporate Office, Smith Barney Inc.
Paul Belica Age: 84 *Trustee since: 2003* *Term of office: Expected to stand for re-election at 2005 annual meeting of shareholders.* *Trustee/Director of 20 funds in Fund Complex* *Trustee/Director of no funds outside of Fund Complex*	Director, Student Loan Finance Corp., Education Loans, Inc., Surety Loan Funding, Inc.; Formerly senior executive and member of the Board of Smith Barney, Harris Upham & Co. and CEO of five State of New York Agencies, Inc.
John J. Dalessandro II Age: 67 *Trustee since: 2003* *Term of office: Expected to stand for re-election at 2005 annual meeting of shareholders.* *Trustee of 23 funds in Fund Complex* *Trustee of no funds outside of Fund complex*	Formerly, President and Director, J.J. Dalessandro II Ltd, registered broker-dealer and member of the New York Stock Exchange.
David C. Flattum Age: 40 *Trustee since: 2003* *Term of office: Expected to stand for election at 2006 annual meeting of shareholders.* *Trustee of 52 funds in Fund Complex* *Trustee of no funds outside of Fund Complex*	Managing Director, Chief Operating Officer, General Counsel and member of Management Board, Allianz Global Investors of America, L.P.; Formerly, Partner, Latham & Watkins LLP (1998-2001).
Hans W. Kertess Age: 65 *Trustee since: 2003* *Term of office: Expected to stand for*	President, H Kertess & Co., L.P. Formerly, Managing Director, Royal Bank of Canada Capital Markets.

re-election at 2007 annual meeting of shareholders. Trustee of 23 Funds in Fund Complex; Trustee of no funds outside of Fund Complex	
R. Peter Sullivan III Age: 63 *Trustee since: 2004 Term of office: Expected to stand for re-election at 2006 annual meeting of shareholders. Trustee of 19 funds in Fund Complex Trustee of no funds outside of Fund Complex*	Formerly, Managing Partner, Bear Wagner Specialists LLC (formerly, Wagner Stott Mercator LLC), specialist firm on the New York Stock Exchange.

Mr. Flattum is an "interested person" of the Fund due to his affiliation with Allianz Global Investors of America L.P. and the Investment Manager. In addition to Mr. Flattum's positions with affiliated persons of the Fund set forth in the trade above, he holds the following positions with affiliated person: Director, PIMCO Global Advisors (Resources) Limited; Managing Director, Allianz Dresdner Asset Management U.S. Equities LLC, Allianz Hedge Fund Partners Holdings L.P., Allianz PacLife Partners LLC, PA Holdings LLC; Director and Chief Executive Officer, Oppenheimer Group, Inc.

Further information about Fund's Trustees is available in the Fund's Statement of Additional Information, dated August 26, 2003, which can be obtained upon request, without charge, by calling the Fund's transfer agent at (800) 331-1710.

PIMCO Floating Rate Income Fund Principal Officers (unaudited)

Name, Age, Position(s) Held with Fund.	**Principal Occupation(s) During Past 5 Years:**
Brian S. Shlissel Age: 40 *President & Chief Executive Officer since: 2003*	Executive Vice President, Allianz Global Investors Fund Management LLC; President and Chief Executive Officer of 32 funds in the Fund Complex; Treasurer; Principal Financial and Accounting Officer of 31 funds in the Fund Complex; Trustee of 8 funds in the Fund Complex.
Lawrence G. Altadonna Age: 39 *Treasurer, Principal/Financial and Accounting Officer since: 2003*	Senior Vice President, Allianz Global Investors Fund Management LLC; Treasurer, Principal Financial and Accounting officer of 32 fund's in the Fund Complex; Assistant Treasurer of 31 funds in the Fund Complex.
Newton B. Schott, Jr. Age: 62 *Vice President since: 2003*	Managing Director, Chief Administrative Officer, General Counsel and Secretary, Allianz Global Investors Distributors LLC; Managing Director, Chief Legal Officer and Secretary, Allianz Global Investors Fund Management LLC; Vice President of 65 funds in the Fund Complex; Secretary of 33 funds in the fund Complex.
Raymond G. Kennedy Age: 36 *Vice President since: 2003*	Managing Director, Portfolio Manager and senior member of PIMCO's investment strategy group. Mr. Kennedy joined PIMCO in 1996, having previously been associated with the Prudential Insurance Company of Americas as a private placement asset manager, where he was responsible for investing and managing a portfolio of investment grade and high yield privately-placed fixed income securities. Prior to that, he was a consultant for Arthur Andersen in Los Angeles and London. He has 17 years of investment management experience and holds a bachelor's degree from Stanford University and an MBA from the Anderson Graduate School of Management at the University of California, Los Angeles. He is also a member of LSTA.
Thomas J. Fuccillo Age: 37 *Secretary since: 2004*	Vice President, Senior Fund Attorney, Allianz Global Investors of America L.P., Secretary of 32 funds in the Fund Complex.
Youse Guia Age: 32 *Chief Compliance Officer since: 2004*	Senior Vice President, Group Compliance Manager, Allianz Global Investors of America L.P., Chief Compliance Officer of 65 funds in the Fund Complex.
Jennifer Patula Age: 27 *Assistant Secretary since: 2004*	Assistant Secretary, of 32 funds in the Fund Complex.

Officers hold office at the pleasure of the Board and until their successors are appointed and qualified or until their earlier resignation or removal.

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Trustees and Principal Officers

Investment Manager

Allianz Global Investors Fund Management LLC

1345 Avenue of the Americas

New York, NY 10105

Sub-Adviser

Pacific Investment Management Company LLC

840 Newport Center Drive

Newport Beach, CA 92660

Custodian & Accounting Agent

State Street Bank & Trust Co.

801 Pennsylvania

Kansas City, MO 64105-1307

Transfer Agent, Dividend Paying Agent and Registrar

PFPC Inc.

P.O. Box 43027

Providence, RI 02940-3027

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP

300 Madison Avenue

New York, NY 10017

Legal Counsel

Ropes & Gray LLP

One International Place

Boston, MA 02210-2624

This report, including the financial information herein, is transmitted to the shareholders of PIMCO Floating Rate Income Fund for their information. It is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Fund may purchase shares of its common stock in the open market.

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarter of its fiscal year on Form N-Q. The Fund's Form N-Q is available on the SEC's website at www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling (800)-SEC-0330. The information on Form N-Q is also available on the Fund's website at www.allianzinvestors.com.

On January 24, 2005, the Fund submitted a CEO annual certification to the New York Stock Exchange ("NYSE") on which the Funds' principal executive officer certified that he was not aware, as of the date, of any violation by the Fund of the NYSE's Corporate Governance listing standards. In addition, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related SEC rules, each Fund's principal executive and principal financial officer made quarterly certifications, included in filings with the SEC on Forms N-CSR and N-Q relating to, among other things, the Fund's disclosure controls and procedures and internal control over financial reporting, as applicable.

Information on the Fund is available at www.allianzinvestors.com or by calling the Fund's transfer agent at (800)-331-1710.

ITEM 2. CODE OF ETHICS

(a) As of the end of the period covered by this report, the registrant has adopted a code of ethics (the Section 406 Standards for Investment Companies Ethical Standards for Principal Executive and Financial Officers) that applies to the registrant s Principal Executive Officer and Principal Financial Officer; the registrant s Principal Financial Officer also serves as the Principal Accounting Officer. The registrant undertakes to provide a copy of such code of ethics to any person upon request, without charge, by calling 1-800-331-1710.

(b) During the period covered by this report, there were not any amendments to a provision of the code of ethics adopted in 2(a) above.

(c) During the period covered by this report, there were not any waivers or implicit waivers to a provision of the code of ethics adopted in 2(a) above.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT

The registrant s Board has determined that Mr. Paul Belica, a member of the Board s Audit Oversight Committee is an audit committee financial expert, and that he is independent, for purposes of this Item.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

a) Audit fees. The aggregate fees billed for each of the last two fiscal years (the Reporting Periods) for professional services rendered by the Registrant s principal accountant (the Auditor) for the audit of the Registrant s annual financial statements, or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods, were $91,000 in 2004 and $95,000 in 2005.

b) Audit-Related Fees. The aggregate fees billed in the Reporting Periods for assurance and related services by the principal accountant that are reasonably related to the performance of the audit registrant s financial statements and are not reported under paragraph (e) of this Item were $33,000 in 2004 and $19,500 in 2005. These services consist of accounting consultations, agreed upon procedure reports (inclusive of annual review of basic maintenance testing associated with the Preferred Shares), attestation reports and comfort letters.

c) Tax Fees. The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax service and tax planning (Tax Services) were $3,000 in 2004 and $11,000 in 2005. These services consisted of review or preparation of U.S. federal, state, local and excise tax returns.

d) All Other Fees. There were no other fees billed in the Reporting Periods for products and services provided by the Auditor to the Registrant.

e) 1. Audit Committee Pre-Approval Policies and Procedures. The Registrant s Audit Committee has established policies and procedures for pre-approval of all audit and permissible non-audit services by the Auditor for the Registrant, as well as the Auditor s engagements for non-audit services to the when the engagement relates directly to the operations and financial reporting of the Registrant. The Registrant s policy is stated below.

PIMCO Floating Rate Income Fund (THE FUND)

AUDIT OVERSIGHT COMMITTEE POLICY FOR PRE-APPROVAL OF SERVICES PROVIDED BY THE INDEPENDENT ACCOUNTANTS

The Funds Audit Oversight Committee (Committee) is charged with the oversight of the Funds financial reporting policies and practices and their internal controls. As part of this responsibility, the Committee must pre-approve any independent accounting firm s engagement to render audit and/or permissible non-audit services, as required by law. In evaluating a proposed engagement by the independent accountants, the Committee will assess the effect that the engagement might reasonably be expected to have on the accountant s independence. The Committee s evaluation will be based on:

a review of the nature of the professional services expected to provided,

the fees to be charged in connection with the services expected to be provided,

a review of the safeguards put into place by the accounting firm to safeguard independence, and

periodic meetings with the accounting firm.

POLICY FOR AUDIT AND NON-AUDIT SERVICES TO BE PROVIDED TO THE FUNDS

On an annual basis, the Funds Committee will review and pre-approve the scope of the audits of the Funds and proposed audit fees and permitted non-audit (including audit-related) services that may be performed by the Funds independent accountants. At least annually, the Committee will receive a report of all audit and non-audit services that were rendered in the previous calendar year pursuant to this Policy. In addition to the Committee s pre-approval of services pursuant to this Policy, the engagement of the independent accounting firm for any permitted non-audit service provided to the Funds will also require the separate written pre-approval of the President of the Funds, who will confirm, independently, that the accounting firm s engagement will not adversely affect the firm s independence. All non-audit services performed by the independent accounting firm will be disclosed, as required, in filings with the Securities and Exchange Commission.

AUDIT SERVICES

The categories of audit services and related fees to be reviewed and pre-approved annually by the Committee are:

Annual Fund financial statement audits

Seed audits (related to new product filings, as required)

SEC and regulatory filings and consents

Semiannual financial statement reviews

AUDIT-RELATED SERVICES

The following categories of audit-related services are considered to be consistent with the role of the Fund s independent accountants and services falling under one of these categories will be pre-approved by the Committee on an annual basis if the Committee deems those services to be consistent with the accounting firm s independence:

Accounting consultations

Fund merger support services

Agreed upon procedure reports (inclusive of quarterly review of Basic Maintenance testing associated with issuance of Preferred Shares and semiannual report review)

Other attestation reports

Comfort letters

Other internal control reports

Individual audit-related services that fall within one of these categories and are not presented to the Committee as part of the annual pre-approval process described above, may be pre-approved, if deemed consistent with the accounting firm s independence, by the Committee Chair (or any other Committee member who is a disinterested trustee under the Investment Company Act to whom this responsibility has been delegated) so long as the estimated fee for those services does not exceed $100,000. Any such pre-approval shall be reported to the full Committee at its next regularly scheduled meeting.

TAX SERVICES

The following categories of tax services are considered to be consistent with the role of the Funds independent accountants and services falling under one of these categories will be pre-approved by the Committee on an annual basis if the Committee deems those services to be consistent with the accounting firm s independence:

Tax compliance services related to the filing or amendment of the following:

Federal, state and local income tax compliance; and, sales and use tax compliance

Timely RIC qualification reviews

Tax distribution analysis and planning

Tax authority examination services

Tax appeals support services

Accounting methods studies

Fund merger support service

Other tax consulting services and related projects

Individual tax services that fall within one of these categories and are not presented to the Committee as part of the annual pre-approval process described above, may be pre-approved, if deemed consistent with the accounting firm s independence, by the Committee Chairman (or any other Committee member who is a disinterested trustee under the Investment Company Act to whom this responsibility has been delegated) so long as the estimated fee for those services does not exceed $100,000. Any such pre-approval shall be reported to the full Committee at its next regularly scheduled meeting.

PROHIBITED SERVICES

The Funds independent accountants will not render services in the following categories of non-audit services:

Bookkeeping or other services related to the accounting records or financial statements of the Funds

Financial information systems design and implementation

Appraisal or valuation services, fairness opinions, or contribution-in-kind reports

Actuarial services

Internal audit outsourcing services

Management functions or human resources

Broker or dealer, investment adviser or investment banking services

Legal services and expert services unrelated to the audit

Any other service that the Public Company Accounting Oversight Board determines, by regulation, is impermissible

PRE-APPROVAL OF NON-AUDIT SERVICES PROVIDED TO OTHER ENTITIES WITHIN THE FUND COMPLEX

The Committee will pre-approve annually any permitted non-audit services to be provided to Allianz Global Investors Fund Management LLC (Formerly, PA Fund Management LLC) or any other investment manager to the Funds (but not including any sub-adviser whose role is primarily portfolio management and is sub-contracted by the investment manager) (the Investment Manager) and any entity controlling, controlled by, or under common control with the Investment Manager that provides ongoing services to the Funds (including affiliated sub-advisers to the Funds), provided, in each case, that the engagement relates directly to the operations and financial reporting of the Funds (such entities, including the Investment Manager, shall be referred to herein as the Accounting Affiliates). Individual projects that are not presented to the Committee as part of the annual pre-approval process, may be pre-approved, if deemed consistent with the accounting firm s independence, by the Committee Chairman (or any other Committee member who is a disinterested trustee under the Investment Company Act to whom this responsibility has been delegated) so long as the estimated fee for those services does not exceed $100,000. Any such pre-approval shall be reported to the full Committee at its next regularly scheduled meeting.

Although the Committee will not pre-approve all services provided to the Investment Manager and its affiliates, the Committee will receive an annual report from the Funds independent accounting firm showing the aggregate fees for all services provided to the Investment Manager and its affiliates.

DE MINIMUS EXCEPTION TO REQUIREMENT OF PRE-APPROVAL OF NON-AUDIT SERVICES

With respect to the provision of permitted non-audit services to a Fund or Accounting Affiliates, the pre-approval requirement is waived if:

(1) The aggregate amount of all such permitted non-audit services provided constitutes no more than (i) with respect to such services provided to the Fund, five percent (5%) of the total amount of revenues paid by the Fund to its independent accountant during the fiscal year in which the services are provided, and (ii) with respect to such services provided to Accounting Affiliates, five percent (5%) of the total amount of revenues paid to the Fund s independent accountant by the Fund and the Accounting Affiliates during the fiscal year in which the services are provided;

(2) Such services were not recognized by the Fund at the time of the engagement for such services to be non-audit services; and

(3) Such services are promptly brought to the attention of the Committee and approved prior to the completion of the audit by the Committee or by the Committee Chairman (or any other Committee member who is a disinterested trustee under the Investment Company Act to whom this responsibility has been delegated and shall be reported to the full Committee at its next regularly scheduled meeting.

e) 2. No services were approved pursuant to the procedures contained in paragraph (C) (7) (i) (C) of Rule 2-01 of Regulation S-X.

f) Not applicable

g) Non-audit fees. The aggregate non-audit fees billed by the Auditor for services rendered to the Registrant, and rendered to the Adviser, for the 2004 Reporting Period was $2,684,887 and the 2005 Reporting Period was $2,521,781.

h) Auditor Independence. The Registrant s Audit Oversight Committee has considered whether the provision of non-audit services that were rendered to the Adviser which were not pre-approved is compatible with maintaining the Auditor s independence.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANT

The Fund has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The audit committee of the Fund is comprised of Robert E. Connor, Paul Belica, John J. Dalessandro II, Hans W. Kertess and R. Peter Sullivan III.

ITEM 6. SCHEDULE OF INVESTMENTS Schedule of Investments is included as part of the report to shareholders filed under Item 1 of this form.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES

The registrant has delegated the voting of proxies relating to its voting securities to its sub-adviser, Pacific Investment Management Co. (the Sub-Adviser). The Proxy Voting Policies and Procedures of the Sub-Adviser are included as an Exhibit 99.PROXYPOL hereto.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT OMPANIES

Not effective at time of filing.

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED COMPANIES

TOTAL NUMBER OF SHARES

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS	MAXIMUM NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS
August 2004	N/A	19.83	12,139	N/A
September 2004	N/A	20.01	12,638	N/A
October 2004	N/A	19.91	12,094	N/A
November 2004	N/A	20.05	11,928	N/A
December 2004	N/A	19.84	11,630	N/A
January 2005	N/A	20.10	11,300	N/A
February 2005	N/A	20.62	16,050	N/A
March 2005	N/A	20.57	10,304	N/A
April 2005	N/A	20.254	10,328	N/A
May 2005	N/A	19.54	10,989	N/A
June 2005	N/A	19.33	10,838	N/A
July 2005	N/A	N/A	N/A	N/A

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There have been no material changes to the procedures by which shareholders may recommend nominees to the Fund s Board of Trustees since the Fund last provided disclosure in response to this item. The Nominating Committee Charter governing the affairs of the Nominating Committee of the Board is posted on the Allianz Funds website at www.allianzinvestors.com

ITEM 11. CONTROLS AND PROCEDURES

(a) The registrant s President and Chief Executive Officer and Principal Financial Officer have concluded that the registrant s disclosure controls and procedures (as defined in Rule 30a-2(c) under the Investment Company Act of 1940, as amended are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.

(b) There were no significant changes in the registrant s internal controls or in factors that could affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

ITEM 12. EXHIBITS

(a) (1) Exhibit 99.CODE ETH - Code of Ethics

(a) (2) Exhibit 99 Cert. - Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(b) Exhibit 99.906 Cert. - Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 99.PROXYPOL - Proxy Voting Policies and Procedures

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) PIMCO Floating Rate Income Fund

By /s/ Brian S. Shlissel
President and Chief Executive Officer

Date October 7, 2005

By /s/ Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting Officer

Date October 7, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ Brian S. Shlissel
President and Chief Executive Officer

Date October 7, 2005

By /s/ Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting Officer

Date October 7, 2005