AIR PRODUCTS & CHEMICALS INC /DE/
Form DEF 14A
December 14, 2011
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SCHEDULE 14A INFORMATION

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))
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to Section 240.14a-12

AIR PRODUCTS AND CHEMICALS, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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December 14, 2011

Dear Shareholder:

On behalf of your Board of Directors, I am pleased to invite you to attend the 2012 Annual Meeting of Shareholders of Air Products and Chemicals, Inc. to be held at 2:00 p.m., Thursday, January 26, 2012, at the Company s Corporate Headquarters in Allentown, Pennsylvania.

Admission procedures are explained in the Proxy Statement. We have made arrangements to keep parking and navigating our corporate campus easy for you. I hope you will be able to join us. If you cannot attend the meeting, the Board of Directors, along with the over 18,000 employees of Air Products, welcome your questions and encourage you to contact our Investor Relations office or visit our website to learn more about your Company.

On December 14, 2011, we sent to our shareholders either a notice containing instructions on how to access our 2011 Proxy Statement and Annual Report on Form 10-K on the Internet or paper copies of the Proxy Statement and Annual Report. These materials contain instructions on how to vote your shares. Even if you do not plan to attend the meeting, please vote your shares through one of the methods available to you.

We look forward to seeing you at the meeting. Directions appear on the last page of these materials.

Cordially,

John E. McGlade

Chairman, President, and Chief Executive Officer

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Notice of Annual Meeting of Shareholders

Air Products and Chemicals, Inc.

TIME	2:00 p.m., Thursday, January 26, 2012
PLACE	The Auditorium of the Company s Corporate Headquarters at 7201 Hamilton Boulevard in Allentown, Pennsylvania. Free parking will be available. Admission procedures are explained on page 5. Directions appear on the last page of this Proxy Statement.
ITEMS OF BUSINESS	1. To elect the three nominees proposed by the Board of Directors as directors for a three-year term. 2. To ratify the appointment of KPMG LLP as the Company s independent registered public accountants for the fiscal year ending September 30, 2012. 3. To conduct an advisory vote on Executive Officer compensation. 4. To attend to such other business as may properly come before the meeting or any postponement or adjournment of the meeting.
RECORD DATE	Shareholders of record at the close of business on November 30, 2011 are entitled to receive this notice and to vote at the meeting.
WAYS TO SUBMIT YOUR VOTE	Instructions on how to vote your shares online are contained in the Notice of Availability of Proxy Materials or on your proxy card. If you received paper copies of your proxy materials by mail, you may also fill in, sign, date, and mail a proxy card or vote using a toll-free telephone number. We encourage you to vote online or by telephone if these options are available to you.
IMPORTANT	Whether you plan to attend the meeting or not, please submit your proxy as soon as possible in order to avoid additional soliciting expense to the Company. The proxy is revocable and will not affect your right to vote in person if you attend the meeting.

By order of the Board of Directors,

Mary T. Afflerbach

Corporate Secretary and Chief Governance Officer

December 14, 2011

Important Notice Regarding Internet Availability of Proxy Materials for the

Air Products and Chemicals, Inc. January 26, 2012 Shareholders Meeting

Our Proxy Statement and Annual Report on Form 10-K for the fiscal year ended

September 30, 2011 are available at www.materials.proxyvote.com/009158.

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PROXY STATEMENT

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AIR PRODUCTS AND CHEMICALS, INC.

PROXY STATEMENT

We have sent you this Notice of Annual Meeting and Proxy Statement because the Board of Directors (the Board) of Air Products and Chemicals, Inc. (the Company or Air Products) is soliciting your proxy to vote at the Company s Annual Meeting of Shareholders on January 26, 2012 (the Annual Meeting). This Proxy Statement contains information about the items being voted on at the Annual Meeting and information about the Company.

QUESTIONS AND ANSWERS ON VOTING AND THE ANNUAL MEETING

How many shares can vote at the 2011 Annual Meeting?

As of the Record Date, which was November 30, 2011, 210,522,058 shares of Company common stock were issued and outstanding, which are the only shares entitled to vote at the Annual Meeting. Every owner of Company stock is entitled to one vote for each share owned.

Who counts the votes?

A representative of Broadridge Financial Solutions, Inc. will tabulate the votes and act as the independent inspector of election.

What is a proxy?

A proxy is your legal appointment of another person to vote the stock that you own in accordance with your instructions. The person you appoint to vote your shares is also called a proxy. You can find an electronic proxy card at www.proxyvote.com that you can use to vote your shares online. If you received these proxy materials by mail, you can also vote by mail or telephone using the proxy card enclosed with these materials.

On the proxy card, you will find the names of the persons designated by the Company to act as proxies to vote your shares at the Annual Meeting. The proxies are required to vote your shares in the manner you instruct.

What shares are included on my proxy card?

If you are a registered shareholder, your proxy card(s) will show all of the shares of Company stock registered in your name with our Transfer Agent, American Stock Transfer & Trust Company, LLC, on the Record Date, including shares in the Investors Choice Dividend Reinvestment and Direct Stock Purchase and Sale Plan administered for Air Products shareholders by our Transfer Agent. If you also have shares registered in the name of a bank, broker, or other registered owner or nominee, they will not appear on your proxy card.

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How do I vote the shares on my proxy card?

If you received a Notice of Availability of Proxy Materials and accessed these proxy materials online, follow the instructions on the Notice to obtain your records and vote electronically.

If you received these proxy materials by mail, you may vote by signing and dating the proxy card(s) and returning the card(s) in the prepaid envelope. You also can vote online or by using a toll-free telephone number. Instructions about these ways to vote appear on the proxy card. If you vote by telephone, please have your paper proxy card and control number available. The sequence of numbers appearing on your card is your control number, and your control number is necessary to verify your vote.

If you received these proxy materials via e-mail, the e-mail message transmitting the link to these materials contains instructions on how to vote your shares of Company stock and your control number.

Whether your proxy is submitted by mail, telephone, or online, your shares will be voted in the manner you instruct. If you do not specify in your proxy how you want your shares voted, they will be voted according to the Board s recommendations below:

Item	Board Recommendation
1. Election of the Board s Three Nominees As Directors	For
2. Ratification of KPMG as the Company s Independent Registered Public Accountants	For
3. Advisory Vote on Executive Officer Compensation	For

How do I vote shares held by a broker or bank?

If a broker, bank, or other nominee holds shares of Company stock for your benefit, and the shares are not in your name on the Transfer Agent s records, then you are considered a beneficial owner of those shares. If your shares are held this way, sometimes referred to as being held in street name , your broker, bank, or other nominee will send you instructions on how to vote. If you have not heard from the broker, bank, or other nominee who holds your Company stock, please contact them as soon as possible. If you plan to attend the meeting and would like to vote your shares held by a bank or broker in person, you must obtain a legal proxy, as described in the admission procedures section on page 5.

If you do not give your broker instructions as to how to vote, under New York Stock Exchange (NYSE) rules, your broker has discretionary authority to vote your shares for you on proposal 2 to ratify the appointment of auditors. Your broker may not vote for you without your instructions on the other items of business. Shares not voted on these other matters by your broker because you have not provided instructions are sometimes referred to as broker nonvotes .

May I change my vote?

Yes. You may revoke your proxy at any time before the Annual Meeting by submitting a later dated proxy card, by a later telephone or on-line vote, by notifying us that you have revoked your proxy, or by attending the Annual Meeting and giving notice of revocation in person.

How is Company stock in the Company s Retirement Savings Plan voted?

If you are an employee who owns shares of Company stock under the Retirement Savings Plan and you have regular access to a computer for performing your job, you were sent an e-mail with instructions on how to view the proxy materials and provide your voting instructions. Other participants in the Retirement Savings Plan will receive proxy materials and a proxy card in the mail. The Trustee, Fidelity Management Trust Company, will vote shares of Company stock represented by units allocated to your Plan account on the Record Date in accordance with the directions you give on how to vote. The Trustee will cast your vote in a manner which will protect your voting privacy. If you do not give voting instructions or your instructions are unclear, the Trustee will vote the shares in the same proportions and manner as overall Plan participants instruct the Trustee to vote shares allocated to their Plan accounts.

What vote is necessary to pass the items of business at the Annual Meeting?

If a quorum is present at the Annual Meeting, the three director candidates will be elected if they receive a majority of the votes cast. This means the nominees will be elected if the number of shares voted for the nominee exceeds the number of shares voted against the nominee. Similarly, the other two items of business will be approved if shares voted in favor of the proposal exceed shares voted against the proposal. Abstentions and broker nonvotes will not affect the outcome of the vote.

What is a quorum ?

A quorum is necessary to hold a valid meeting of shareholders. A quorum exists if a majority of the outstanding shares of Company stock are present in person at the Annual Meeting or represented there by proxy. If you vote including by Internet, telephone, or proxy card your shares voted will be counted towards the quorum for the Annual Meeting. Proxies marked as abstentions and broker discretionary votes are also treated as present for purposes of determining a quorum.

How will voting on any other business be conducted?

We do not know of any business or proposals to be considered at the Annual Meeting other than the items described in this Proxy Statement. If any other business is proposed and the chairman of the Annual Meeting permits it to be presented at the Annual Meeting, the signed proxies received from you and other shareholders give the persons voting the proxies the authority to vote on the matter according to their judgment.

When are shareholder proposals for the 2013 Annual Meeting due?

To be considered for inclusion in next year s proxy statement, proposals and nominations of persons to serve as directors must be delivered in writing to the Secretary of the Company, Air Products and Chemicals, Inc., 7201 Hamilton Boulevard, Allentown, PA 18195-1501 no later than August 17, 2012. To be presented at the meeting, proposals and nominations must be delivered in writing by October 28, 2012 and must comply with the requirements of our bylaws (described in the next paragraph) to be presented at the 2013 Annual Meeting.

Our bylaws require adequate written notice of a proposal to be presented by delivering it in writing to the Secretary of the Company in person or by mail at the address stated above, on or after September 28, 2012, but no later than October 28, 2012. To be considered adequate, the notice must contain other information specified in the bylaws about the matter to be presented at the

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meeting and the shareholder proposing the matter. A copy of our bylaws can be found in the Corporate Governance section of our website at www.airproducts.com. A proposal received after October 28, 2012, will be considered untimely and will not be entitled to be presented at the meeting.

What are the costs of this proxy solicitation?

We hired Morrow & Co., LLC to help distribute materials and solicit votes for the Annual Meeting. We will pay them a fee of $8,500, plus out-of-pocket costs and expenses. We also reimburse banks, brokers, and other custodians, nominees, and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy materials to you because they hold title to Company stock for you. In addition to using the mail, our directors, officers, employees, and agents may solicit proxies by personal interview, telephone, telegram, or otherwise, although they will not be paid any additional compensation. The Company will bear all expenses of solicitation.

May I inspect the shareholder list?

For a period of 10 days prior to the Annual Meeting, a list of shareholders registered on the books of our Transfer Agent as of the Record Date will be available for examination by registered shareholders during normal business hours at the Company s principal offices, provided the examination is for a purpose germane to the meeting.

How can I get materials for the Annual Meeting?

Under rules adopted by the U.S. Securities and Exchange Commission (the SEC), we are furnishing proxy materials to most of our shareholders via the Internet, instead of mailing printed copies of those materials to each shareholder. On December 14, 2011, we mailed to our shareholders (other than those who previously requested electronic or paper delivery) a Notice of Availability of Proxy Materials containing instructions on how to access our proxy materials, including our Proxy Statement and our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. The Notice of Availability of Proxy Materials also instructs you on how to access your proxy card to vote through the Internet.

This process is designed to expedite shareholders receipt of proxy materials, lower the cost of the Annual Meeting, and help conserve natural resources. However, if you would prefer to receive printed proxy materials, please follow the instructions included in the Notice of Availability of Proxy Materials. If you have previously elected to receive our proxy materials electronically, you will continue to receive these materials via e-mail unless you elect otherwise.

Current Employees. If you are an employee of the Company or an affiliate who is a participant in the Retirement Savings Plan or who has outstanding stock options, with an internal Company e-mail address as of the Record Date, you should have received e-mail notice of electronic access to the Notice of Annual Meeting, the Proxy Statement, and the Annual Report on Form 10-K for the fiscal year ended September 30, 2011 on or about December 14, 2011. You may request a paper copy of these materials by contacting the Corporate Secretary s Office. If you do not have an internal Company e-mail address, paper copies of these materials were mailed to your home. Instructions on how to vote shares in your Plan account are contained in the e-mail notice or accompany the paper proxy materials mailed to you.

If you have employee stock options awarded to you by the Company or an affiliate but do not otherwise own any Company stock on the Record Date, you are not eligible to vote and will not receive a proxy card for voting. You are being furnished this Proxy Statement and the Annual Report on Form 10-K for the fiscal year ended September 30, 2011 for your information and as required by law.

What are the admission procedures for the Annual Meeting?

To gain admission to the Annual Meeting, you must present your admission ticket at the Visitor s Entrance to the Air Products Corporate Headquarters.

Registered shareholders. If you received a Notice of Availability of Proxy Materials , the Notice is your admission ticket. If you received these proxy materials by mail or e-mail, your admission ticket is on the top half of the reverse side of your proxy card, which must be printed if you received it by e-mail.

Shares held through broker, bank, or nominee. When you vote your shares, either electronically or via your voting instruction form, you will be given the opportunity to check a box indicating that you intend to attend the Annual Meeting. If you check the box, you will be sent a legal proxy which will serve as your admission ticket. (Please note, if you check this box, your shares must be voted in person.) Alternatively, you will be admitted if you present a Notice of Availability of Proxy Materials or Voting Instruction Form relating to the Air Products Annual Meeting; however, you must present a legal proxy if you wish to vote your shares in person.

How can I reach the Company to request materials or information referred to in these Questions and Answers?

You may reach us by mail addressed to:

Corporate Secretary s Office

Air Products and Chemicals, Inc.

7201 Hamilton Boulevard

Allentown, PA 18195-1501,

by calling 610-481-8657, or by leaving a message on our website at:

www.airproducts.com/tmm/tellmemore.asp

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PROPOSALS YOU MAY VOTE ON

1. ELECTION OF DIRECTORS

The Board currently has 12 directors. With the retirement from the Board of Directors of Edward E. Hagenlocker under our director retirement policy and the re-election by shareholders of the three nominees standing for election, the Board will have 11 members after the Annual Meeting. Our Board is divided into three classes for purposes of election, with three-year terms of office ending in successive years.

The Board has nominated three incumbent directors, whose terms are currently scheduled to expire at the Annual Meeting, for election to the Board for terms expiring in January 2015: Mr. Mario L. Baeza, Ms. Susan K. Carter and Mr. John E. McGlade. Biographical information on these nominees and a description of their qualifications to serve as director and similar information about other directors appears beginning on page 8. Each nominee elected as a director is expected to continue in office until his or her term expires, or until his or her earlier death, resignation, or retirement.

The Board has no reason to believe that any of the nominees will not serve if elected. If a nominee is unavailable for election at the time of the Annual Meeting, the Company representatives named on the proxy card will vote for another nominee proposed by our Board or, as an alternative, the Board may reduce the number of directors on the Board.

The Board recommends a vote FOR the election of Mr. Baeza, Ms. Carter, and Mr. McGlade.

2. RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

At its meeting held in November 2011, the Audit Committee of the Board approved KPMG LLP of Philadelphia, Pennsylvania (KPMG) as independent registered public accountants for the fiscal year ending September 30, 2012 (fiscal year 2012). The Board concurs with and requests shareholders to ratify this appointment even though ratification is not legally required. If shareholders do not ratify this appointment, the Audit Committee will reconsider it. Representatives of KPMG will be available at the Annual Meeting to respond to questions. Information on KPMG s fees for fiscal years 2010 and 2011 appears on page 23.

The Board recommends a vote FOR the ratification of the appointment of KPMG LLP as independent registered public accountants for fiscal year 2012.

3. ADVISORY VOTE ON EXECUTIVE OFFICER COMPENSATION

The Board is committed to excellence in governance and recognizes the interest our shareholders have in the Company s executive compensation program. As a part of that commitment, and in accordance with SEC rules, our shareholders are asked to approve an advisory resolution on the compensation of the Named Executive Officers, as disclosed in the Compensation Discussion and Analysis and accompanying Executive Compensation Tables and narrative beginning on page 28. This proposal, commonly known as a say on pay proposal, gives you the opportunity to endorse or not endorse our fiscal year 2011 executive compensation program and policies for the Named Executive Officers through the following resolution:

RESOLVED, that the compensation of the Named Executive Officers as discussed and disclosed, pursuant to the SEC compensation disclosure rules, in the Compensation Discussion and Analysis and the Executive Compensation Tables and accompanying narrative is approved.

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Although the vote is non-binding, the Board and the Management Development and Compensation Committee will review the voting results. If there are a significant number of negative votes, we will seek to understand the concerns that influenced the vote, and address them in making future decisions about executive compensation programs. The Company intends to conduct an advisory vote on executive officer compensation annually. The next such vote will be conducted at our 2013 Annual Meeting of Shareholders.

The Board recommends a vote FOR this resolution. As described in the Compensation Discussion and Analysis beginning on page 28, our Executive Officer compensation program has been thoughtfully designed to support our long-term business strategies and drive creation of shareholder value. It is aligned with the competitive market for talent, very sensitive to Company performance and oriented to long-term incentives to maintain and improve the Company s long-term profitability. We believe the program delivers reasonable pay which is strongly linked to Company performance over time, relative to peer companies.

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THE BOARD OF DIRECTORS

The Board is composed of a diverse group of leaders in their respective fields. Many of the current directors have leadership experience at major domestic and international companies with operations inside and outside the United States and experience on other companies boards, which provide an understanding of different business processes, challenges, and strategies. Others have experience in government relations or key market sectors which reflect our customer base, or financial or governance expertise. All have personal traits such as candor, integrity, commitment, and collegiality that are essential to an effective board of directors.

Information follows about the age and business experience, as of December 1, 2011, of the nominees up for election and the directors continuing in office, and information on the particular experiences, qualifications, attributes, and skills of each director nominee that led the Board to conclude that such person should serve as a director. Each nominee has consented to being nominated for director and has agreed to serve if elected. All of the nominees are currently directors.

Directors Standing for Election this Year for a Term Expiring at the Annual Meeting in 2015

MARIO L. BAEZA, age 60. Founder and Controlling Shareholder of Baeza & Co. and Founder and Executive Chairman of V-Me Media, Inc. Director of the Company since 1999.

Mario L. Baeza is Chairman and Chief Executive Officer of The Baeza Group, LLC and Baeza & Co., LLC, an investment firm specializing in private equities aimed at the U.S. Hispanic market and hedge funds anchored in global macro strategies. He is also the Founder and Executive Chairman of V-Me Media, Inc., a national Spanish language television network. He is a former chairman and chief executive officer of TCW/Latin America Partners, LLC, a private equity capital firm. Previously, Mr. Baeza was President of Wasserstein Perella International Limited and chairman and chief executive officer of Grupo Wasserstein Perella, a Latin America focused joint venture between Baeza & Co. and Wasserstein Perella. Early in his career, Mr. Baeza was a partner of Debevoise & Plimpton where he specialized in mergers and acquisitions and the structuring of private equity funds and investments. Mr. Baeza is also a director of Ariel Mutual Fund Group, Brown Shoe Company, Inc., Israel Discount Bank of New York, and Urban America LLC; and a former lead director of Tommy Hilfiger. He is a current and former board member of numerous non-profit boards including Council on Foreign Relations, The Hispanic Federation, Catholic Charities, the NAACP Legal Defense and Educational Fund, the Philharmonic-Symphony Society of New York and Channel Thirteen/WNET. Mr. Baeza is a Phi Beta Kappa graduate of Cornell University and a graduate of Harvard Law School. He has been a Herman Phleger Visiting Professor of Law at Stanford and a Lecturer in Law at Harvard Law School.

Mr. Baeza brings to the Board experience as an entrepreneur and chief executive of a broad range of businesses, ranging from merchant banking to media access. In addition to this leadership experience, his background as a corporate and finance lawyer, business ventures, civic activities, and service on other boards provide him with extensive experience in reviewing and analyzing business opportunities, mergers and acquisitions, and government relations, as well as international and governance experience.

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SUSAN K. CARTER, age 53. Executive Vice President and Chief Financial Officer of KBR, Inc. Director of the Company since 2011.

Susan K. Carter is the Executive Vice President and Chief Financial Officer of KBR, Inc., a global engineering, construction, and services company. She joined KBR in 2009. Prior to joining KBR, from 2004 through 2009, Ms. Carter served as Executive Vice President and Chief Financial Officer of Lennox International Inc., a global provider of climate control solutions for heating, air conditioning, and refrigeration markets; and as Vice President and Chief Accounting Officer of Cummins, Inc. from 2002 to 2004. She also held senior financial and accounting roles at Honeywell International, DeKalb Corporation, and Crane Co. She is a former director of Lyondell Chemical Company. Ms. Carter received a Bachelor s degree in accounting from Indiana University and received a Master s degree in business administration from Northern Illinois University. She is a Certified Public Accountant.

As the chief financial officer of a global publicly-held corporation, Ms. Carter has significant experience in financial reporting, information technology, accounting, finance and capital management, investor relations, and international operations. Her background provides the Board with broad expertise in international financial and operational issues.

JOHN E. McGLADE, age 57. Chairman, President, and Chief Executive Officer of the Company. Director of the Company since 2007.

John E. McGlade is Chairman, President, and Chief Executive Officer of the Company. He joined Air Products in 1976 and held various positions of increasing responsibility, including General Manager of the Chemicals and Process Industries Division; Vice President of the Chemicals and Process Industries Division; Vice President and General Manager, Chemicals and Process Industries and Energy Systems; Vice President and General Manager, Performance Materials Division; Vice President, Chemicals Group business divisions; and Group Vice President, Chemicals Group, in which he had global responsibility for the Group, as well as the Company s industrial gas and chemicals manufacturing organization, and Environment, Health, Safety and Quality. He was appointed President and Chief Operating Officer in 2006 before assuming his current position. Mr. McGlade serves on the board of directors of the American Chemistry Council and is a trustee of Lehigh University. Mr. McGlade earned a Bachelor s degree in industrial engineering and a Master s degree in business administration from Lehigh University.

Mr. McGlade brings to the Board strong leadership, extensive management, international, and operating experience, and a deep understanding of the industrial gas and specialty chemicals business. During his 35 years at Air Products, he has developed extensive knowledge of the Company, its customers, investors, challenges and strengths, and strong relationships with the Company s customers, suppliers, and investors. He provides the Board with candid insights into the Company s industry, operations, management team, and strategic strengths and weaknesses.

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Directors Continuing in Office Until the Annual Meeting in 2013

WILLIAM L. DAVIS, III, age 68. (Presiding Director) Former Chairman, President, and Chief Executive Officer of RR Donnelley & Sons Company. Director of the Company since 2005.

William L. Davis is the Retired Chairman, President, and Chief Executive Officer of R.R. Donnelley & Sons Company. Mr. Davis joined R.R. Donnelley & Sons Company in 1997 as Chairman and Chief Executive Officer. He retired as Chairman, President, and Chief Executive Officer in February 2004. Prior to joining R.R. Donnelley, during a twenty year career at Emerson Electric Company, he held a variety of positions, including President of Appleton Electric Company and Skil Corporation, and Senior Executive Vice President for the Emerson Tool Group, the Industrial Motors and Drives Group, and the Process Control Group. Early in his career, he served at various positions for Sears, Roebuck & Co. Mr. Davis serves on the Board of Directors of Marathon Oil Corporation and is a former director of Mallinckrodt, Inc. He also serves on the Board of Directors of Northshore University Health System, previously serving as Chairman of the Board. Mr. Davis graduated from Princeton University in 1965 with a Bachelor s degree in politics.

As a former chairman and chief executive officer, Mr. Davis has leadership and managerial experience and has dealt with many of the major issues, such as financial, strategic, governance, acquisitions, capital allocation, government, and stockholder relations, that the Company faces as a public company. Through his service on the boards of directors of three other public companies and years at Emerson, Mr. Davis also has experience in key business sectors that use the Company s products and services, specifically the chemicals and processing, energy and refining, and electronics industries. Finally, he has extensive experience in several areas that are key enablers for the Company s success: marketing, talent management, supply chain, and continuous improvement.

W. DOUGLAS FORD, age 67. Former Chief Executive, Refining and Marketing, of BP Amoco plc. (BP). Director of the Company since 2003.

W. Douglas Ford served as Executive Vice President of BP plc and its predecessor, Amoco Corporation, from 1993-1999. In 1999 he was named Chief Executive, Refining and Marketing of BP, where he was chief executive officer of BP s global downstream operations, which included accountability for the refining, marketing, and transportation network of the company, as well as the aviation fuels business, the marine business, and BP shipping. Mr. Ford retired from BP in March 2002. Prior to the merger of BP and Amoco, Mr. Ford held a number of senior positions during his 30-year career with Amoco, most recently as executive vice president of Amoco Corporation and President of Amoco Oil, with responsibility for Amoco s petroleum products sector and worldwide engineering and construction operations. Mr. Ford is also a director of Suncor Corporation and USG Corporation, and a former member of the board of UAL Corporation and BP. He is a Trustee and fellow of the University of Notre Dame. Mr. Ford received his Bachelor s degree in chemical engineering from the University of Notre Dame and his doctorate from Northwestern University.

From his leadership of a complex global organization, Mr. Ford brings refining, engineering, operations, marketing, and international experience to the Board. He has in-depth understanding of the energy business, and his long career in a process industry gives him extensive experience with safety and environmental issues. In addition, his leadership of a global organization and service on other boards bring broad talent management, corporate governance, and financial experience.

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EVERT HENKES, age 67. Former Chief Executive Officer of Shell Chemicals Ltd. Director of the Company since 2006.

Evert Henkes served as Chief Executive Officer of the Global Chemical Business of Royal Dutch Shell plc from 1998 to April 2003. Mr. Henkes worked for Royal Dutch Shell plc for 30 years, during which time he held a number of executive positions in Europe and Asia Pacific, including Chairman of Bassel, Managing Director of Shell Chemicals UK Ltd., Managing Director of Shell UK, and President of Billiton Metals. He also served as a director of regional and global industrial bodies, including European Chemical Industry Council (CEFIC) and International Council of Chemical Associations, and was Chairman of the International Long Range Research Initiative, a joint effort between CEFIC and the Chemical Manufacturers Association (now the American Chemistry Council). He currently serves as a director for Sembcorp Industries Ltd., Tate & Lyle PLC, and Outokumpu Oyj. He also served as a director of BPB PLC and CNOOC Ltd. Mr. Henkes holds a Bachelor s degree in agricultural economics from Cornell University, USA.

Mr. Henkes brings a wealth of international business experience to our Board, including in particular experience in the emerging Asian markets which are a key growth focus of the Company. In addition, Mr. Henkes is an industry veteran with deep understanding of the chemicals and process industry, including safety and environmental issues. From his leadership of a complex global business at Shell and his service on other boards, he also brings broad experience in marketing, government relations, mergers and acquisitions, and talent management.

MARGARET G. McGLYNN, age 52. President and Chief Executive Officer, International AIDS Vaccine Initiative. Director of the Company since 2005.

Margaret G. McGlynn is President and Chief Executive Officer of International AIDS Vaccine Initiative, a global not-for-profit, public-private partnership working to accelerate the development of vaccines to prevent HIV infection and AIDS. She joined its board in 2010 and assumed her current role in 2011. Ms. McGlynn previously served as President, Global Vaccine and Infectious Disease Division of Merck, a global pharmaceutical company, from 2007 until her retirement in 2009, where she was responsible for a portfolio of more than $7 billion in global sales. She led the introduction of several new vaccine products and anti-infective therapies, expanded Merck s vaccine and infectious disease business globally, and launched several initiatives to provide access to its vaccines and HIV therapies in the developing world. Earlier she served as President, U.S. Human Health, from 2003 to 2005, and in 2005 she was named President, Merck Vaccine Division. Ms. McGlynn was a member of the Global Alliance for Vaccines and Immunization Board and Executive Committee from 2006 to 2008, which provides access to essential vaccines in the world s poorest countries. She currently serves as a commissioner for the Center for Strategic and International Studies Commission on Global Health, which advised the Obama Administration on its global health strategy. She is also a director of Amicus Therapeutics, Inc., Vertex Pharmaceuticals, Inc., and a former director of Quidel Diagnostics. Her current non-profit service includes serving on the board of the Industrial Advisory Council for the State University of New York at Buffalo School of Pharmacy and Pharmaceutical Sciences, and the school board for Abington Friends School. Ms. McGlynn is also a co-founder of the Hillerman Institute for Developing World Vaccine Research. She earned a Bachelor s degree in pharmacy and a Master s of business administration in marketing from State University of New York at Buffalo.

From her management of a global pharmaceutical business and her current role as chief executive officer of a global organization, Ms. McGlynn brings extensive experience in government relations and public policy, international marketing, mergers and acquisitions and talent management. She has expertise in productivity, and a deep understanding of the healthcare business, an important customer base for the Company. Her current position, as well as her service on other boards, also provide financial and broad leadership experience.

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Directors Continuing in Office Until the Annual Meeting in 2014

CHADWICK C. (CHAD) DEATON, age 59. Chairman and Chief Executive Officer of Baker Hughes Incorporated. Director of the Company since 2010.

Chadwick C. Deaton is Chairman of the Board and Chief Executive Officer of Baker Hughes Incorporated, an oilfield services and products provider with operations in over 90 countries. He joined Baker Hughes in 2004. Previously, Mr. Deaton was President and Chief Executive Officer of Hanover Compressor Company (now Exterran Holdings, Inc.); and Senior Advisor and Executive Vice President of Schlumberger Oilfield Services. Mr. Deaton is a director of Ariel Corporation, a private manufacturer of gas compressor equipment. He was a director of CARBO Ceramics, Inc., a provider of products and engineering services to the oil and natural gas industry, from 2005 to 2009, when Baker Hughes merged with a major customer of CARBO. He is also a former director of Hanover Compression Company. He is a director of Junior Achievement of Southeast Texas, Houston Achievement Place, Greater Houston Partnership and a member of the National Petroleum Council, the Society of Petroleum Engineers Industrial Advisory Council, and the University of Wyoming Petroleum and Chemical Engineering Advisory Board. Mr. Deaton earned a Bachelor s degree in geology from the University of Wyoming.

As the chairman and chief executive officer of a global publicly held corporation, Mr. Deaton brings to the Board international business experience and executive leadership experience in operations, technology, talent management, and governance. In addition, his 30-year career in chemicals and energy businesses provides him with expertise in key customer segments for the Company.

MICHAEL J. DONAHUE, age 53. Former Group Executive Vice President and Chief Operating Officer of BearingPoint, Inc. Director of the Company since 2001.

Michael J. Donahue currently serves as a consultant to the technology industry. From January 2000 to March 2005, Mr. Donahue was the Group Executive Vice President and Chief Operating Officer of BearingPoint, Inc., a consulting and systems integration firm. Prior to January 2000, Mr. Donahue served as managing partner, solutions, for the consulting division of KPMG LLP, the global accounting firm, as a member of the boards of directors of KPMG LLP U.S. and KPMG Consulting KK Japan, and as Chairman of the Supervisory Board of KPMG Consulting AG based in Germany. He is also a director of three privately-held companies: The Orchard Enterprises, Inc., an independent distributor of digital music and video; Liquidhub, Inc., a technology consulting and outsourcing firm; and Quintiq, Inc., a supply chain software company. He is a former director of Arbinet-thexchange, Inc., a telecommunications solutions provider, and GSI Commerce, Inc., a provider of e-commerce and interactive marketing services. He served as a member of the Board of Advisors of the College of Commerce and Finance of Villanova University. Mr. Donahue received a Bachelor s degree in economics and history from the University of Pennsylvania and is a graduate of the International Management Program at the Wharton School.

Mr. Donahue has extensive international management and marketing experience and a deep understanding of information technology capabilities, data protection, and security. In addition, his service on other public boards has provided him significant corporate governance, mergers and acquisitions, supply chain, and financial experience.

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URSULA O. FAIRBAIRN, age 68. President and Chief Executive Officer, Fairbairn Group, LLC. Director of the Company since 1998.

Ursula O. Fairbairn is President and Chief Executive Officer of Fairbairn Group LLC (a human resources and executive management consulting company). She served as Executive Vice President, Human Resources & Quality, American Express Co. (a diversified global travel and financial services company) from December 1996 until her retirement in March 2005. Prior to that, she was Senior Vice President of Human Resources at Union Pacific and had 18 years of sales and marketing experience at International Business Machines Corp., where she managed a 10,000 person sales force, in addition to 6 years in human resources. She is also a director of Sunoco Inc. and VF Corporation, and a former director of Centex Corporation, Circuit City Stores, Inc., General Signal Corporation, Menasha Corporation, and Armstrong World Industries, Inc. She was a White House Fellow from 1973-1974, working directly for the Secretary of Treasury. Ms. Fairbairn holds a Bachelor s degree in mathematics from Upsala College and received a Master s degree from Harvard s Graduate School of Education.

Ms. Fairbairn has over 40 years of leadership experience at complex global companies. She is an expert in management development and compensation and possesses strategic planning, managerial, government, and marketing experience. Her service on other Boards has given her a wealth of governance experience and background in environmental, safety and other public policy issues. She also has experience in the energy, electronics, technology, and transportation industries.

LAWRENCE S. SMITH, age 64. Former Chief Financial Officer of Comcast Corporation. Director of the Company since 2004.

Lawrence S. Smith is the retired Executive Vice President and Co-Chief Financial Officer at Comcast Corporation, a provider of broadband cable networks, where he was responsible for all corporate development, internal reporting, external reporting, taxation, and other administrative matters at the firm. Before joining Comcast in 1988, Mr. Smith served as Chief Financial Officer at Advanta Corporation, a financial services corporation, and as a tax partner and head of the mergers and acquisitions practice at Arthur Andersen LLP. He has been recognized numerous times as a leading chief financial officer including being named among America s Best Chief Financial Officers by Institutional Investor magazine in 2007, 2006, and 2004. Mr. Smith is also a director of TE Connectivity, Ltd. He is a former director of GSI Commerce, Inc. His community activities have included board positions with the YMCA of Greater Philadelphia and Vicinity, Meadowood Corporation, Thomas Jefferson University, and Ithaca College. He received his Bachelor s degree in finance from Ithaca College.

Mr. Smith brings many years of public company experience from his years as chief financial officer of a large public company and from service on the boards of public companies. His significant experience with complex financial and operational issues combined with his knowledge of public reporting requirements and processes brings accounting, financial management and operational insight to the Board. He also has extensive mergers and acquisitions and corporate finance experience.

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Compensation of Directors

For fiscal year 2011, Board members who were not employed by the Company received an annual cash retainer for Board service of $60,000. Committee chairs and the presiding director received an additional retainer of $15,000. Meeting fees of $2,000 per meeting were paid for participating in Board and committee meetings. Nonemployee directors who meet with employees of the Company or a third party at the request of the Company or to satisfy a requirement of law or listing standard receive the meeting fee for such service. Retainers and meeting fees are paid quarterly in arrears. In addition to retainers and meeting fees, nonemployee directors received an annual grant of deferred stock units with a value of approximately $100,000 (rounded up to nearest whole share) on the date of the annual shareholders meeting. In addition, new directors received a grant of deferred stock units with a value of approximately $100,000 (rounded up to the nearest whole share) upon joining the Board.

Directors may voluntarily defer all or a part of their cash retainers and their meeting fees. At the election of each director, voluntarily deferred fees may be credited to deferred stock units or to an account which is credited with interest based on long-term corporate bond yields. All directors with deferred fees have chosen deferred stock units. Deferred stock units entitle the director to receive one share of Company stock upon payout, which generally occurs after the director s service on the Board is over. Deferred stock units are credited with dividend equivalents equal to the dividends that would have been paid on one share of stock for each unit owned by the director on dividend record dates. Deferred retainers and meeting fees (plus dividend equivalents earned on the director s existing deferred stock units account during a quarter) are converted to deferred stock units based on the fair market value of a share of Company stock on the third to last business day of the quarter.

Directors are reimbursed for expenses incurred in performing their duties as directors. The Company covers directors under its overall directors and officers liability insurance policies. Directors are also covered by the business travel accident policy maintained by the Company and are eligible to participate in the Company s charitable matching gift program. Under this program, the Company matches donations of up to $5,000 per year made by employees and directors to qualifying educational organizations; matches, at twice the amount, donations of up to $1,000 per year made to qualifying arts and cultural organizations; and matches donations of up to $1,000 per year to qualifying environmental and conservation organizations.

To emphasize the importance of long-term alignment with shareholders, the Board has adopted stock ownership requirements for directors. Directors are expected to own shares or share equivalents with a value (based on the NYSE closing price) equal to five times the annual cash retainer by the end of the fifth fiscal year after joining the Board. Directors are expected to increase their holdings to reflect an adjustment in the annual cash retainer within a reasonable period of time following the adjustment. Once a director has met the requirement, if there is a subsequent decline in the Company s share price that causes the director s ownership level to fall below this guideline, the director is not expected to purchase additional shares to meet the guideline, but is expected to refrain from selling or transferring shares until the guideline is again satisfied. All directors are in compliance with the stock ownership guidelines for directors.

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2011 Director Compensation

Name	Fees Earned or Paid in Cash(1)	Stock Awards(2)	Option Awards ($)(3)	All Other Compensation(4)	Total
M. L. Baeza	$ 113,000	$ 100,068	$ 0	$ 0	$ 213,068
S. K. Carter	$ 23,000	$ 100,060	$ 0	$ 0	$ 123,060
W. L. Davis, III	$ 138,000	$ 100,068	$ 0	$ 0	$ 238,068
C. C. Deaton	$ 100,000	$ 100,068	$ 0	$ 0	$ 200,068
M. J. Donahue	$ 106,000	$ 100,068	$ 0	$ 5,000	$ 211,068
U. O. Fairbairn	$ 98,000	$ 100,068	$ 0	$ 2,000	$ 200,068
W. D. Ford	$ 119,000	$ 100,068	$ 0	$ 0	$ 219,068
E. E. Hagenlocker	$ 117,000	$ 100,068	$ 0	$ 0	$ 217,068
E. Henkes	$ 106,000	$ 100,068	$ 0	$ 0	$ 206,068
M. G. McGlynn	$ 104,000	$ 100,068	$ 0	$ 5,000	$ 209,068
L. S. Smith	$ 125,000	$ 100,068	$ 0	$ 5,000	$ 230,068

(1) Certain directors voluntarily elected to defer some or all of their cash retainers and meeting fees. Any voluntary deferrals are included in this column. This column includes annual retainers, meeting fees, and committee chair and presiding director retainers.

(2) This column shows the grant date fair value of the annual deferred stock unit grant for 2011 and Ms. Carter s initial stock grant, each calculated in accordance with FASB ASC Topic 718. Deferred stock units earned by directors are fully expensed on the Company s financial statements at the market value of a share of stock on the date of grant. All deferred stock units credited to directors are fully vested.

(3) The Company granted stock options to directors under the Company s Stock Option Program for Directors from 1993-2005. This program was discontinued in 2006. As of September 30, 2011, the following directors had the indicated outstanding options:

M. L. Baeza	4,000
M. J. Donahue	4,000
U. O. Fairbairn	8,000
W. D. Ford	4,000
E. E. Hagenlocker	8,000
L. S. Smith	2,000

(4) Amounts in this column reflect matching contributions under the Company s charitable matching gift program.

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CORPORATE GOVERNANCE

Our business is managed by our employees under the direction and oversight of the Board. We keep Board members informed of our business through discussions with management, materials we provide to them, visits to our offices and facilities, and their participation in Board and Board committee meetings.

The Board has adopted Corporate Governance Guidelines for the Company in order to assure that it has the necessary practices in place to govern the Company in accordance with the interests of the shareholders. The Guidelines set forth the governance practices the Board follows, including with respect to director independence and qualifications, director responsibilities, access to management and independent advisors, director compensation, director orientation and education, chief executive officer performance assessment, management succession, and assessment of Board and committee performance. The Guidelines are available on the Company s website at: *http://www.airproducts.com/en/company/governance/board-of-directors/governance-guidelines.aspx* and are available in print upon request. (Information contained on our website is not part of this proxy statement.) The Board regularly reviews corporate governance developments and modifies these Guidelines as warranted.

Director Independence

The Board has affirmatively determined that all of the Company s directors, except Mr. McGlade, qualify as independent under the NYSE corporate governance listing standards. In determining independence, the Board determines whether directors have a material relationship with the Company that would interfere with the exercise of independent judgment in carrying out the responsibilities of directors. When assessing materiality, the Board considers all relevant facts and circumstances including, without limitation, transactions between the Company and the director, family members of directors, or organizations with which the director is affiliated. The Board further considers the frequency and dollar amounts associated with any of these transactions and whether the transactions were in the ordinary course of business and were consummated on terms and conditions similar to those with unrelated parties.

In its determination, the Board considers the specific tests for independence included in the NYSE listing standards. In addition, the Board has adopted guidelines to assist in determining each director s independence which meet or exceed the NYSE independence requirements. The guidelines provide that the following categories of relationships are immaterial for purposes of making an independence determination:

- Any business transactions or relationships involving sales or purchases of goods or services between the Company and a director s employer or an employer of a director s family member which occurred more than three years prior to the independence determination or involve less than 1% of such employer s annual consolidated gross revenues; provided the transaction takes place on the same terms and conditions offered to third parties or on terms and conditions established by competitive bid, and the director s or family member s compensation is not affected by the transaction;

- Charitable contributions by the Company to an organization in which the director or his or her immediate family member serves as an executive officer, director, or trustee that occurred more than three years prior to the independence determination, were made pursuant to the Company s matching contributions program, or were less than the greater of $1 million or 2% of the organization s gross revenues;

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Membership of a director in the same professional association, social, fraternal, or religious organization or club as an Executive Officer of the Company;

A director s past matriculation at the same educational institution as an Executive Officer of the Company;

A director s service on the Board of another public company on which an Executive Officer of the Company also serves as a Board member, except for prohibited compensation committee interlocks; and

A director s service as a director, trustee, or executive officer of a charitable or educational organization where an Executive Officer of the Company also serves as a director or trustee.

Notwithstanding the above, the Company s Corporate Governance Guidelines provide that no director may serve on the Audit Committee or Management Development and Compensation Committee of the Board if he or she has received, within the past or preceding fiscal year, any compensatory fee from the Company other than for Board or committee service; and no director may serve on the Management Development and Compensation Committee of the Board unless the director qualifies as an outside director under U.S. tax laws pertaining to deductibility of executive compensation.

On an annual basis, each member of the Board is required to complete a questionnaire designed in part to provide information to assist the Board in determining whether the director is independent under NYSE rules and our Corporate Governance Guidelines. In addition, each director or potential director has an affirmative duty to disclose to the Corporate Governance and Nominating Committee relationships between and among that director (or an immediate family member), the Company, and/or the management of the Company.

The Corporate Governance and Nominating Committee reviews all relationships and transactions for compliance with the standards described above and makes a recommendation to the Board, which makes the independence determination. For those directors identified as independent, the Company and the Board are aware of no relationships or transactions with the Company or management other than of a type deemed immaterial in accordance with the guidelines described above. Charitable contributions by the Company to an organization in which Mr. Baeza s spouse is an executive officer, and routine purchases and sales of products involving Ms. Carter s and Mr. Deaton s employers (amounting to less than 1% of the Company s and each such employer s consolidated revenues), were deemed immaterial.

Executive Sessions

The independent directors regularly meet without the chief executive officer (CEO) or other members of management present in executive sessions that are scheduled at each Board meeting. In addition, the CEO performance review is conducted in executive session, and the Audit, Management Development and Compensation, and Corporate Governance and Nominating Committees periodically meet in Executive Session. Board executive sessions are led by the presiding director, currently Mr. Davis¸ except the CEO performance review is led by the Chairman of the Management Development and Compensation Committee.

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Board Meetings and Attendance

During our fiscal year ending September 30, 2011 (fiscal year 2011), there were thirteen meetings of our Board. Board and committee attendance averaged 97% for the Board as a whole, and no director attended less than 75% of the combined total of meetings of the Board and the committees on which he or she was serving. In accordance with the Company s Corporate Governance Guidelines, all directors are expected to attend the Company s annual meeting of shareholders unless they have an emergency or unavoidable schedule conflict. All but one of our directors attended the last annual meeting.

Shareholder Communications

Shareholders and other interested parties may communicate with the independent directors by sending a written communication in care of the Corporate Secretary s Office at the address on page 5. The Board has adopted a written procedure for collecting, organizing, and forwarding direct communications from shareholders and other interested parties to the independent directors. A copy of the procedure is available upon request from the Corporate Secretary s Office.

Code of Conduct

The Board has adopted its own Code of Conduct that is intended to affirm its commitment to the highest ethical standards, integrity, and accountability among directors and focuses on areas of potential ethical risk and conflicts of interest especially relevant to directors. The Company also has a Code of Conduct for officers and employees. This Code of Conduct addresses such topics as conflicts of interest, confidentiality, protection and proper use of Company assets, and compliance with laws and regulations. Both Codes of Conduct can be found on the website at *http://www.airproducts.com/en/company/governance/board-of-directors/director-code-of-conduct.aspx* and *http://www.airproducts.com/company/governance/commitment-ethical-business/employee-code-of-conduct.aspx* and are available in print to any shareholder who requests them.

Transactions with Related Persons

The Company did not engage in any reportable related person transactions in fiscal year 2011.

The Board recognizes that transactions with related persons can present actual or potential conflicts of interest and wants to ensure that Company transactions are based solely on the best interests of the Company and its shareholders. Accordingly, the Board has delegated responsibility to the Audit Committee to review transactions between the Company and related persons. The Audit Committee has adopted a written policy providing procedures for review of related person transactions.

A related person transaction is a transaction between the Company and a director, Executive Officer, or 5% shareholder; an immediate family member of a director, Executive Officer, or 5% shareholder; or a company or other entity in which any of these persons have a material interest. Pursuant to the Audit Committee policy, related person transactions must be preapproved by the Committee or, in the event of an inadvertent failure to bring the transaction to the Committee for preapproval, ratified by the Committee. In deciding whether to approve or ratify a related person transaction, the Committee considers the benefits of the transaction to the Company, the impact on a director s independence if a director or a director s family member or affiliate is involved, the availability of comparable sources for products and services, the terms of the transaction, and

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terms available to third parties for similar transactions. The Audit Committee chairman is authorized to approve related person transactions when it is impractical or undesirable to wait until the next Committee meeting for approval. Such approved transactions must be reported to the Committee at the next meeting.

Diversity Policy

While the Board has not adopted a formal policy on diversity, the Company s Governance Guidelines provide that, as a whole, the Board should include individuals with a diverse range of experience to give the Board depth and breadth in the mix of skills represented. The Board seeks to include an array of skills and experience in its overall composition rather than requiring every director to possess the same skills, perspective, and interests. This guideline is implemented by seeking to identify candidates that bring diverse skills sets, backgrounds, and experiences, including ethnic and gender diversity, to the Board when director candidates are needed.

Board Leadership Structure

As provided in our Governance Guidelines, the Board does not have a policy on whether the roles of Chairman of the Board and CEO should be separate or whether the Chairman of the Board should be independent. The Board determines which structure is in the best interests of the Company at any given time.

At present Mr. McGlade serves as both CEO and Chairman and the Board also has an independent Presiding Director. Mr. McGlade became CEO in 2007. The Board determined that Mr. McGlade should also serve as Chairman in 2008 after an in-depth review of alternative leadership structures. The Board decided to combine the roles because it has a high level of confidence in Mr. McGlade s leadership and willingness to work closely and transparently with the independent directors, and believes the Company is best served at this time by unified leadership of operations and oversight of the Company, which ensures that the Board and management act with common purpose. The Board also believes that maintaining equality among the independent directors fosters collegiality and openness among directors which leads to probing discussions, robust debate, and open exchange of ideas. Finally, the Board is satisfied that the independent directors have ample opportunities to execute their responsibilities independently through numerous executive sessions held throughout the year at both the Board and Committee level, substantial interactions with members of the management team other than the CEO, and the leadership of the Presiding Director and the Committee chairs.

The Company s Corporate Governance Guidelines provide that the Presiding Director s responsibilities include:

- Presiding at executive sessions of the Board and any other time the Chairman is not present and communicating feedback to the CEO.

- Determining agenda for executive sessions of non-management directors.

- Principal authority to convene a meeting of independent directors.

The Presiding Director is elected by majority vote of the Board upon the nomination of the Corporate Governance and Nominating Committee. Mr. Davis is currently the Presiding Director. Mr. Henkes has been elected to serve as the next presiding director for a three-year term commencing after the Annual Meeting.

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Role in Risk Oversight

The Board s role in risk oversight of the Company is consistent with the Company s leadership structure, with the CEO and other members of senior management having responsibility for assessing and managing the Company s risk exposure, and the Board and its Committees providing oversight in connection with those efforts. Management is responsible for assessing and managing the Company s various exposures to risk on a day-to-day basis, including the creation of appropriate risk management programs and policies. Responsibility for risk oversight rests with the full Board. The Board formally reviews the Company s risk management processes and policies periodically, including an inventory of key risks and associated monitoring, control, and mitigation activities; but the Board primarily exercises its risk oversight responsibility through meetings, discussions, and review of management reports and proposals. Consideration of risk is inherent in the Board s consideration of the Company s long-term strategies and in the transactions and other matters presented to the Board, including capital expenditures, acquisitions and divestitures, and financial matters. Committees help the Board carry out this responsibility by focusing on specific key areas of risk inherent in our business:

The Audit Committee oversees risks associated with financial and accounting matters, including compliance with legal and regulatory requirements, and the Company s financial reporting and internal control systems. The Audit Committee also annually reviews an inventory of key risks and associated monitoring, control and mitigation activities.

The Corporate Governance and Nominating Committee oversees risks associated with corporate governance, including Board structure, director succession planning, and allocation of authority between management and the Board.

The Environmental, Safety and Public Policy Committee oversees operational risks such as those relating to employee and community safety, health, environmental, and security matters.

The Finance Committee oversees risks associated with financial instruments, financial transactions, financial policies and strategies, pension funding, and capital structure.

The Management Development and Compensation Committee helps ensure that the Company s executive compensation policies and practices support the retention and development of executive talent with the experience required to manage risks inherent to the business and do not encourage or reward excessive risk-taking by our executives.

The Board receives regular reports from the Committees about their activities and deliberations.

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COMMITTEES OF THE BOARD

The Board has five standing committees which operate under written charters approved by the full Board: Audit; Corporate Governance and Nominating; Environmental, Safety and Public Policy; Finance; and Management Development and Compensation. In accordance with NYSE listing standards, none of the directors who serve on the Audit, Corporate Governance and Nominating, or Management Development and Compensation Committees have ever been employed by the Company, and the Board has determined in its business judgment that all of them are independent from the Company and its management in accordance with the guidelines described above in Director Independence . The charters of all the committees can be viewed on the Company website at *http://www.airproducts.com/en/company/governance/board-of-directors/committee-composition/commitee-descriptions-and-charters.aspx* and are available in print to any shareholder upon request. The Company s bylaws also provide for an Executive Committee. The chart below identifies directors who were members of each committee at the end of fiscal year 2011, the number of meetings held by each committee during fiscal year 2011, and the committee chairs at the end of fiscal year 2011:

Name	Audit	Corporate Governance and Nominating	Environmental, Safety and Public Policy	Executive	Finance	Management Development & Compensation
M. L. Baeza			C	X		X
W. L. Davis		C		X		X
C. C. Deaton	X	X				
M. J. Donahue	X		X			
U. O. Fairbairn		X		X	X	
W. D. Ford				X	C	X
E. E. Hagenlocker		X				C
E. Henkes	X		X			
J. E. McGlade				C		
M. G. McGlynn	X		X			
L. S. Smith	C				X	
2011 Meetings	7	3	2	0	3	5

C = Chairman

Audit Committee

The Board has determined that all of the Audit Committee members are financially literate and that Mr. Smith qualifies as an audit committee financial expert as defined by SEC regulations and NYSE listing standards. The Committee operates under a written charter. The Committee is directly responsible for the appointment, compensation, retention, and oversight of the Company s independent registered public accountant. The Committee reviews the appropriateness, quality, and acceptability of the Company s accounting policies, the integrity of financial statements reported to the public, significant internal audit and control matters and activities, the Company s policies and processes for risk assessment and management, and compliance with legal and regulatory requirements. The Committee discusses with the Company s internal auditor and independent registered public accountant the overall scope and plans for their respective audits. The Committee regularly meets with the internal auditor and the independent registered public accountant, with and without management present, to discuss the results of their audits, their

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evaluations of the Company s internal controls, and the overall quality of the Company s financial reporting. The Committee also reviews compliance with the Company s Code of Conduct for employees and officers and is responsible for establishing and administering the Company s procedures for confidential reporting of questionable accounting practices and handling complaints regarding accounting, internal controls, and other audit matters. Each year the Committee approves an annual agenda plan which specifies matters to be considered and acted upon by the Committee over the course of the year in fulfilling its responsibilities. In fiscal year 2011, the Committee met seven times.

Audit Committee Report

The Audit Committee reviews the Company s financial reporting process on behalf of the Board. Management bears primary responsibility for the financial statements and the reporting process, including the system of internal controls and disclosure controls. The independent registered public accounting firm is responsible for expressing an opinion on the conformity of those audited consolidated financial statements with United States generally accepted accounting principles.

In fulfilling its responsibilities, the Audit Committee has reviewed and discussed the audited consolidated financial statements contained in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2011 with the Company s management and the independent registered public accountant. The Audit Committee has also discussed with the independent registered public accountant the matters required to be discussed by the Statement on Auditing Standards on Communication with Audit Committees as currently in effect. In addition, the Committee has discussed with the independent registered public accountant its independence from the Company and its management, including matters in the written disclosures and letter received by the Committee from the independent registered public accountant, as required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant s communications with the Audit Committee on its independence.

Based on the reviews and discussions referred to above, the Committee approved the audited consolidated financial statements and recommended to the Board that they be included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

Audit Committee

Lawrence S. Smith, Chairman

Chad C. Deaton

Michael J. Donahue

Evert Henkes

Margaret G. McGlynn

Independent Registered Public Accountant

Appointment and Attendance at Annual Meeting. KPMG was the Company s independent registered public accountant for fiscal year 2011. Representatives of KPMG will be present at the Annual Meeting to respond to appropriate questions and make a statement if they desire.

Fees of Independent Registered Public Accountant. Consistent with the Audit Committee s responsibility for engaging the Company s independent registered public accountant, all audit and permitted nonaudit services performed by KPMG require preapproval by the Audit Committee. The full Committee approves projected services and fee estimates for these services and establishes budgets for major categories of services at its first meeting of the fiscal year. The Committee chairman has been designated by the Committee to approve any services arising

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during the year that were not preapproved by the Committee and services that were preapproved if the associated fees will cause the budget established for the type of service at issue to be exceeded by more than ten percent. Services approved by the chairman are communicated to the full Committee at its next regular quarterly in person meeting, and the Committee reviews actual and forecasted services and fees for the fiscal year at each such meeting. During fiscal year 2011, all services performed by the independent registered public accountant were preapproved.

During fiscal years 2010 and 2011, KPMG billed the Company fees for services in the following categories and amounts (in millions):

	2010	2011
Audit Fees	$ 5.7	$ 6.1
Audit-related Fees	$ 0.5	$ 0.6
Tax Fees	$ 0.1	$ 0.1
All Other Fees	$ 0.0	$ 0.0
Total Fees	$ 6.3	$ 6.8

Audit fees are fees for those professional services rendered in connection with the audit of the Company s consolidated financial statements and the review of the Company s quarterly consolidated financial statements on Form 10-Q that are customary under the standards of the Public Company Accounting Oversight Board (United States), and in connection with statutory audits in foreign jurisdictions. Audit-related services consisted primarily of services rendered in connection with employee benefit plan audits, SEC registration statements, due diligence assistance, and consultation on financial accounting and reporting standards. Tax fees were primarily for preparation of tax returns in non-U.S. jurisdictions, assistance with tax audits and appeals, advice on mergers and acquisitions, and technical assistance.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee operates under a written charter. The Committee monitors and makes recommendations to the Board about corporate governance matters including the Company s Corporate Governance Guidelines, codes of conduct, Board structure and operation, Board policies on director compensation and tenure, the meeting schedules of the Board and the committees, the charters and composition of the committees, and the annual Board and committee performance assessment processes. The Committee also has primary responsibility for identifying, recommending, and recruiting nominees for election to the Board and recommending candidates for election as Presiding Director. The Committee met three times in fiscal year 2011.

Selection of Directors. The Board has established the following minimum qualifications for all directors: business experience, judgment, independence, integrity, ability to commit sufficient time and attention to the activities of the Board, absence of any potential conflicts with the Company s interests, and an ability to represent the interests of all shareholders. The qualities and skills necessary for a specific director nominee are governed by the needs of the Company at the time the Committee determines to add a director to the Board. The specific requirements of the Company are determined by the Committee and are based on, among other things, the Company s current business, market, geographic, and regulatory environments; the mix of perspectives, experience, and competencies currently represented by the other Board members; and the CEO s views as to areas in which management desires additional advice and counsel.

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When the need to recruit a nonmanagement director arises, the Committee consults the other directors, the CEO, and a third-party recruiting firm to identify potential candidates. Once a candidate is identified, the candidate screening process generally is conducted initially by a third-party recruiting firm and will include inquiries as to the candidate s reputation and background, examination of the candidate s experiences and skills in relation to the Board s requirements at the time, consideration of the candidate s independence as measured by the Board s independence standards, and other factors the Committee deems appropriate at the time. Prior to formal consideration and recommendation by the Committee, any candidate who passes such screening would be interviewed by one or more members of the Committee and the CEO. Candidates recommended by shareholders, whose names are submitted in accordance with the Committee s procedures described below, will be screened and evaluated in the same manner as other candidates. Ms. Carter was newly elected to the Board in fiscal year 2011. She was recommended to the Company by its third party recruiting firm. All other candidates standing for election at the Annual Meeting were previously elected to the Board at an annual meeting of shareholders.

The Committee has adopted a policy regarding its consideration of director candidates recommended by shareholders and a procedure for submission of such candidates. The policy provides that candidates recommended by shareholders will be considered by the Committee; submissions of candidates must be made in writing; and, to be considered for nomination at an annual meeting of shareholders, submissions must be received not later than 120 days prior to the anniversary date of the proxy statement for the prior annual meeting. The submission must also provide certain information concerning the candidate and the recommending shareholder(s), a statement explaining why the candidate has the qualifications required, and consent of the candidate to be interviewed by the Committee and to serve if elected. A copy of the policy and procedure is available upon request from the Corporate Secretary s Office.

Executive Committee

The Executive Committee, which did not meet in fiscal year 2011, has the authority of the Board to act on most matters during intervals between Board meetings. It is usually convened only to approve capital expenditures associated with a project in excess of the CEO s authority where a customer requires a commitment prior to the next Board meeting.

Environmental, Safety and Public Policy Committee

The Environmental, Safety and Public Policy Committee monitors and reports to the Board on issues and developments in areas such as environmental compliance, climate change and sustainability, safety, corporate security and crisis management, diversity, community relations, and corporate and foundation philanthropic programs and charitable contributions.

Finance Committee

The Finance Committee reviews the Company s financial policies; keeps informed of its financial operations and condition, including requirements for funds and access to liquidity; advises the Board about sources and uses of Company funds; reviews the Company s financial arrangements and methods of external financing; and oversees the funding and management of assets of the Company s employee pension and savings plans worldwide.

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Management Development and Compensation Committee

Pursuant to its charter, the Management Development and Compensation Committee (the Committee) has responsibility for:

- Approving Company objectives relevant to the compensation of the CEO;
- Establishing the process for and leading the Board in evaluation of the performance of the Company s CEO, and providing oversight of the CEO s evaluation of the performance of other Executive Officers;
- Overseeing CEO succession planning and the development and evaluation of potential candidates for other executive positions;
- Establishing and approving the Company s executive compensation policies, determining CEO compensation, and approving other Executive Officer compensation; and
- Overseeing the Company s overall management compensation program, the design and administration of management incentive compensation plans, including equity programs, and the administration and design of the Company s retirement and welfare benefit plans.

The Committee s charter permits it to delegate all or a portion of the authority granted to it by the Board to one or more Committee members, senior executives, or subcommittees to the extent consistent with applicable laws, regulations, and listing standards. The Company s Delegation of Authority Policy reserves for the Board and the Committee all compensation and staffing decisions with respect to Executive Officers except as specifically delegated by them.

Roles of the Committee, Management, and Compensation Consultant in the Compensation Process. The Committee is responsible to the Board and to shareholders for establishment and oversight of the Company s compensation program for Executive Officers, including those named in the Summary Compensation Table on page 51 (Named Executive Officers) and for approving the compensation level of the Executive Officers. For fiscal year 2011, the Company s Executive Officers were the Named Executive Officers:

- John E. McGlade, Chairman, President, and CEO;
- Paul E. Huck, Senior Vice President and Chief Financial Officer (CFO);
- Stephen J. Jones, Senior Vice President and General Manager Tonnage Gases, Equipment and Energy, and China President;
- Robert D. Dixon, Senior Vice President[1]; and
- John D. Stanley, Senior Vice President and General Counsel;

and the following additional senior operational and corporate officers:

M. Scott Crocco, Vice President and Corporate Controller;

John W. Marsland, Senior Vice President and General Manager Merchant Gases[2];

Lynn C. Minella, Senior Vice President Human Resources and Communications; and

Corning F. Painter, Senior Vice President Corporate Strategy, Technology, and Supply Chain[3]

1 Mr. Dixon was Senior Vice President and General Manager Merchant Gases until November 1, 2011. Mr. Dixon will be retiring from the Company in early 2012.

2 Mr. Marsland assumed this role on November 1, 2011. Prior to that, he was Senior Vice President Electronics, Performance Materials, and Supply Chain.

3 Mr. Painter assumed this role on November 1, 2011. He assumed the role of Senior Vice President Corporate Strategy and Technology in July 2011. Prior to that he was Vice President and General Manager Electronics.

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The Committee establishes overall compensation strategies and policies for the Executive Officers, allocates compensation for Executive Officers among the various components of compensation, evaluates and approves performance measures and goals relevant to the incentive compensation of the Executive Officers, evaluates the performance of the CEO with input from the full Board, determines direct compensation levels for the CEO, and evaluates and approves direct compensation levels for other Executive Officers. Each year, the Committee also reviews and evaluates the appropriateness of the Company s current executive compensation program based on several factors, including competitiveness of the program and alignment of compensation delivered under the program relative to the Company s performance; reviews whether the program design encourages excessive risk taking; approves peer groups for market reference; evaluates and approves changes to compensation and benefit plans when needed; reviews succession planning for the Executive Officers and other key senior management employees; approves performance objectives for the CEO; approves incentive compensation payouts for the current year; and addresses other specific issues regarding management development and compensation as needed. Periodically, the Committee also undertakes an extensive review of the competitiveness and appropriateness of certain pay practices, such as Executive Officer severance arrangements and retirement benefits.

The Committee retains an external compensation consultant to provide independent advice, information, and analysis on executive compensation. The Committee has established several practices to ensure the external consultant s independence, candor, and objectivity. The consultant is engaged by, has its compensation set by, and reports directly to the Committee; frequently meets separately with the Committee with no members of management present; and consults with the Committee Chairman in between meetings. Management reports to the Committee at each meeting fees paid for services performed by the consultants, and the Committee approves in advance the services to be performed. The Committee currently retains Farient Advisors LLC (Farient) as its external consultant. Farient also advises the Corporate Governance and Nominating Committee on director compensation, but performs no other services for the Company or management.

During fiscal year 2011, Farient provided advice and analysis to the Committee on direct compensation for individual Executive Officers, peer group composition, incentive plan performance measure conventions and design, and external trends and regulatory developments. Farient also provided an analysis of the alignment of pay delivered under the Company s Executive Officer compensation program with its performance relative to peer group pay and performance, an assessment of the fit of the Company s Executive Officer compensation program design with its business strategy, a comparison of the program design to peer programs, and an assessment of the potential relationship between the Company s compensation program and risk taking by management.

While the Committee determines overall compensation strategy and policies for the Executive Officers and approves their compensation, it seeks input from several Executive Officers and other management employees with respect to both overall guidelines and discrete compensation decisions. Specifically:

- the Senior Vice President Human Resources and Communications works with the Committee to develop the design of compensation programs and decision-making frameworks for determining compensation levels;

- the CEO provides the Committee perspective on the performance of other Executive Officers; provides input to the Committee on the forms of incentive compensation and performance measures that will best support his strategic goals for the Company; and

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develops and recommends compensation actions for the other Executive Officers, in consultation with the Senior Vice President Human Resources and Communications, and based on competitive market analysis received from external compensation consultants;

the CFO provides background and recommendations to the Committee regarding the Company s key financial objectives and performance against them; and

the Company s Law and Human Resources staff provides technical advice and other support to the Committee.

These Executive Officers and employees attend portions of the Committee meetings; however, the Committee s usual practice is to meet in executive session both alone and with its external compensation consultant to reach final decisions about CEO and other Named Executive Officer compensation.

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COMPENSATION OF EXECUTIVE OFFICERS

Report of the Management Development and Compensation Committee

The Committee has reviewed and discussed with management and its external compensation consultant the following Compensation Discussion and Analysis section of the Company s 2011 Proxy Statement. Based on its review and discussions, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in the Company s Proxy Statement for 2011.

Management Development and Compensation Committee

Edward E. Hagenlocker, Chairman

Mario L. Baeza

William L. Davis, III

W. Douglas Ford

Compensation Discussion and Analysis

Approximately 80% of our Named Executive Officers direct compensation in 2011 was variable based on Company and stock performance. So we begin this Compensation Discussion and Analysis with an overview of Company and stock performance for 2011 and the factors influencing it, and a discussion of how the Committee views the link between pay and performance in the Company s Executive Officer compensation program. Following this discussion, you will find a section on frequently asked questions on our pay and performance alignment that responds to questions raised by investors, proxy advisory firms, and others regarding our Executive Officer compensation program. The remainder of the Compensation Discussion and Analysis outlines 2011 compensation actions and explains the design of the program and the components of compensation.

2011 Performance

Although fiscal year 2011 marked another year of uncertainty and mixed recovery in the global economy, we were able to deliver solid financial results, achieving double-digit growth in revenue, operating income, operating cash flow, and earnings; and improvement in operating margin and return on capital. In addition, the Company continued to lay the groundwork for future growth by winning key business in high growth markets and developing products and solutions for new markets, especially in the environmental and sustainability area. Our performance reflects our continued attention to disciplined capital deployment, development of a sustainable low cost structure, and effective execution of our individual business strategies. As in 2010, we were able to produce strong results for our shareholders in a challenging environment.

During 2011, we had the following significant accomplishments:

- Revenue growth of 12%;
- Operating income growth of 12.5%;[4]
- Earnings per share growth of 14.1%;[4]
- Return on Capital Employed improved 80 basis points to 13.3%;[4]

4 Comparisons are non-GAAP, excluding acquisition-related costs from 2010 and 2011. See Appendix A for reconciliation to GAAP.

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Returned over $1.1 billion to shareholders through dividends and share repurchases, increasing dividends for the 29th consecutive year; and

Maintained strong cash flow and secured our A credit rating.

The Company also had significant nonfinancial achievements:

Named to the Dow Jones Sustainability Index (North America and World), and the Carbon Disclosure Project Global Leadership and Performance Indices, and named a Maplecraft Climate Innovation Indexes Leader;

Recognized by President Obama for our efforts with Skills USA, a nationwide partnership of industry and educational professionals dedicated to preparing a skilled workforce for America;

Announced several groundbreaking projects demonstrating the Company s environmental solutions, including carbon capture and sequestration projects in Port Arthur, Texas, Vattenfall, Germany, and Shanxi, China;

Installed a 2 megawatt solar farm at corporate headquarters to provide clean, renewable energy for our campus; and

Completed a year-long review and refresh of our China strategy resulting, in part, in the appointment of Mr. Jones to the additional role of China President and his relocation to China to support the significant growth opportunities there.

Despite the solid performance of the business in fiscal year 2011, the Company s stock performance was impacted by the return of severe volatility in global financial markets. Many of our shareholders saw the market value of their shares decline towards the end of fiscal year 2011. Because a large percentage of the Company s Executive Officers compensation is delivered in equity awards, the Executive Officers also experienced a decrease in the value of their outstanding long-term incentives and in their personal wealth. As reflected in the Outstanding Equity Awards at Fiscal Year-End table appearing on page 57, the value of equity compensation granted to Executive Officers in prior years declined at the end of the year. While the Committee is disappointed in the misalignment between the Company s performance and its stock price, the Executive Officer compensation program operated as intended in this respect, linking the Executive Officers significant personal stake in the performance of the Company s stock to the investment of our shareholders.

Pay and Performance Alignment

The success of the Company s business and resulting value for our shareholders is predominantly built on stable, long-term contractual relationships with customers and substantial capital investments that reap returns over a long time horizon through technological differentiation, cost control, and operational efficiencies. Reflecting this long-term business model, the Committee has identified and, with Farient, validated compensation tools and performance measures designed to ensure that the decisions being made today build value for the long term. To complement the business model, our Executive Officer compensation program is designed to reward sustainable growth, superior returns through disciplined capital investment, sustainable cost reduction, and consistent operational excellence. These objectives are reflected in:

significant at risk compensation tied to building long-term shareholder value;

constant performance measures and goals for our incentive compensation programs that require year-over-year improvement and are not adjusted for economic slowdowns;

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a balance of growth and return metrics for incentive compensation to prevent focus on one to the exclusion of the other;

performance goals set at competitive levels;

long-term orientation of Executive Officer compensation; and

substantial linkage of Executive Officer compensation to long-term stock performance.

These features of our program overlay a compensation setting framework that is designed to provide median target compensation for our peer group,[5] with actual compensation driven up or down based on the Company s operating performance, stock price, and overall shareholder return. Each of these aspects of the program is discussed below. Assessments of the long-term pay and performance alignment of the program and pay and performance relative to peers are reflected in the charts on pages 34 and 35.

Variable compensation is tied to shareholder returns and the key drivers of long-term value creation.

A substantial majority of Named Executive Officer compensation is variable; *i.e.*, actual amounts realized depend on Company or stock performance, as illustrated in the chart below:[6]

Long-term incentives constitute the largest single component of compensation and are delivered exclusively in stock, with their realized value strongly tied to shareholder returns. Annual incentive awards and certain long-term incentive awards are tied to shareholder-focused performance measures established by the Committee. The current performance measures were initially chosen by the Committee in 2007 when, after extensive study, the Committee concluded that earnings growth and consistent return on capital in excess of

5 See Benchmarking on pages 42 and 43 for information about peer groups.

6 Direct compensation components are described on pages 41 and 42.

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the Company s cost of capital have historically been the key drivers of shareholder value, across industries, time periods, and economic cycles. After evaluating different measures of earnings growth and return on capital for use as performance measures, the Committee established year-over-year growth in earnings per share (EPS Growth) and the excess of Return on Capital Employed over the Company s cost of capital (ROCE Spread[7]) as the performance measures for the Company s Annual Incentive Plan and the performance share component of long-term incentive awards.[8] EPS Growth was chosen as the best growth measure because it reflects all sources of income after tax and promotes balanced use of debt and equity capital. ROCE Spread was determined to be the best measure of return on capital because it reflects all capital employed and all income generated after tax.

Constant performance goals require the management team to maintain and improve profitability in all economic environments to receive target incentive compensation. Our performance goals reward creation of shareholder value, not achievement of the operating plan.

The Committee has chosen not to follow the prevalent practice of setting incentive compensation performance goals that are tied to annual operating plans or strategic planning cycles. The Committee s practice is to establish performance goals that require year-over-year improvement in earnings per share and consistent return on capital from year to year, rather than calibrating the goals to current economic conditions. As illustrated in the table below, covering periods of varied operating environments, our performance goals have not been adjusted downward during recessions or economic slowdowns. For example, our Executive Officers received no annual incentive awards in 2009 when the Company had negative earnings growth, even though many of our peer companies paid bonuses based on lowered performance targets, adjusted to reflect the recession.

Year	Year-Over-Year Earnings Improvement Required for Target Incentive Compensation Factor	Excess Return on Capital Employed (Over Cost of Capital)2 Required for Target Incentive Compensation Factor
2011	9%	3%
2010	9%	3%
2009	9%	2%
2008	9%	2%

The Committee s approach stems from its philosophy that performance measures and goals should be established from the perspective of the shareholders; *i.e.*, competitive pay should not be based on the performance the management team thinks it can deliver, as embodied in operating plans, but on performance that will provide shareholders a competitive return. The performance goals were adopted based on Company, Peer Reference Group[9] and S&P 500 performance trends, historic and, in some cases, projected; and reward year-over-year improvement in earnings at or above these trend rates, checked by requiring consistent return on capital adjusted for cost of capital. So our

7 ROCE is calculated by taking after-tax operating income plus after-tax equity affiliate income and dividing by capital employed (*i.e.*, the sum of average debt, average equity, and average minority interest). Cost of capital is calculated as a leveraged, weighted average of the Company s cost of debt (after tax) and cost of equity. (The cost of equity is determined using the Capital Asset Pricing Model which measures the expected return on an investment based on expected risk factors which affect the investment.) The difference between ROCE and cost of capital is the ROCE Spread.

8 Performance shares are described on pages 47-49.

9 See Benchmarking on pages 42 and 43 for more information about the Peer Reference Group.

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performance goals require building shareholder value in all economic environments, encouraging a long-term focus consistent with the Company s business model.

Balanced growth and return measures are used for both short-term and long-term incentives to require consistent, profitable growth across all time periods.

Our businesses require significant investment of capital in long-lived assets and technology in order to generate revenue and earnings growth. Because the investment decisions made by our management team today affect profitability for far longer periods, in some cases 25-30 years, the Committee believes that short-term results cannot be segregated from the foundation they build for the long term. It is easy to understand that holding management accountable for consistent growth across all economic environments and time horizons motivates performance that creates value for shareholders. But, because we must invest significant capital to support revenue and earnings growth in our businesses, it is equally important that we achieve the right kind of growth; *i.e.*, growth that generates a return in excess of the cost of capital. Since both growth and returns are critical to creating value for our shareholders, and because one can easily be sacrificed for the other or the long-term sacrificed for the short term, the Committee chose to use both metrics for short-term and long-term incentive programs. There is a natural friction between growth and returns, and requiring them to be balanced over both the short and long term prevents undisciplined investment to generate short-term growth or lack of investment to inflate returns.

Goals are set to achieve competitive pay for competitive performance over the long term.

The Committee regularly evaluates the performance goals associated with Executive Officer incentive compensation to ensure that they are sufficiently demanding and reflect performance that is competitive relative to performance delivered by the Peer Reference Group and the S&P 500. The performance goals are set with reference to industry, peer, and Company historical performance; future expected performance of the Company; and the Company s weighted average cost of capital. The performance goals are calibrated such that a competitive level of performance will generate a competitive award level, with variance in awards upward or downward based on actual performance versus goals. The goals are reset only in response to fundamental changes in performance trends. As a result, awards are higher when performance is higher and shareholders are benefitted; and, conversely, awards are lower when performance is lower and shareholders are penalized, creating alignment between management and shareholder interests.

Long-Term Orientation Rewards Sustainable Profitability

The Company s Executive Officer compensation program emphasizes long-term incentives. While our program is regularly benchmarked for reasonableness in the market and assessed for effectiveness, sensitivity to shareholder expectations, and fit with business strategies, the Committee seeks to maintain consistent compensation schemes to avoid focus on temporary, short-term achievements. The form of compensation, the measures used, and the performance goals are intended to remain relatively stable over significant periods of time. Delivery of compensation is cumulative; *i.e.*, maximum leverage in the program is built cumulatively through long-term stock appreciation, not tied to short spikes in stock or market performance. Long-term incentives are granted annually, with overlapping vesting periods to reward sustained stock appreciation. Finally, short- and long-term incentives are subject to clawback provisions that allow the Company to recover compensation in the event of conduct adverse to the Company.

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Strong Linkage to Stock Performance Extends Beyond Retirement

All long-term incentive compensation is delivered in Company stock so that realized compensation is profoundly influenced by stock price and total shareholder return. Executive Officers are subject to rigorous stock ownership requirements and holding requirements for net shares received in stock option exercises. In addition, stock options and performance share awards granted in the three years leading up to retirement do not become fully exercisable or earn out, respectively, until after retirement; and stock option exercise periods continue until long after retirement. All of these features give Executive Officers significant incentive to focus on long-term value creation that will continue to benefit shareholders well after their departure from the Company.

Median pay positioning is tied to a compensation program designed to deliver above median pay only when operating performance creates measurable shareholder value and shareholder returns are strong.

Base salary for Executive Officers is the only nonvariable component of pay and is targeted at median for the Market Reference Group.[10] The portion of the variable pay delivered in cash and performance shares is received in proportion to performance against growth and return targets set with reference to long-term performance trends of the Company and peer groups. Target pay is received only if performance is equal to these long-term growth and return trends, and above median pay is received only if performance exceeds these trends. Long-term incentives are benchmarked to median for the Market Reference Group and are awarded entirely in stock subject to vesting or performance conditions. The value of the amount actually delivered is dependent on stock price appreciation and overall shareholder returns. Competitive compensation is realized only when shareholders have realized competitive returns. When stock performance is above or below expectations and peer performance, above or below median compensation will be realized.

[10] See Benchmarking on pages 42 and 43 for more information about the Market Reference Group.

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Pay for Performance Outcomes

The chart below is based on an assessment conducted by Farient in 2011 that evaluated the Company s Performance-Adjusted CEO Compensation[11] and EPS Growth and ROCE performance compared to its Peer Reference Group.[12] Farient assessed pay and performance positioning for one-and three-year periods ending in 2010.[13] The left two columns of the chart indicate the percentile at which Farient determined the Company performed compared to the Peer Reference Group in EPS Growth and ROCE. The right column shows the percentile position Farient determined for the Company s CEO Performance-Adjusted Compensation (CEO Pay). The chart illustrates that the Company s CEO Pay outcomes are reasonable relative to Company performance in these key metrics.

Air Products and Chemicals, Inc. vs. Peer Group

1-Year Relative Performance and

Performance-Adjusted Compensation

3-Year Relative Performance and

Performance-Adjusted Compensation

11 Performance-Adjusted Compensation is a trademark of Farient developed to measure actual compensation outcomes rather than target compensation before performance. See Ferracone, R. A. (2010). Fair Pay, Fair Play, San Francisco. Jossey-Bass, pages 41-44 for an explanation of their methodology.

12 See Benchmarking on pages 42 and 43 for more information about the Peer Reference Group.

13 The chart is through 2010, since 2011 information is not available for peers at the time of print.

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Farient also developed the Performance Alignment Report below that measures: (1) the sensitivity of Performance-Adjusted Compensation (PAC) to Total Shareholder Return[14] (TSR) performance; and (2) the reasonableness of Performance-Adjusted Compensation for the Company s revenue size, Peer Reference Group, and TSR performance.[15] This chart illustrates the historic sensitivity of the Company s CEO pay to performance from 1998-2010.

The Alignment Zone, marked by the thick lines, indicates the reasonable range of pay outcomes for the performance delivered based on the Company s size and the historical pay-for-performance experience of the Peer Reference Group.

The left to right upward slope of the Company s pay to performance line indicates that the Company s CEO pay increases with TSR and vice versa.

The solid positioning of the pay to performance line within the Alignment Zone reflects the reasonableness of the program relative to the Peer Reference Group.

Air Products and Chemicals, Inc.

Pay for Performance Alignment

Over 3 Year Periods Ending in Year Shown

[14] Total Shareholder Return is stock price appreciation over the relevant time period plus dividends reinvested.

[15] Farient compared Performance-Adjusted CEO Compensation (covering salary, short-term incentives, and long-term incentives) for the Company over rolling three-year periods to TSR (appreciation in stock price of a share of stock plus dividends) for the same rolling three-year periods, and tested the results against similar variables for the Company s Peer Reference Group. The pay lines represent a regression line based on data points showing historical Performance-Adjusted CEO Compensation of the Company and the Peer Reference Group. Each data point reflects Performance-Adjusted Compensation for a three year period (ending in the year noted on the chart for the Company) and TSR for the same period. The points are inflation- and size-adjusted.

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Frequently Asked Questions on Pay and Performance Alignment

This section provides answers to questions and comments we have received on our Executive Officer Compensation program.

Why does the Company use the same performance measures in both annual and long-term incentives? Doesn t this create risk?

The Committee believes that the use of these two counterbalancing metrics in both programs reduces risk. Growth of the Company s business involves investment of substantial amounts of capital to build our plants, which deliver an income stream over a long period of years. Long-term value for our shareholders is created through current growth of the business, but only if coupled with returns in excess of the cost of capital. Short-term decisions cannot be segregated from long-term results. For example, it would be easy for management to generate growth by accepting new business without regard to returns, but this will ultimately erode shareholder value. Maximizing returns by reducing investment is also easy, but will ultimately erode shareholder value. Balancing growth and return measures avoids the risks that might otherwise result from linking substantial portions of compensation to the same performance metrics because of the natural friction between the two, which moderates the incentive either one unchecked could create to undermine long-term value creation.

In addition, the Committee believes that the management team performs better when it is focused on reinforced, well understood metrics rather than dividing its efforts among a number of metrics. The metrics are, however, weighted differently in the two programs. Because growth is more attainable in the short term, whereas returns take longer to develop, the Committee weighs the

metrics 60% EPS Growth and 40% ROCE Spread for the short-term Annual Incentive Plan and 33% EPS Growth and 67% ROCE Spread for the longer-term performance shares. The value of the performance shares received by Executive Officers is tied not only to the performance metrics chosen, but also to shareholder returns during the performance period. Although performance against the metrics determines the number of shares received, the ultimate payout value, if any, is strongly affected by share price and dividends paid during the performance period.

Why doesn t the Committee use relative performance measures?

The Company s performance goals are established relative to long-term peer and industry performance trends. In setting the performance goals for Annual Incentive Plan awards and performance shares, the Committee references historical performance for the Peer Reference Group and the S&P 500 and regularly evaluates whether the goals are sufficiently demanding relative to long-term performance of these peer groups. So, the payouts associated with various levels of performance do align with the Company s performance relative to peers over time, as illustrated by the Performance Alignment Report on page 35. The Committee s approach inserts relative performance into its goal setting up front, rather than after the fact, but the goals are set with reference to external performance.

Using performance measures based on an after the fact snapshot of short-term relative performance would require a fundamental shift away from the Committee s philosophy of measuring performance against constant year-over-year improvement and long-term external and Company trends. Compensating Executive Officers based on short-term performance against peers may reduce upside in economic booms, but would also reduce downside in economic slumps. Shareholders do not experience the same moderation of returns on their investment, and

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therefore the Committee believes its constant performance measures better align executive compensation with long-term shareholder interests and expectations.

Why doesn t the Committee use total shareholder return as a performance measure?

Total shareholder return has a significant relationship to compensation realized by the Company s Executive Officers because so much of Executive Officer compensation is delivered in stock. But, while recognizing its importance to shareholders, the Committee believes that directly tying compensation to total shareholder return can be a very ineffective way to pay.

Although stock price movements can be expected to reflect Company performance over the long term, on any given measurement date there can be aberrations that have little to do with the performance of the Company or its management team. Stock price increases can occur due to economic cycles, rumors, overall bullish sentiments, speculation about transactions or other environmental factors that can mask underperformance of the business. Similarly, stock price declines can occur due to geopolitical events, uncertainties about pending transactions, overall market panics, and many other factors that are well beyond the control of the management team and do not affect the long-term value of the business. Because most of the Company s Executive Officer compensation is delivered in stock, tying compensation directly to TSR would amplify market distortions. The Committee believes it can create a more effective incentive for Executive Officers by determining what measures within the control of Executive Officers have proven to drive TSR over the long term, and measuring performance against these drivers.

Why does the Company s Annual Incentive Plan payout schedule[16] provide for a payout when earnings growth is less than 0?

First, it is important to understand that the Committee can use and has used negative discretion to reduce or eliminate annual incentive awards regardless of the payout level indicated under the schedule. Most recently, when earnings growth was less than 0 in 2009, the Committee determined not to pay annual incentive awards to any of the Named Executive Officers. However, the Committee believes it is important for the schedule to provide the flexibility for an award even in a poor year for several reasons:

- The payout schedule used for the Named Executive Officers is also used to determine the award pool for approximately 350 management employees throughout the world. Although it may be appropriate to hold the Executive Officers accountable for poor consolidated results in a difficult economic environment, the Committee believes it is important to retain the flexibility to pay annual incentive awards to other employees who may have performed well against their objectives.

- Because the Company uses constant performance goals that are not adjusted for economic cycles or operating plans, and must compete for talent against companies that adjust their performance goals for a poor economic environment, the Committee believes it is important to retain flexibility to pay an award. Many companies have a mark to budget approach to setting performance goals for their annual incentives, setting goals based on what the management believes it can achieve. The Committee wants to ensure it has options to prevent losing key talent to these companies in economic downturns.

[16] Calculation of annual incentive awards is described on pages 44-46.

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Why are the Company s stock options valued at a higher price per option than peers?

SEC rules require that the value of Company stock options reflected in the Summary Compensation Table be calculated using the methodology and assumptions management uses to determine stock option expense in its financial statements. Stock price is a key factor in valuing stock options; so differences in price are important. But even where stock price is similar, the assumptions used in the calculation can vary significantly from company to company, resulting in quite different option values.

For example, the expected life of the stock option, an important factor in determining the value placed on the option, is based on actual experience of the company reporting. Our management team has a longstanding practice of voluntarily holding vested stock options for long periods of time after they have vested, increasing the expected life and thus the valuation of Company stock options. Volatility of the stock price is another important determinant of the value per option which, like expected life, is based on individual company experience. Volatility can be impacted by events specific to a company as well as overall market conditions.

These are just a few variables which could influence stock option valuation and cause a smaller number of stock options to appear to have a greater value. It is also important to remember that the valuation of stock options for reporting purposes is not a measure of the actual value realized by the Executive Officer. In order for stock options to have value, the options must vest and the stock price must appreciate.

Highlights of 2011 Committee Actions

The following are highlights of Executive Officer compensation actions taken by the Committee in or for fiscal year 2011:

Target 2011 Direct Compensation Set. At the beginning of the year, in the context of the Company s excellent 2010 performance, the Committee established 2011 direct compensation. The chart below indicates total direct compensation (base salary, annual incentive award target, and target value of long-term incentive awards[17]) granted to the Named Executive Officers for 2011[18]:

Officer	Base Salary	Target	Long-Term Incentives	Total Direct Compensation
J. E. McGlade	$ 1,200,000	$ 1,440,000	$ 5,750,000	$ 8,390,000
P. E. Huck	$ 675,000	$ 540,000	$ 1,500,000	$ 2,175,000
S. J. Jones	$ 470,000	$ 329,000	$ 760,000	$ 1,559,000
R. D. Dixon	$ 470,000	$ 329,000	$ 760,000	$ 1,559,000
J. D. Stanley	$ 450,000	$ 270,000	$ 745,000	$ 1,465,000

17 Each year the Committee grants long-term incentive awards intended to deliver a target value. The process for determining the target value to be granted and the value of the awards is described on pages 46-47. The actual value realized may differ significantly (up or down) from the target value due to Company stock price performance over the life of the awards and the extent to which applicable performance metrics are met.

18 This table is intended to supplement, not replace, the Summary Compensation Table on page 51, which reports fiscal year 2011 Named Executive Officers compensation in the format required by SEC rules.

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Committee reviewed results of the 2010 shareholder advisory vote on Named Executive Officer compensation and comments received. Following the 2011 Annual Meeting, the Committee reviewed the results of the shareholder advisory vote on Executive Officer compensation and comments received on the Executive Officer compensation program. With over 85% of votes cast voted in favor of approval, the Committee determined that the great majority of shareholders were satisfied with the existing program. Negative comments and questions raised are addressed in the Frequently Asked Questions section above.

Committee evaluated potential linkage between compensation and risk taking. During 2011, the Committee, with Farient, conducted an in-depth risk assessment of the Company s Executive Officer compensation program. The Committee concluded that the program is balanced and does not motivate imprudent risk taking for the following reasons:

The Company does not use highly leveraged short-term incentives that drive risky investments at the expense of long-term Company value.

The Company s incentive compensation performance measures balance growth and returns to promote disciplined progress towards longer-term goals and to mitigate the risk of focusing on top-line growth at the expense of sustained profitability; and returns are measured based on both debt and equity capital to discourage excessive financial leverage.

The Company s compensation programs reward consistent, long-term performance by heavily weighting compensation to long-term incentives that reward sustainable stock, financial, and operating performance.

Cash incentive awards are capped at sustainable levels, and the Committee has discretion to reduce awards, including for nonfinancial considerations.

The Company imposes substantial Executive Officer stock ownership and holding requirements.

The Company has recovery policies (clawbacks) applicable to incentive compensation that permit the Company to cancel awards and recoup certain gains in the event of conduct detrimental to the Company.

In addition, management conducted and reported to the Committee on its evaluation of the Company s overall compensation practices and programs to assess whether any of these programs and practices exposed the Company to excessive risk taking, concluding there were no such programs or practices.

Committee reviewed pay and performance alignment. During 2011, the Committee engaged Farient to conduct a relative pay for performance analysis which assessed the alignment of the Company s Executive Officer compensation program outcomes and performance results relative to peers. (Results of this analysis are partially diagrammed in the charts on pages 34 and 35.) Farient concluded the Company s compensation outcomes were aligned with its relative performance and that the program showed strong sensitivity to performance, consistency in application, and appropriateness to the market.

Committee benchmarked peer pay program design practices. During 2011, the Committee engaged Farient to conduct a review of peer pay program design and practices to ensure the reasonableness of the Company s program compared to the

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competitive market. Areas evaluated included pay positioning, allocation of pay mix, goal setting, and compensation policies.

Excellent operating performance drove above target annual incentive payouts. For fiscal year 2011, the Committee determined an above target annual incentive award payout based on EPS Growth of 14.1% and an ROCE Spread of 4.8%.[19]

Design of the Program

Overview. The overall objective of our Executive Officer compensation program is to attract and retain a talented management team and provide them with the right incentives to execute our strategic objectives and maximize our shareholders investment in the Company. The same principles that govern the compensation of all our salaried employees apply to the compensation of our Executive Officers:

Tie compensation to strategy and performance.
The Company s programs provide a range of incentive compensation opportunities that promote achievement of short-, medium-, and long-term strategic and financial objectives.

Link the interests of Executive Officers to the interests of shareholders.
The Company s Executive Officer compensation program is designed so that factors that impact the value of our shareholders investment in the Company also impact our management team s personal wealth.

Provide competitive total compensation for competitive performance.
The Company seeks to offer compensation opportunities that are sufficient to attract talented and experienced managers who have a choice about where they work, and to discourage them from seeking other opportunities.

Reinforce succession planning process.
The overall compensation program for our Executive Officers is managed to reinforce our robust succession planning process.

Foster nonfinancial corporate goals.
While financial results are the primary commitment the Company makes to shareholders, the compensation program balances financial results with other Company values such as sustainability, continuous improvement, safety, diversity, and ethical conduct. Accordingly, some components of the program provide flexibility to recognize nonfinancial achievements or to reduce or recoup compensation where insufficient attention is paid to nonfinancial Company objectives.

Support actions needed to respond to changing business environments.
The Company has sought to provide some elements of compensation, such as severance benefits, that give the management team or the Board of Directors tools to facilitate decisions about divestitures and restructurings, succession planning, or other significant corporate events that may impact the position or employment status of Executive Officers.

19 Certain extraordinary costs are excluded. See Appendix A for a reconciliation to GAAP.

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Our Executive Officer compensation program emphasizes compensation opportunities that are linked to key performance indicators such as earnings growth and return on capital and/or provided through Company stock-based awards. The majority of compensation provided to the Company s Executive Officers is thus dependent upon the achievement of short-, medium-, and long-term performance objectives and/or appreciation in the value of Company stock. In addition to these incentive opportunities, the Company s compensation programs provide Executive Officers a lesser amount of fixed elements, such as base salary and benefits, which are an essential part of a competitive compensation program. The Company also provides competitive severance and change in control arrangements to mitigate the impact of portfolio management actions, succession planning moves, and other corporate actions.

For fiscal year 2011, the Committee designed the Company s Executive Officer compensation programs to provide, on average, a compensation opportunity that approximates the median of similar companies. Individual components of compensation may be greater or lesser than the median, and actual compensation delivered may vary significantly from the target opportunity and the median based on Company or individual performance and changes in Company stock price.

Direct compensation is delivered to the CEO and other Named Executive Officers through the components listed in the table below, which provides a brief description of the principal types of compensation, how performance factors into each type of compensation, and the compensation program objectives served by each type. Detailed descriptions of the components of direct compensation and how the Committee determined compensation levels for fiscal year 2011 begin on page 44.[20]

Fiscal Year 2011

Named Executive Officer Direct Compensation Components

Component	Description	How Amount Determined/ Performance Considerations	Objectives	Percent of Total Target
Base Salary	Fixed cash payment.	Targeted at Market Median[21] with adjustment based on level of responsibility, experience, and individual performance.	Provide competitive foundational pay.	CEO 14% Others 28%
Annual Incentive	Short-term incentive, cash payment.	Target payout references Market Median. Actual payout driven by EPS Growth and ROCE Spread. Can be adjusted based on individual performance and Company performance on nonfinancial objectives.	Promote achievement of short-term financial and strategic objectives. Encourage current decisions that promote long-term value creation.	CEO 17% Others 20%

continued. . .

[20] Other major components of compensation such as retirement and welfare benefits are based on pre-existing programs available to broad employee populations and were not the subject of Committee decisions in 2011. Similarly, Mr. Jones s international assignment benefits are provided under the Company s policy covering all employees on international assignment, although the Committee did review and approve the application of the policy to Mr. Jones.

[21] See Setting Total Compensation below for an explanation of how the Committee views the Market Median.

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Fiscal Year 2011

Named Executive Officer Direct Compensation Components

Component	Description	How Amount Determined/ Performance Considerations	Objectives	Percent of Total Target
Performance Shares	Deferred stock units that pay out upon achievement of performance targets. Delivered in shares of stock with dividend equivalents also payable on vesting.	Target value based on Market Median for long-term incentives. Actual payout determined by average EPS Growth and ROCE Performance over 3 year period. Value of payout strongly impacted by shareholder returns during performance period.	Promote achievement of mid-term financial objectives; retention; align Executive Officer s interest with shareholder returns.	CEO 17% Others 13%
Stock Options	Options to purchase shares of stock at closing market value on grant date. (Become exercisable over 3 years. Exercisable for 10 years.) 50% of net shares received must be held for 1 year after exercise.	Target value based on Market Median for long-term incentives. Actual value determined by stock price.	Motivate Executive Officers to drive long-term stock appreciation.	CEO 35% Others 26%
Restricted Stock	Shares of stock that vest over 4 year period and pay dividends.	Target value based on Market Median for long-term incentives. Actual value determined by shareholder return during vesting period.	Retention; align Executive Officer interests with shareholder returns.	CEO 17% Others 13%

Benchmarking. The Committee believes that a threshold characteristic of reasonable compensation is that it be aligned with compensation provided by companies with which the Company competes for talent. Therefore, in preparation for determining fiscal year 2011 compensation, the Committee benchmarked the Executive Officer compensation levels to evaluate the competitiveness of the program and as a reference for establishing compensation levels for 2011.

The Committee annually reviews and approves the peer groups used for benchmarking compensation. For purposes of assessing competitiveness and recommending compensation levels for fiscal year 2011, the Company engaged Mercer to compile survey data from its compensation database on a market reference group of industrial companies with revenue of $6 to $12 billion (consistent with the Company s fiscal year 2010 revenue of $9 billion) (Market Reference Group). This Market Reference Group is representative of the companies with which the Company competes for talent and is used by the Company for various compensation benchmarking purposes, not just Executive Officer compensation. A list of companies included in the Market Reference Group is provided in Appendix B on page B-1. Mercer prepared an assessment of each of the Company s Executive Officer s compensation level relative to this

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Market Reference Group based on similar functional responsibilities, where available. Because the survey data was collected in mid-2010, Mercer s analysis was based on projected levels as of the beginning of the Company s 2011 fiscal year. Farient reviewed the data and provided advice to the Committee on interpreting it, on recommendations and proposals submitted to the Committee by management, and on Mr. McGlade s compensation for 2011.

At the Committee s request, Farient also compiles proxy data from a smaller group of companies that are competitors of the Company or are similar to the Company in that they are chemical or other industrial companies, have asset intensive businesses, and manage comparable amounts of revenue and capital (Peer Reference Group). The Committee used this secondary reference group as a check to ensure pay levels are appropriate, for benchmarking specific pay practices, and for assessing alignment of pay with performance. A list of the companies included in the Peer Reference Group also appears in Appendix B.

Setting Total Compensation Levels for 2011. Overall, the Committee seeks to provide a total direct compensation target opportunity (base salary, target bonus, and long-term incentive awards) for the Executive Officers that approximates the median level for similar positions in the Market Reference Group (Market Median[22])Total direct compensation target opportunities may be established at greater or lesser levels for individual Executive Officers based on performance factors, experience in the position, retention and succession planning considerations, or year-to-year swings in the market reference data. For 2011, total direct compensation opportunities for all Named Executive Officers approximated the median projected for the Market Reference Group. Within the total direct compensation opportunity for any Executive Officer, individual components of compensation may be greater or lesser than the median, because the Committee is primarily concerned with the competitiveness of the entire program versus any one element of compensation. Actual compensation realized can vary significantly from the target opportunity for any component of compensation or for total direct compensation based on Company or individual performance and Company stock price fluctuation. Consistent with market practice, and based on greater responsibility levels, Mr. McGlade s compensation is substantially more than that of other Executive Officers.

As part of the process for determining total direct compensation, the Committee also reviews tally sheets which detail the value, earnings, and accumulated potential payout of each element of an Executive Officer s compensation in various employment termination scenarios. The tally sheets help the Committee consider the retention value of an Executive Officer s accumulated compensation package, compare Executive Officers accumulated compensation, and understand the impact of their compensation decisions on various termination of employment scenarios.

Setting Performance Metrics for Incentive Compensation. The Committee annually reviews and establishes the performance measures, target goals, and payout schedules used for the Annual Incentive Plan and the performance share component of the long-term incentive program. In 2011, the Committee engaged Farient to do an in-depth analysis of the alignment of the performance goals with historic performance of the Company, the Peer Reference Group and the S&P 500, and projected performance for the Company. After this review, the Committee determined to continue to use the performance goal levels in the chart on page 45, as they were aligned with Peer Reference Group goal setting trends and Company and Peer Reference Group and S&P 500 long-term performance trends. In determining actual performance against these metrics, the Committee decides whether to include or exclude the impact of items reported in the Company s financial statements that may distort underlying operating results for the current or a prior year.

22 Consistent with industry practice, Mercer considers total direct compensation within 15% of median to be competitive. This margin allows for year-to-year swings in data than can occur based on a number of factors unrelated to underlying compensation strategy.

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Components of Compensation

Within the competitive target value for an Executive Officer s total direct compensation established by the Committee, the Committee determines the individual compensation components of the program.

Base Salary. Base salary is generally targeted at the Market Median, with adjustment where the Committee believes appropriate for proficiency, performance, experience, and the uniqueness of the responsibilities held by certain Executive Officers. For 2011, all Named Executive Officers base salaries were approximately at median. The Named Executive Officer salaries approved for the year appear in the Summary Compensation Table on page 51.

Mr. McGlade received no increase in base salary for fiscal year 2011. Messrs. Huck and Dixon received modest increases consistent with the Company s overall annual salary adjustment ranges and the Market Median target. Messrs. Jones and Stanley received increases of 18% and 29%, respectively, as their base salaries were significantly below the Market Median for their positions due to their relatively recent assumption of their responsibilities and because no salary increases were made for fiscal year 2010.

Annual Incentive Plan. Target annual incentive opportunities under the Annual Incentive Plan are intended to approximate the Market Median. Targets may be established at greater or lesser levels for individual Executive Officers based on performance factors, internal equity, experience in the position, or year-to-year swings in the market data. Actual incentive awards may be above or below target depending upon the Company s fiscal year performance as measured by the performance measures and goals established by the Committee at the beginning of the fiscal year. When performance exceeds the target goals for the performance measures, annual incentive awards may exceed target as well, and may exceed Market Median payouts. Actual annual incentive awards can range from 0% to 230% of target. Over the past five years, Executive Officer awards have ranged from 0 to 208% of target.

Determination of annual incentive awards is a multi-step process which begins with establishing target opportunities. At the beginning of the year the Committee determined Executive Officer target annual incentive awards as a percentage of each Executive Officer s base salary based on the Market Reference Group competitive assessment.

Fiscal Year 2011. For fiscal year 2011, the target award levels for the Named Executive Officers were as follows:

Officer	**% of Base Salary**
J. E. McGlade	120%
P. E. Huck	80%
S. J. Jones	70%
R. D. Dixon	70%
J. D. Stanley	60%

Target annual incentive awards as a percentage of base salary for all Named Executive Officers approximated Market Median, except for Mr. Stanley s, which was below median for his position to maintain consistency among corporate staff positions.

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An Executive Officer s actual award is determined by multiplying the Executive Officer s target award by a payout factor which is derived from the performance measures, goal levels, and payout scales established by the Committee at the beginning of the fiscal year. As described above, for fiscal year 2011 the Committee selected EPS Growth and ROCE Spread as the performance measures for the Plan. The weightings and target to maximum factors for each measure are set out below. (Factors are interpolated between points.) Below target performance results in below target factors. (Factors are zero at -10% for EPS Growth and <0 for ROCE Spread.)

2011 Factor Schedule Excerpts			
Weighted at 60%		Weighted at 40%	
% EPS Growth	Factor	ROCE Spread	Factor
16.0% or Greater	2.00	5% or Greater	2.00
15%	1.80	4%	1.50
13%	1.60	3%	1.00
12%	1.45		
11%	1.30		
10%	1.20		
9%	1.00		

The payout factor range is determined by a formula using the EPS Growth Factor and ROCE Spread Factor derived from the Factor Schedules based on Company performance. For fiscal year 2011, EPS Growth was 14.1% and the ROCE Spread was 4.8%.[23] The table below shows the target goals, actual performance, associated factor, and weight.

Metric	Target	Actual	Factor	Weight
EPS Growth	9%	14.1	1.71	60%
ROCE Spread	3%	4.8	1.90	40%

The unadjusted payout factor, based solely on the financial results, was 1.79. The payout range determined under the formula was 1.49 to 2.09. Actual payout factors are adjusted within the range by the Committee based on Company and individual performance. Variables that the Committee considers with respect to Company performance include the operating results for the year (described on pages 28 and 29 for 2011) and performance against nonfinancial objectives such as safety, sustainability, diversity, and continuous improvement. Individual performance variables that factor into the Committee s determination include subjective, qualitative judgments with respect to the contribution of the individual for the year; efforts toward specific Company objectives; and, in the case of operating managers, the performance of their segment versus the internal operating plan for the year. Although the Committee can determine a payout factor for individual Named Executive Officers up to the maximum of the range or down to 0, it is the Committee s intent that 75% of their individual awards be based on overall Company performance, because each Named Executive Officer participates in enterprise-level management and is expected to prioritize the interests of the enterprise over their own organization.

23 In determining fiscal year 2011 EPS Growth and ROCE Spread performance, the Committee excluded certain extraordinary costs from fiscal year 2011 and 2010 results. See Appendix A for a reconciliation to GAAP measures.

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For 2011, the Committee determined an overall Company payout factor of 1.79, which was the unadjusted payout factor based on the Company s financial performance. The Committee determined not to increase or decrease the overall payout factor within the payout range after considering Company progress towards diversity, safety, and other nonfinancial considerations. The overall Company payout factor is used to establish the award pool for the approximately 350 employees eligible for Annual Incentive Plan awards, generally determines the 75% Company performance element of the Named Executive Officer awards, and is the starting point for determining the 25% individual performance component of Named Executive Officer awards.

After reviewing the individual contributions of the Named Executive Officers to the Company s operational and strategic successes in fiscal year 2011, the Committee determined the 25% individual performance component of their awards. While recognizing his leadership in delivering the overall excellent year for the Company, the Committee decreased Mr. McGlade s individual performance payout factor slightly from the overall Company payout factor to acknowledge disappointing productivity in certain businesses. The Committee determined not to adjust Mr. Huck s award, concluding it was appropriate for the CFO s award to be driven by the overall financial results of the Company. Mr. Jones and Mr. Dixon s individual performance payout factors were increased and decreased from the overall Company factor, respectively, reflecting the operating performance of their segments. Mr. Stanley s factor was also increased to recognize his contributions to enterprise-level management and the successful resolution of several complex legal matters during the year. Fiscal year 2011 bonuses determined for Named Executive Officers appear in the Nonequity Incentive Plan Compensation column of the Summary Compensation Table on page 51.

Long-Term Incentives. The Committee believes long-term incentive compensation is a critical part of Executive Officer compensation because it creates alignment with shareholders and promotes achievement of longer term financial and strategic objectives. In recent years the Committee has selected three balanced components for the Executive Officer s long-term incentives: stock options to directly reward executives for increases in stock price; restricted stock which links Executive Officers interests to total shareholder return and provides a retention incentive; and performance shares which are conditioned on performance over a three-year period to provide focus on medium-term goals (for fiscal year 2011 grants, average EPS Growth and ROCE Spread from fiscal year 2011 through fiscal year 2013). The current mix of long-term compensation for Executive Officers is 50% stock options, 25% restricted stock, and 25% performance shares. The Committee chose this mix of stock options, restricted stock, and performance shares to provide a balance of stock-based compensation that rewards successful outcomes for long-term and medium-term decision making and provides retention incentives. Because all components of the long-term incentive opportunity are delivered in Company stock-based awards, they all become more or less valuable with changes in Company stock value that affect shareholders.

The Committee determined the level of long-term incentive grants for fiscal year 2011 at the beginning of the fiscal year. Prior to making the grants, the Committee established an intended long-term incentive value for each Executive Officer. When setting these intended values, the Committee considers the Market and Peer Reference Group competitive data and target total direct compensation opportunities for each Executive Officer. It is the Committee s intent that the long-term incentive value approximate the Market Median award and bring the total direct compensation opportunity for each Executive Officer to approximately the Market Median level when combined with base salary and target Annual Incentive Plan awards. The Committee has determined that this important element of compensation should target the median level to ensure attraction and retention of talented and experienced managers who have a choice about where they work.

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Individual performance or other factors may result in awards which are above or below the Market Median. These factors include tenure and experience, succession planning and retention concerns, subjective evaluations of performance, historical grant levels, and other recent compensation actions with respect to the individual such as special one-time retention awards. For 2011, all intended long-term incentive values approximated Market Median. All Named Executive Officers received increases in intended long-term incentive values for 2011 consistent with Market Median positioning. Intended long-term incentive values for the Named Executive Officers are reflected in the chart on page 38. The actual value realized may differ significantly (up or down) from the intended value due to Company stock price performance over the life of the awards, total shareholder return in the case of performance shares and restricted stock, and the extent to which performance goals are met in the case of performance shares.

Granting Practices. Equity compensation awards to Executive Officers and other management employees under the Company s Long-Term Incentive Plan (except for off-cycle recruiting and retention awards) are granted as of the first NYSE business day in the month of December. Recruiting grants are issued as of the first day of employment and priced at the closing market value on that date. Off-cycle retention grants are made occasionally in response to extraordinary retention needs that arise during the year.

Stock Options. Stock options are granted with an exercise price equal to the closing market value on the grant date, have a ten-year term, and vest ratably over the first three years of the term. Executive Officers are required to retain 50% of the net shares of Company stock received upon exercise for one year following exercise. The number of stock options awarded to the Named Executive Officers for fiscal year 2011 appears in the Grants of Plan-Based Awards table on page 54. In determining the number of stock options to grant, the Committee uses a stock option valuation model provided by Mercer. The value of stock option grants, as calculated using this model, approximates 50% of the Named Executive Officers total intended long-term incentive value. The actual value realized is dependent on stock price appreciation.

Restricted Stock. Restricted stock awards are shares of Company common stock that possess voting and dividend rights but are subject to restrictions on transferability and forfeitable until vesting. The vesting conditions provide an incentive for retention, and the value of this compensation element increases or decreases in direct proportion to total shareholder returns. The amount of restricted stock granted to the Named Executive Officers in fiscal year 2011 is reflected in the Summary Compensation Table and the Grants of Plan-Based Awards table appearing on pages 51 and 54. Individual award amounts are determined by calculating the value (based on the closing market value of a share of the Company s stock on the grant date) to approximate 25% of the total intended long-term incentive value for the Executive Officer.

Performance Shares. The final component of the long-term incentive program is performance shares, which reinforce important medium-term objectives for the Company and also provide a link to total shareholder returns. Performance shares entitle the recipient to receive one share of Company stock and accumulated dividend equivalents for each performance share upon the satisfaction of performance objectives and other conditions to earning the award. Performance shares are granted each year with overlapping three-year performance cycles. The awards are paid out at the end of the three-year period based on performance, if threshold performance goals are met.

Payouts of performance shares range from 0% to 215% of the target level of shares awarded. The target level approximates 25% of each Named Executive Officer s total intended long-term incentive value, and is converted to shares based on the grant date closing market value of Company stock. The actual number of performance shares earned is determined by multiplying the target number of shares by a payout factor. A tentative payout factor is determined using the formula below, reflecting performance during the three-year performance period.

67% ROCE Spread Factor	+	33% EPS Growth Factor	=	Payout Factor

The ROCE Spread Factor and the EPS Growth Factor are determined based on average ROCE Spread and EPS Growth over the performance period under the same payout factor schedule used for the Annual Incentive Plan, which is excerpted above at page 45. The Committee may adjust the payout factor by 15 percentage points.

Grants in Fiscal Year 2011. For fiscal year 2011, performance shares were granted conditioned upon the Company s three-year performance towards the EPS Growth and ROCE Spread goals set by the Committee at the beginning of the year. The target number of performance shares granted to each Executive Officer for fiscal year 2011 was as follows:

Officer	Target Shares
J. E. McGlade	16,639
P. E. Huck	4,340
S. J. Jones	2,199
R. D. Dixon	2,199
J. D. Stanley	2,155

2011 Payout for FY2009-2011 Performance. The Committee also established payout levels for performance shares granted in fiscal year 2009 which were tied to average ROCE Spread and EPS Growth performance from fiscal years 2009-2011. The formula above was applied and the EPS Growth and ROCE Spread factors were determined using the following schedule (the factors are interpolated for average ROCE Spread and EPS Growth results between the performance levels indicated):

Weighted at 67% ROCE Spread	Factor	Weighted at 33% EPS Growth	Factor
4% or Greater	2.00	16% or Greater	2.00
3%	1.50	15%	1.80
2%	1.00	12%	1.45
1%	0.75	9%	1.00
0%	0.50	4%	0.50
<0%	0.00	-10%	0.00

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The average ROCE Spread over the performance period was 3.6% and the average EPS Growth was 6.8%; so the payout level was 146% of the target shares.[24] Performance share payouts are not differentiated on an individual employee basis.

Special Retention Grants. In response to unique situations, the Company may make special equity grants in the form of deferred stock units to Executive Officers to assure retention of the talent necessary to manage the Company successfully. No special retention grants were made in 2011.

Employee Benefit Plans

Our employee benefit programs are offered to be competitive and to provide reasonable security for Executive Officers and other employees to enable them to perform at their best. Welfare and retirement benefits are offered at essentially the same level to all U.S. salaried employees, including Executive Officers.

Retirement Benefits. The Named Executive Officers participate in the Company s generally available U.S. salaried retirement programs. The Company maintains qualified retirement programs for its salaried employees, including a defined benefit pension plan and a savings and profit sharing plan. The Company also maintains a nonqualified pension plan and nonqualified deferred compensation plan in which the Executive Officers and other eligible employees participate. The plans are discussed in more detail below in the narrative accompanying the Pension Benefits table on page 60 and the Nonqualified Deferred Compensation table on page 62.

Welfare Benefits. The Company provides medical and dental coverage, life insurance, and disability insurance to Executive Officers under the same programs offered to all salaried employees. All participating employees pay a portion of the cost of these programs.

Severance and Change in Control Arrangements. Executive Officer severance and change in control arrangements are provided to support major corporate and management transitions. The Committee believes these arrangements provide benefit to the Company and its shareholders. The Committee periodically reviews these arrangements in depth for market competitiveness and appropriateness for the Company s business.

Severance. All Named Executive Officers participate in the Corporate Executive Committee Separation Program. This program is intended to facilitate changes in the leadership team by establishing terms for the separation of an Executive Officer in advance, allowing a smooth transition of responsibilities when it is in the best interests of the Company. It also enables the Company to recruit new executives without providing individual employment agreements for them because the Program provides reasonable protection to the new executive in the event that he or she is not retained. Details of the Program are provided on pages 64-66.

Change in Control Arrangements. To enable the management team to negotiate effectively for shareholders without concern for their own future in the event of any actual or threatened change in control of the Company, the Company has entered individual change in control severance agreements for each of the Named Executive Officers. The agreements give each Named Executive Officer specific rights and benefits if, following a change in control, his employment is terminated by the Company without cause (as defined) or he terminates employment for good reason (as defined). Details of the agreements are described below on pages 67-69. No changes

24 In determining performance, the Committee excluded certain extraordinary items. See Appendix A for a reconciliation to GAAP measures.

were made to the agreements during 2011 for continuing Executive Officers; however, the Committee determined to modify the agreements for new Executive Officers to eliminate reimbursement of excise taxes.

Additional Policies

Executive Officer Stock Ownership. The Committee has approved ownership guidelines that require Executive Officers to achieve an ownership stake in the Company that is significant in comparison with the Executive Officer s salary. The ownership guidelines are five times base salary for the CEO and three times base salary for the other Named Executive Officers. The Executive Officers are expected to achieve the specified ownership level within five years of assuming their position. Executive Officers may count toward these requirements the value of shares owned, share equivalents held in their Retirement Savings Plan (401(k)) accounts, performance shares, restricted shares, and deferred stock units which are fully vested and held in the Company s nonqualified deferred compensation plan. Stock options are not counted. All Named Executive Officers are currently in compliance with this policy.

Hedging Policy. It is the policy of the Company that Executive Officers may not purchase or sell options on Company stock; engage in short sales with respect to Company stock; or trade in puts, calls, straddles, equity swaps, or other derivative securities that are directly linked to Company stock.

Clawback Policy. The Company s equity plans and agreements provide that awards may be cancelled and that certain gains will be clawed back (*i.e.*, must be repaid to the Company) if an Executive Officer engages in activity that is detrimental to the Company, such as performing services for a competitor, disclosing confidential information, or violating Company policies. The Committee has also adopted a policy allowing the clawback of cash incentive payments and performance shares in the event an Executive Officer s conduct leads to a restatement of the Company s financial results. The Committee may, in its discretion, seek to recoup any bonus or incentive compensation paid to an Executive Officer if (i) the amount of such payment was based on the achievement of certain financial results that were subsequently the subject of a restatement, (ii) the Committee determines that the Executive Officer engaged in misconduct that resulted in the obligation to restate, and (iii) a lower payment would have been made to the Executive Officer based upon the restated financial results.

Perquisites. The Company provides minimal perquisites to executives. The Committee has approved Mr. McGlade s use of corporate aircraft for personal travel in order to mitigate security concerns, preserve the confidentiality of his work, and maximize the time he is able to spend on the Company s business. Mr. McGlade is responsible for any taxes on this usage. The Committee believes the benefits of security, confidentiality, and efficiency achieved outweigh the expense to the Company and are in the best interest of shareholders. No other perquisites were provided to the Named Executive Officers.

International Assignment Policy. The Company s International Assignment Policy, which applied to Mr. Jones this year due to his relocation to China, is designed to facilitate the relocation of employees to positions in other countries by covering expenses over and above those that the employees would have incurred had they remained in their home countries. International assignments and relocations provide a key means for the Company to meet its global employee development and resource needs, and the International Assignment Policy ensures that employees have the necessary financial support to help meet cost differences associated with these assignments. The International Assignment Policy covers housing, home leave, relocation, tax equalization, and education expenses, as well as other program allowances.

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EXECUTIVE COMPENSATION TABLES

2011 Summary Compensation Table

Name and Principal Position	Year	Salary	Stock Awards (2)	Option Awards (3)	Nonequity Incentive Plan Compen- sation (4)	Changes in Pension Value and Nonqualified Deferred Compen- sation Earnings (5)	All Other Compen sation (6)
	2011	$ 1,200,000	$ 4,024,841	$ 3,457,048	$ 2,546,000	$ 2,162,202	$ 142,91
nt, and Chief Executive Officer	2010	$ 1,200,000	$ 3,849,914	$ 3,653,323	$ 2,746,000	$ 5,306,087	$ 162,68
	2009	$ 1,200,000	$ 2,914,005	$ 5,634,846	0	$ 1,506,800	$ 123,01
	2011	$ 675,000	$ 1,049,811	$ 901,834	$ 967,000	$ 908,733	$ 20,90
l Chief Financial Officer	2010	$ 650,000	$ 909,869	$ 863,509	$ 946,000	$ 228,185	$ 21,10
	2009	$ 650,000	$ 688,626	$ 1,331,858	0	$ 412,276	$ 20,64
	2011	$ 470,000	$ 531,921	$ 422,608	$ 596,000	$ 240,293	$ 447,93
dent and General Manager Tonnage Gases, Equipment & Energy and China President(1)	2010	$ 400,000	$ 954,774	$ 419,841	$ 470,000	$ 302,860	$ 38,06
	2011	$ 470,000	$ 531,921	$ 422,608	$ 574,000	$ 616,611	$ 17,69
dent and General Manager Merchant Gases	2010	$ 460,000	$ 454,817	$ 419,841	$ 522,000	$ 766,774	$ 20,31
	2009	$ 460,000	344,242	$ 645,400	0	$ 453,177	$ 15,46
dent and General Counsel	2011	$ 450,000	$ 521,277	$ 414,273	$ 490,000	$ 699,837	$ 13,41

(1) Mr. Jones was not a Named Executive Officer in 2009; so his compensation is not shown for that year. Mr. Stanley was not a Named Executive Officer in 2009 or 2010, so his compensation is not shown for those years.

(2) This column shows the grant date fair value of restricted stock, deferred stock units, and performance shares granted in the fiscal year indicated. Generally, the expense for these awards is recognized over the vesting or performance period, unless the recipient is eligible for retirement, in which case the expense may be required to be recognized entirely in the year of grant. The calculation of these amounts disregards any estimate of forfeitures related to time-based conditions. The assumptions for the valuation determinations are set forth in footnote 18 to our financial statements included in Form 10-K filed with the SEC

on November 22, 2011. Additional information regarding these awards is set out in the Grants of Plan-Based Awards and Outstanding Equity Awards tables and accompanying notes. Performance shares granted in 2011 are shown at 180% of target earn out which is the value used in the financial statements as of the grant date and is based on probable outcomes. The value of these awards as included and at maximum value is as follows:

Officer	Value Included	Maximum Value
J. E. McGlade	$ 2,587,398	$ 3,090,516
P. E. Huck	$ 674,879	$ 806,105
S. J. Jones	$ 341,949	$ 408,452
R. D. Dixon	$ 341,949	$ 408,452
J. D. Stanley	$ 335,107	$ 400,245

(3) This column shows grant date fair value of stock options granted in the fiscal year indicated, disregarding any estimate of forfeitures relating to time-based vesting. Generally, the expense for option awards is recognized over the vesting period, unless

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the recipient is eligible for retirement, in which case it may be required to be recognized entirely in the year of grant. The assumptions for the valuation determination are set forth in footnote 18 to our financial statements included in Form 10-K filed with the SEC on November 22, 2011. Additional information regarding these awards is set forth in the Grants of Plan-Based Awards and Outstanding Equity Awards tables and accompanying footnotes.

(4) Amounts in this column reflect Annual Incentive Plan awards. At their election, Executive Officers may defer awards received under this Plan. Amounts deferred are also reflected as Executive Contributions in the Nonqualified Deferred Compensation table.

(5) Amounts in this column reflect the annual change in the actuarial present value of each Named Executive Officers accumulated tax qualified and nonqualified pension benefits and interest considered to be above market interest credited to their Deferred Compensation Plan balances. Interest is calculated for the Deferred Compensation Plan accounts using a Moody s A-rated Corporate Bond Rate because this is comparable to the rate the Company pays its other creditors on long-term obligations. When this rate exceeds 120% of a rate set by the U.S. Internal Revenue Service, it is treated as above market interest, even though it is based on a market average for corporate bonds. The amounts included as above market interest were as follows:

J. E. McGlade	$ 12,965
P. E. Huck	$ 28,646
S. J. Jones	$ 3,745
R. D. Dixon	$ 3,330
J. D. Stanley	$ 681

The pension accrual amounts represent the difference between the September 30, 2010 and September 30, 2011 actuarial present value of accumulated benefits under the Company s tax qualified and nonqualified pension plans. These amounts are detailed in the chart below:

J. E. McGlade	$ 2,149,237
P. E. Huck	$ 880,087
S. J. Jones	$ 236,548
R. D. Dixon	$ 613,281
J. D. Stanley	$ 699,156

Additional information on how these amounts are calculated is included in the notes accompanying the Pension Benefits table.

(6) Amounts shown in this column are detailed in the chart below.

	Contributions Under Defined Contribution Plans	Group Term Life Insurance Premiums	International Assignment Policy(1)	Tax Reimbursements(2)	Perquisites or Personal Benefits(3)
J. E. McGlade	$ 36,000	$ 852		$ 12,977	$ 93,081
P. E. Huck	$ 20,048	$ 852		$	$
S. J. Jones	$ 64,105	$ 771	$ 382,664	$ 391	$
R. D. Dixon	$ 14,019	$ 797		$ 2,881	$
J. D. Stanley	$ 12,693	$ 724		$	$

(1) Mr. Jones is on temporary international assignment to China in support of our operations and business development initiatives there. In connection with this assignment, the Company s standard International Assignment Policy provides an assignment acceptance premium and covers expenses over and above those Mr. Jones and his family would have incurred if they remained in the U.S. This amount includes assignment acceptance premium, $117,500; tuition for

children to attend school taught in English, $62,653; travel to and from China, $60,594; housing, $50,850; net Chinese taxes, $27,984; shipment of household goods, $14,011; and other miscellaneous items, $49,072.

(2) These amounts represent payments that the Company has made to the Named Executive Officers to cover taxes incurred by them for certain business-related taxable expenses, specifically, spousal travel to and attendance at Company-related events; and tax reimbursements made to Mr. Jones under the International Assignment Policy.

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(3) The amount included in this column is the incremental cost to the Company of Mr. McGlade s personal use of the corporate aircraft. The incremental cost is calculated as the sum of: (a) flight specific costs such as landing fees and fuel, and (b) certain variable costs of maintaining the aircraft calculated by multiplying the flight hours attributable to Mr. McGlade s personal use by the prior year s average hourly rate for these costs. The valuation also includes these costs with respect to return flights with no passengers that are associated with Mr. McGlade s personal travel. Fixed costs such as pilot compensation and depreciation are not included as the aircraft is primarily used for business purposes, and the Company would incur these costs regardless of Mr. McGlade s personal use. Mr. McGlade s family members traveled with Mr. McGlade on some of the flights reflected; however, no incremental cost to the Company arises from their accompanying Mr. McGlade.

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2011 Grants of Plan-Based Awards

		Estimated Future Payouts Under Nonequity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards (#)			All Other Stock Awards: Number of Shares of Stock or	All Other Option Awards: Number of Securities Underlying	Exercise or Base Price of Option Awards
pe	Grant Date	Threshold	Target	Maximum	Threshold	Target	Maximum	Units(#)	Options(#)	($/Sh)
ve Plan		$ 0	$ 1,440,000	$ 3,312,000						
hares	12/1/2010				0	16,639	35,774			
	12/1/2010								133,117	$ 86.39
es	12/1/2010							16,639		
ve Plan		$ 0	$ 540,000	$ 1,242,000						
hares	12/1/2010				0	4,340	9,331			
	12/1/2010								34,726	$ 86.39
es	12/1/2010							4,340		

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (C

(Unaudited)

The Notes are convertible at an initial conversion rate of 10.774 common stock per $1,000 principal amount of the Notes, which to a conversion price of approximately $92.81 per share. The co is subject to adjustment under certain circumstances. Holders m the Notes under the following circumstances: during any calend after the calendar quarter ending on June 30, 2017 if the closing Company s common stock for at least 20 trading days in the 30 trading days ending on the last trading day of the preceding cale is greater than or equal to 130% of the conversion price of the N the five business day period after any ten consecutive trading da measurement period) in which the trading price per $1,000 p of notes for each trading day of the measurement period was les of the product of the closing sale price of our common stock and conversion rate on each such trading day; if specified distributio corporate events occur; if the Notes are called for redemption; o after December 1, 2021. The Company may redeem all or any p Notes, at its option, on or after March 6, 2020, if the last reporte of the Company s common stock has been at least 130% of the price then in effect for at least 20 trading days during any 30 co trading day period. Upon conversion, the Notes may be settled i shares of the Company s common stock or a combination of ca at the Company s election.

The principal balance of the Notes was separated into liability a components, and was recorded initially at fair value. The excess principal amount of the liability component over its carrying am represents the debt discount, which is amortized to interest expe term of the Notes using the effective interest method. The carry of the liability component was estimated by discounting the con flows of similar non-convertible debt at an appropriate market r date of issuance.

The Company incurred debt issuance costs of approximately $1 which was allocated to the liability and equity components in pr the allocation of the proceeds. The costs allocated to the liability are being amortized as interest expense over the term of the Not effective interest method.

The carrying amount of the Notes consisted of the following (in

	April 1, 2017
Liability component	
Principal	$ 400,000
Unamortized debt discount	(58,561)
Unamortized debt issuance costs	(8,937)
Net carrying amount	$ 332,502
Equity component	
Net carrying amount	$ 57,718

The liability component of the Notes is recorded in long-term de
Consolidated Balance Sheet. The equity component of the Note
in additional paid-in capital. The effective interest rate for the li
component was 4.75%. As of April 1, 2017, the remaining perio
the debt discount and debt issuance costs will be amortized was

Interest expense related to the Notes was comprised of the follo
thousands):

	Three Months Ended April 1, 2017
Contractual interest expense	$ 382
Amortization of debt discount	754
Amortization of debt issuance costs	115
	$ 1,251

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (C

(Unaudited)

Amended Credit Agreement

On July 31, 2012, the Company and certain of its domestic subs
Guarantors) entered into a $230 million five-year Credit Agr
Credit Agreement), which consisted of a $100 million Term
and a $130 million Revolving Credit Facility. On July 24, 2015
Company and the Guarantors amended the Credit Agreement (th
Credit Agreement) in order to, among other things, increase th
capacity under the Revolving Credit Facility to $300 million (th
Facility), eliminate the Term Loan Facility and extend the mat
five years from the closing date. On July 24, 2015, the Company
$82.5 million under the Amended Credit Agreement and paid of
remaining balance of its Term Loan Facility. In connection with
Company s offering of the Notes, it entered into a second amen
Credit Agreement (the Second Amended Credit Agreement)
remaining balance of $72.5 million.

The Second Amended Credit Agreement retained the key terms
provisions of the first Amended Credit Agreement, including a $
letter of credit sublimit and a $10 million swingline loan sublim
Company also has an option to increase the size of the borrowin
up to an aggregate of $200 million in additional commitments, s
certain conditions.

The Revolving Credit Facility, other than swingline loans, will b
at the Eurodollar rate plus an applicable margin or, at the option
Company, a base rate (defined as the highest of the Wells Fargo
the Federal Funds rate plus 0.50% and the Eurodollar Base Rate
plus an applicable margin. Swingline loans accrue interest at the
plus the applicable margin for base rate loans. The applicable m
Eurodollar rate loans range from 1.25% to 2.00% and for base r
range from 0.25% to 1.00%, depending in each case, on the leve
defined in the Agreement.

The Second Amended Credit Agreement contains various condi
covenants and representations with which the Company must be
compliance in order to borrow funds and to avoid an event of de
including financial covenants that the Company must maintain a

ratio (funded debt/EBITDA) of no more than 3.00 to 1 and a mi
charge coverage ratio (EBITDA/interest payments, income taxe
expenditures) of no less than 1.25 to 1. As of April 1, 2017, the
was in compliance with all covenants of the Second Amended C
Agreement. The Company s obligations under the Se
Amended Credit Agreement are guaranteed by the C
and are secured by a security interest in substantially
of the Company and the Guarantors.

8. Stockholders Equity

Common Stock

The Company issued 0.5 million shares of common stock durin
months ended April 1, 2017.

Share Repurchase Programs

The Board of Directors authorized the following share repurcha
(in thousands):

Program Authorization Date	Program Termination Date	Program Amount
January 2017	December 2017	$ 100,000
August 2015	December 2016	$ 100,000

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (C

(Unaudited)

These programs allow for repurchases to be made in the open m
private transactions, including structured or accelerated transact
to applicable legal requirements and market conditions. The Co
not repurchase any shares of its common stock durin
months ended April 1, 2017. The Company repurcha
million shares of its common stock for $18.5 millior
the three months ended April 2, 2016. These shares
retired upon repurchase.

Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (
taxes, were as follows (in thousands):

		Unrealized Gain on Cash Flow Hedge		Net Unrealized L on Available-For Securities
Balance at December 31, 2016	$	1,175	$	(
Other comprehensive income (loss) before reclassifications				
Amount reclassified from accumulated other comprehensive income (loss)		(1,175)		
Net change for the period		(1,175)		
Balance at April 1, 2017	$		$	(

Reclassifications From Accumulated Other Comprehensive Inco

The following table summarizes the effect on net income from
reclassifications out of accumulated other comprehensive incom
thousands):

Reclassification	Three Months Ended April 1, 2017	April 2, 2016
Gains (losses) on cash flow hedges to:		
Interest expense	$ 1,808	$ (66)
Income tax benefit	(633)	23
Total reclassifications	$ 1,175	$ (43)

9. Stock-Based Compensation

In fiscal 2009, the stockholders of the Company approved the 2(Incentive Plan (the 2009 Plan) and the 2009 Employee Stock (the 2009 Purchase Plan). In fiscal 2014, the stockholders of approved amendments to both the 2009 Plan and the 2009 Purcl The amendments authorized additional shares of common stock to comply with changes in applicable law, improve the Compan governance and to implement other best practices. The amendec currently effective.

Stock-based compensation costs are based on the fair values on grant for stock awards and stock options and on the date of enro the employee stock purchase plans. The fair values of stock awa RSUs, performance stock units (PSUs) and restricted stock awa are estimated based on their intrinsic values. The fair values of I estimated using a Monte Carlo simulation. The fair values of sto and employee stock purchase plans are estimated using the Blac option-pricing model.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (C

(Unaudited)

The following table presents details of stock-based compensatio
recognized in the Condensed Consolidated Statements of Incom
thousands):

	Three Months Ended	
	April 1, 2017	April 2, 2016
Cost of revenues	$ 258	$ 266
Research and development	5,246	4,910
Selling, general and administrative	4,982	5,168
	10,486	10,344
Income tax benefit	5,282	2,236
	$ 5,204	$ 8,108

The increase in income tax benefit in the three months ended Ap
was primarily due to the recognition of excess tax benefits in co
with the Company s adoption of ASU 2016-09. The Company
approximately $88.8 million of total unrecognized compensatio
related to granted stock options and awards as of April 1, 2017 t
expected to be recognized over a weighted-average period of ap
2.5 years. There were no significant stock-based compensation c
capitalized into assets in any of the periods presented.

10. Commitments and Contingencies

Patent Litigation

On January 21, 2014, Cresta Technology Corporation (Cresta
Delaware corporation, filed a lawsuit against the Company, San
Electronics Co., Ltd., Samsung Electronics America, Inc., LG E
Inc. and LG Electronics U.S.A., Inc. in the United States Distric
District of Delaware, alleging infringement of three United Stat
(the Cresta Patents). The Delaware District Court action has

The Company challenged the validity of the claims of the Cresta
through a series of *Inter-Partes* Review (IPR) proceedings at the
and Appeal Board (PTAB) of the United States Patent and Trad
(USPTO). On October 21, 2015, the USPTO issued final writter
on a first set of reviewed claims finding all of the reviewed clai
The Federal Circuit summarily affirmed the USPTO s first dete
November 8, 2016 and the mandate issued on December 16, 20
the USPTO s determination final.

On August 11, 2016, the PTAB issued its final written decisions
proceedings against a second set of claims in the Cresta Patents
these claims unpatentable. On October 13, 2016, the patent own
known as CF Crespe LLC, filed a notice of appeal with the Fede
That appeal is currently pending. No hearing date has been set.

On March 18, 2016, Cresta Technology filed for chapter 7 bank
United States Bankruptcy Court for the Northern District of Cal

On May 13, 2016, the Bankruptcy Court approved an agreemen
Credit Funding LLC (DBD) to buy Cresta Technology s ent
and certain related litigation. Following that sale, DBD (through
assignee, CF Crespe LLC) has substituted in the Delaware Distr
action and the appeal proceedings at the U.S. Court of Appeals
Federal Circuit for the second set of IPRs.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (C

(Unaudited)

On July 16, 2014, the Company filed a lawsuit against Cresta T the United States District Court in the Northern District of Calif alleging infringement of six United States Patents. The Compan a permanent injunction and an award of damages and attorney f result of the chapter 7 bankruptcy filing by Cresta Technology, proceedings were stayed. However, as a result of the May 13, 2 order by the Bankruptcy Court, DBD and CF Crespe LLC were substitute in as Defendant for Cresta Technology. DBD and CF have appealed the Bankruptcy Court s order in that regard. Sub appeal, the Company s patent infringement trial against DBD a LLC is set to begin October 2, 2017.

As is customary in the semiconductor industry, the Company pr indemnification protection to its customers for intellectual prop related to the Company s products. The Company has not accru material liability on its Consolidated Balance Sheet related to su indemnification obligations in connection with the Cresta Tech litigation.

The Company intends to continue to vigorously defend against Technology s (now DBD and CF Crespe LLC s) allegations a pursue its claims against DBD and CF Crespe LLC and their pa time, the Company cannot predict the outcome of these matters resulting financial impact to it, if any.

Other

The Company is involved in various other legal proceedings th in the normal course of business. While the ultimate results of t cannot be predicted with certainty, the Company does not expe have a material adverse effect on its Consolidated Financial Sta

11. Related Party Transactions

In August 2016, Bill Bock, a member of the Company s board joined the board of directors of Spredfast. Spredfast has been a t of the buildings at the Company s headquarters in Austin, Texa May 2013. During the three months ended April 1, 20 April 2, 2016, the Company received payments from of $0.9 million and $0.8 million, respectively, in con with the leased facilities.

12. Income Taxes

Provision (benefit) for income taxes includes both domestic and income taxes at the applicable tax rates adjusted for non-deduct expenses, research and development tax credits and other perma differences. Income tax expense was $(2.0) million an million for the three months ended April 1, 2017 and 2016, resulting in effective tax rates of (14.6)% and respectively. The effective tax rate for the three mon April 1, 2017 decreased from the prior period prima excess tax benefits from stock-based compensation f adoption of ASU 2016-09 offset by a decrease in the tax rate benefit.

On July 27, 2015, the U.S. Tax Court (the Court) issued an o Corp. v. Commissioner related to the treatment of stock-based c expense in an intercompany cost-sharing arrangement. A final entered by the Court on December 1, 2015. In its opinion, the C accepted Altera s position of excluding stock-based compensat cost-sharing arrangement and concluded that the related U.S. Tr Regulations were invalid. In February 2016, the U.S. Internal R Service (the IRS) appealed the decision to the U.S Court of A Ninth Circuit. Although the IRS has appealed the decision, and Treasury has not withdrawn the requirement to include stock-ba compensation from its regulations, based on the facts and circum the Tax Court Case, the Company believes that it is more likely the Tax Court decision will be upheld. Therefore, the Company reflect the effects of the decision in its Condensed Consolidated Statements. This change to cost-sharing is expected to increase Company s cumulative foreign earnings at the time of final reso case. As such, the Company continues to accrue a deferred tax l the U.S. tax cost of potential repatriation of the associated forei because at this time, the Company cannot reasonably conclude t have the ability and intent to indefinitely reinvest these continge The overall net impact on the Company s Condensed Consolid Statements is not material. The Company will continue to moni developments and potential impacts to its Consolidated Financi

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (C

(Unaudited)

As of April 1, 2017, the Company had gross unrecognized tax b
$3.6 million, of which $2.2 million would affect the effective ta
recognized.

The Company recognizes interest and penalties related to unreco
benefits in the provision (benefit) for income taxes. These amo
material for any of the periods presented.

Tax years 2012 through 2016 remain open to examination by th
taxing jurisdictions to which the Company is subject. The Comp
currently under audit in any major taxing jurisdiction.

The Company believes it is reasonably possible that the gross u
tax benefits will decrease by approximately $1.9 million in the
months due to the lapse of the statute of limitations applicable t
deductions and tax credits claimed on prior year tax returns.

Item 2. Management s Discussion and Analysis of Financia and Results of Operations

The following discussion and analysis of financial condition an
operations should be read in conjunction with the Condensed C
Financial Statements and related notes thereto included elsewhe
report. This discussion contains forward-looking statements. Pl
Cautionary Statement above and Risk Factors below for d
uncertainties, risks and assumptions associated with these state
fiscal year-end financial reporting periods are a 52- or 53-week
that ends on the Saturday closest to December 31. Fiscal 2017 w
weeks and fiscal 2016 had 52 weeks. Our first quarter of fiscal 2
April 1, 2017. Our first quarter of fiscal 2016 ended April 2, 20

Overview

We are a provider of silicon, software and solutions for the Inter Things (IoT), Internet infrastructure, industrial, consumer and a markets. We solve some of the electronics industry s toughest p providing customers with significant advantages in performance savings, connectivity and design simplicity. Mixed-signal integr (ICs) are electronic components that convert real-world analog s as sound and radio waves, into digital signals that electronic pro process. Therefore, mixed-signal ICs are critical components in addressing a variety of markets, including industrial, communic consumer and automotive.

As a fabless semiconductor company, we rely on third-party sen fabricators in Asia, and to a lesser extent the United States and E manufacture the silicon wafers that reflect our IC designs. Each contains numerous die, which are cut from the wafer to create a IC. We rely on third parties in Asia to assemble, package, and, i test these devices and ship these units to our customers. Testing by such third parties facilitates faster delivery of products to our (particularly those located in Asia), shorter production cycle tim inventory requirements, lower costs and increased flexibility of

Our expertise in analog-intensive, high-performance, mixed-sig software enables us to develop highly differentiated solutions th multiple markets. We group our products into the following cate

- Internet of Things (IoT) products, which in microcontroller (MCU), wireless, sensor and analog
- Broadcast products, which include our broa consumer and automotive products;
- Infrastructure products, which include our products (clocks and oscillators), and isolation devic
- Access products, which include our Voice (VoIP) products, embedded modems and our Power Ethernet (PoE) devices.

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Current Period Highlights

Revenues increased $17.0 million in the recent quarter compare
quarter of fiscal 2016, primarily due to increased revenues from
and Infrastructure products offset by decreases in re
from our Access and Broadcast products. Gross mar
increased $9.7 million during the same period due p
increased product sales. Gross margin as a percent o
decreased to 58.7% in the recent quarter compared t
the first quarter of fiscal 2016 primarily due to varia
product mix. Operating expenses increased $3.8 mil
recent quarter compared to the first quarter of fiscal
primarily to increased personnel-related expenses.

We ended the first quarter with $621.7 million in cash, cash equ
short-term investments. Net cash provided by operating activitie
million during the recent three-month period. Accounts receival
to $75.9 million at April 1, 2017 compared to December 31, 20
representing 38 days sales outstanding (DSO). Inventory increa
$61.3 million at April 1, 2017 compared to December 31, 2016,
75 days of inventory (DOI). On March 6, 2017, we comp
private offering of $400 million principal amount co
senior notes, and used $72.5 million of the proceeds
the remaining balance of our Amended Credit Agre

Through acquisitions and internal development efforts, we have
diversify our product portfolio and introduce new products and
with added functionality and further integration. On January 20
acquired Zentri, Inc., an innovator in low-power, cloud-connect
technologies for the IoT. See Note 6, *Acquisitions*, to the
Condensed Consolidated Financial Statements for ad
information.

In the first three months of fiscal 2017, we introduced new EFR
Gecko SoCs supporting a broad range of multiprotocol, multiba
EFM32® Gecko MCUs offering new security feature
memory options, higher peripheral integration and u
power consumption; and an enhanced Micrium® rea
operating system (RTOS) and new Platform Builder
to accelerate embedded design. We plan to continue
introduce products that increase the content we prov

existing applications, thereby enabling us to serve m
do not currently address and expand our total availal
opportunity.

During the three months ended April 1, 2017, we had
customer that represented more than 10% of our rev
addition to direct sales to customers, some of our en
customers purchase products indirectly from us thro
distributors and contract manufacturers. An end cust
purchasing through a contract manufacturer typically
such contract manufacturer to obtain our products an
incorporate such products with other components fo
such contract manufacturer to the end customer. Alt
actually sell the products to, and are paid by, the dis
and contract manufacturers, we refer to such end cus
our customer. Three of our distributors, Edom Techn
Avnet and Arrow Electronics, each represented mor
of our revenues during the three months ended April
There were no other distributors or contract manufac
accounted for more than 10% of our revenues during
months ended April 1, 2017.

The percentage of our revenues derived from outside of the Uni
was 86% during the three months ended April 1, 2017.
revenues to date have been denominated in U.S. dol
believe that a majority of our revenues will continue
derived from customers outside of the United States

The sales cycle for our ICs can be as long as 12 months or more
additional three to six months or more are usually required befo
ships a significant volume of devices that incorporate our ICs. D
lengthy sales cycle, we typically experience a significant delay b
incurring research and development and selling, general and adn
expenses, and the corresponding sales. Consequently, if sales in
do not occur when expected, expenses and inventory levels coul
disproportionately high, and our operating results for that quarte
potentially, future quarters would be adversely affected. Moreov
amount of time between initial research and development and
commercialization of a product, if ever, can be substantially lon
sales cycle for the product. Accordingly, if we incur substantial
development costs without developing a commercially successf
our operating results, as well as our growth prospects, could be
affected.

Because many of our ICs are designed for use in consumer prod
televisions, set-top boxes, radios and wearables, we expect that
for our products will be typically subject to some degree of seas

However, rapid changes in our markets and across our product a
difficult for us to accurately estimate the impact of seasonal fact
business.

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Results of Operations

The following describes the line items set forth in our Condense
Consolidated Statements of Income:

Revenues. Revenues are generated predominately by
our products. We recognize revenue on sales when a
following criteria are met: 1) there is persuasive evi
an arrangement exists, 2) delivery of goods has occu
the sales price is fixed or determinable, and 4) colle
reasonably assured. Generally, we recognize revenu
product sales to direct customers and contract manu
upon shipment. Certain of our sales are made to dist
under agreements allowing certain rights of return a
protection on products unsold by distributors. Accor
defer the revenue and cost of revenue on such sales
distributors sell the product to the end customer. A s
portion of our revenues is derived from the sale of p
above revenue recognition criteria for patent sales a
generally met upon the execution of the patent sale
Our products typically carry a one-year replacement
Replacements have been insignificant to date.

Our revenues are subject to variation from period to period due
volume of shipments made within a period, the mix of products
the prices we charge for our products. The vast majority of our
were negotiated at prices that reflect a discount from the list pri
products. These discounts are made for a variety of reasons, inc
establish a relationship with a new customer, 2) as an incentive
to purchase products in larger volumes, 3) to provide profit mar
distributors who resell our products or 4) in response to compet
addition, as a product matures, we expect that the average sellin
such product will decline due to the greater availability of comp
products. Our ability to increase revenues in the future is depen
increased demand for our established products and our ability to
volumes of those products in response to such demand, as well
to develop or acquire new products and subsequently achieve cu
acceptance of newly introduced products.

Cost of Revenues. Cost of revenues includes the cost o
purchasing finished silicon wafers processed by inde
foundries; costs associated with assembly, test and s

those products; costs of personnel and equipment as
with manufacturing support, logistics and quality as
costs of software royalties, other intellectual propert
costs and certain acquired intangible assets; and an a
portion of our occupancy costs. Our gross margin as
percentage of revenue fluctuates depending on produ
manufacturing yields, inventory valuation adjustmen
average selling prices and other factors.

Research and Development. Research and developmen
consists primarily of personnel-related expenses, inc
stock-based compensation, as well as new product m
external consulting and services costs, equipment to
equipment depreciation, amortization of intangible a
an allocated portion of our occupancy costs. Researc
development activities include the design of new pro
refinement of existing products and design of test
methodologies to ensure compliance with required
specifications.

Selling, General and Administrative. Selling, general and
administrative expense consists primarily of personn
expenses, including stock-based compensation, as w
allocated portion of our occupancy costs, sales comm
independent sales representatives, applications engin
support, professional fees, legal fees and promotiona
marketing expenses.

Interest Income. Interest income reflects interest earn
cash, cash equivalents and investment balances.

Interest Expense. Interest expense consists of interest
short and long-term obligations, including our conve
senior notes and credit facility. Interest expense on o
convertible senior notes includes contractual interest
amortization of the debt discount and amortization o
issuance costs.

Other, Net. Other, net consists primarily of foreign cu
remeasurement adjustments as well as other non-ope
income and expenses.

Provision (Benefit) for Income Taxes. Provision (benefit
income taxes includes both domestic and foreign inc
at the applicable tax rates adjusted for non-deductibl
expenses, research and development tax credits and
permanent differences.

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The following table sets forth our Condensed Consolidated Stat
Income data as a percentage of revenues for the periods indicate

	Three Months Ended	
	April 1, 2017	April 2, 2016
Revenues	100.0%	100.0%
Cost of revenues	41.3	41.0
Gross margin	58.7	59.0
Operating expenses:		
Research and development	29.2	30.3
Selling, general and administrative	22.4	24.5
Operating expenses	51.6	54.8
Operating income	7.1	4.2
Other income (expense):		
Interest income	0.4	0.2
Interest expense	0.1	(0.4)
Other, net	(0.1)	(0.2)
Income before income taxes	7.5	3.8
Provision (benefit) for income taxes	(1.1)	0.2
Net income	8.6%	3.6%

Revenues

	Three Months Ended			
(in millions)	April 1, 2017	April 2, 2016	Change	% Change
Internet of Things	$ 87.8	$ 70.9	$ 16.9	24.0%
Broadcast	37.3	38.4	(1.1)	(3.0)%
Infrastructure	36.0	31.6	4.4	13.9%
Access	17.9	21.1	(3.2)	(15.3)%
Revenues	$ 179.0	$ 162.0	$ 17.0	10.5%

The change in revenues in the recent three month period was du
to:

- Increased revenues of $16.9 million for our
of Things products, due primarily to increases in the

- Decreased revenues of $1.1 million for Bro
products, due primarily to decreases in the market fo
consumer products.

- Increased revenues of $4.4 million for our
Infrastructure products, due primarily to increased d
our products.

- Decreased revenues of $3.2 million for our
products, due primarily to decreased demand for our
and decreases in the market for such products.

Unit volumes of our products increased by 18.7% and average s
decreased by 7.2% compared to the three months ended April 2
average selling prices of our products may fluctuate significantl
period to period. In general, as our products become more matu
to experience decreases in average selling prices. We anticipate
announced, higher priced, next generation products and product
will offset some of these decreases.

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Gross Margin

(in millions)	Three Months Ended April 1, 2017	April 2, 2016	Change
Gross margin	$ 105.2	$ 95.5	$ 9.7
Percent of revenue	58.7%	59.0%	(0.3)%

The increased dollar amount of gross margin in the recent three
period was due to increases in gross margin of $10.0 million for
Internet of Things products and $3.2 million for our
Infrastructure products, offset by decreases in gross
$2.4 million for our Access products and $1.1 millio
Broadcast products. Gross margin increased during t
period due primarily to increased product sales. Gro
as a percent of revenues decreased primarily due to
product mix.

We may experience declines in the average selling prices of cer
products. This creates downward pressure on gross margin as a
revenues and may be offset to the extent we are able to: 1) intro
margin new products and gain market share with our products; 2
costs of existing products through improved design; 3) achieve l
production costs from our wafer suppliers and third-party assem
subcontractors; 4) achieve lower production costs per unit as a r
improved yields throughout the manufacturing process; or 5) re
costs.

Research and Development

(in millions)	Three Months Ended April 1, 2017	April 2, 2016	Change	% Change
Research and development	$ 52.3	$ 49.0	$ 3.3	6.7%
Percent of revenue	29.2%	30.3%		

The increase in research and development expense in the recent
period was primarily due to increases of $3.7 million f
personnel-related expenses, including costs associat
increased headcount and acquisitions. The decrease
and development expense as a percent of revenues i

recent three month period was due to our increased r
We expect that research and development expense w
relatively stable in absolute dollars in the second qua
fiscal 2017.

Selling, General and Administrative

	Three Months Ended			
(in millions)	April 1, 2017	April 2, 2016	Change	% Change
Selling, general and administrative	$ 40.2	$ 39.7	$ 0.5	1.3%
Percent of revenue	22.4%	24.5%		

The increase in selling, general and administrative expense in th
three month period was primarily due to increases of $0.4 millio
personnel-related expenses, including costs associated with incr
headcount and acquisitions. The decrease in selling, general and
administrative expense as a percent of revenues in the recent thr
period was due to our increased revenues. We expect that sellin
and administrative expense will decrease in absolute dollars in t
quarter of fiscal 2017.

Interest Income

Interest income for the three months ended April 1, 2017 was $0
compared to $0.3 million for the three months ended April 2, 20

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Interest Expense

Interest expense for the three months ended April 1, 2017 was $
compared to $0.7 million for the three months ended April 2, 20
decrease in interest expense in the recent three month period wa
due to a $2.0 million gain recorded in connection with the termi
interest rate swap agreement. This decrease was offset in part by
interest expense of $1.3 million on our convertible debt, includi
amortization of the debt discount and amortization of the debt is

Other, Net

Other, net for the three months ended April 1, 2017 was $(0.1) r
compared to $(0.4) million for the three months ended April 2, 2

Provision (Benefit) for Income Taxes

(in millions)	**Three Months Ended April 1, 2017**	**April 2, 2016**	**Change**
Provision (benefit) for income taxes	$ (2.0)	$ 0.3	$ (2.3)
Effective tax rate	(14.6)%	4.4%	

The effective tax rate for the three months ended April 1, 2017 c
from the prior period primarily due to excess tax benefits from s
compensation from the adoption of ASU 2016-09 offset by a de
foreign tax rate benefit. See Note 12, *Income Taxes*, to th
Condensed Consolidated Financial Statements for ac
information.

The effective tax rates for each of the periods presented differ fr
federal statutory tax rate of 35% due to the amount of income ea
foreign jurisdictions where the tax rate may be lower than the fe
statutory rate and other permanent items including nondeductibl
compensation expenses and research and development tax credi
Additionally, the effective tax rate for the three month period en
2017 differs from the federal statutory tax rate of 35% due to ex
benefits from stock-based compensation from the adoption of A

Business Outlook

The following represents our business outlook for the second qu
fiscal 2017.

Income Statement Item	Estimate
Revenues	$184 million to $189 million
Gross margin	58.8%
Operating expenses	$92 million
Effective tax rate	11%
Diluted earnings per share	$0.27 to $0.33

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Liquidity and Capital Resources

Our principal sources of liquidity as of April 1, 2017 consisted o
million in cash, cash equivalents and short-term investments, of
approximately $499.8 million was held by our U.S. entities. The
balance was held by our foreign subsidiaries. Our cash equivale
short-term investments consisted of variable-rate demand notes,
bonds, money market funds, municipal bonds, U.S. government
commercial paper, certificates of deposit, asset-backed securitie
bonds and international government bonds. Our long-term in
consisted of auction-rate securities. As of April 1, 20
held $6.0 million par value auction-rate securities, a
have experienced failed auctions because sell orders
buy orders. See Note 3, *Fair Value of Financial Inst*
to the Condensed Consolidated Financial Statements
additional information.

Operating Activities

Net cash provided by operating activities was $42.0 million dur
months ended April 1, 2017, compared to net cash provided of $
during the three months ended April 2, 2016. Operating cash flo
the three months ended April 1, 2017 reflect our net income of $
adjustments of $17.7 million for depreciation, amortization, stoc
compensation and deferred income taxes, and a net cash inflow
million due to changes in our operating assets and liabilities.

Accounts receivable increased to $75.9 million at April 1, 2017
$74.4 million at December 31, 2016. The increase in accounts re
resulted primarily from normal variations in the timing of collec
billings. Our average DSO was 38 days at April 1, 2017 and 37
December 31, 2016.

Inventory increased to $61.3 million at April 1, 2017 from $59.
December 31, 2016. Our inventory level is primarily impacted b
to make purchase commitments to support forecasted demand a
between forecasted and actual demand. Our DOI was 75 days at
2017 and 73 days at December 31, 2016.

Investing Activities

Net cash used in investing activities was $261.8 million during t
months ended April 1, 2017, compared to net cash used of $1.3
during the three months ended April 2, 2016. The increase in ca
was principally due to an increase of $244.3 million in net purcl
marketable securities and a net payment of $13.7 million for the
of Zentri. See Note 6, *Acquisitions*, to the Condensed Consolida
Statements for additional information.

We anticipate capital expenditures of approximately $18 to $22
fiscal 2017. Additionally, as part of our growth strategy, we exp
evaluate opportunities to invest in or acquire other businesses, i
property or technologies that would complement or expand our
offerings, expand the breadth of our markets or enhance our tec
capabilities.

Financing Activities

Net cash provided by financing activities was $304.1 million du
months ended April 1, 2017, compared to net cash used of $28.
during the three months ended April 2, 2016. The increase in ca
was principally due to $390.0 million in net proceeds from the i
long-term debt and a decrease of $18.5 million for repurchases o
common stock, offset by an increase of $70.0 million i
on debt. See Note 7, *Debt*, to the Condensed Consol
Financial Statements for additional information. In
January 2017, the Board of Directors authorized a p
repurchase up to $100 million of our common stock
December 2017.

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Debt

1.375% Convertible Senior Notes

On March 6, 2017, we completed a private offering of $400 mil
amount convertible senior notes (the Notes). The Notes bear
semi-annually at a rate of 1.375% per year and will mature on M
2022, unless repurchased, redeemed or converted at an earlier d
used $72.5 million of the proceeds to pay off the remaining bala
Amended Credit Agreement.

Amended Credit Agreement

On July 31, 2012, we entered into a $230 million five-year Cred
(the Credit Agreement), which consisted of a $100 million T
Facility and a $130 million Revolving Credit Facility. On July
we amended the Credit Agreement (the Amended C
Agreement) in order to, among other things, increa
borrowing capacity under the Revolving Credit Faci
$300 million (the Credit Facility), eliminate the T
Facility and extend the maturity date to five years fr
closing date. On July 24, 2015, we borrowed $82.5 m
under the Amended Credit Agreement and paid off t
remaining balance of our Term Loan Facility. In con
with our offering of the Notes, we entered into a sec
amendment to the Credit Agreement (the Second A
Credit Agreement) and paid off the remaining bala
million.

The Second Amended Credit Agreement retains the
and provisions of the first Amended Credit Agreeme
including a $25 million letter of credit sublimit and a
million swingline loan sublimit. We also have an op
increase the size of the borrowing capacity by up to
aggregate of $200 million in additional commitment
to certain conditions See Note 7, *Debt*, to the Conde
Consolidated Financial Statements for additional inf

Our future capital requirements will depend on many factors, in
rate of sales growth, market acceptance of our products, the tim
extent of research and development projects, potential acquisitio
companies or technologies and the expansion of our sales and m
activities. We believe our existing cash, cash equivalents, invest
credit under our Credit Facility are sufficient to meet our capital
requirements through at least the next 12 months, although we c
required, or could elect, to seek additional funding prior to that t
may enter into acquisitions or strategic arrangements in the futu
could require us to seek additional equity or debt financing.

Critical Accounting Policies and Estimates

The preparation of financial statements and accompanying note
conformity with U.S. generally accepted accounting principles r
we make estimates and assumptions that affect the amounts repo
Changes in facts and circumstances could have a significant imp
resulting estimated amounts included in the financial statements
the following critical accounting policies affect our more compl
and estimates. We also have other policies that we consider to b
accounting policies, such as our policies for revenue recognition
the deferral of revenues and cost of revenues on sales to distribu
however, these policies do not meet the definition of critical acc
estimates because they do not generally require us to make estin
judgments that are difficult or subjective.

Inventory valuation We assess the recoverability of in
through the application of a set of methods, assumpt
estimates. In determining net realizable value, we w
inventory that may be slow moving or have some fo
obsolescence, including inventory that has aged mor
months. We also adjust the valuation of inventory w
manufacturing cost exceeds the estimated selling pri
costs of completion, disposal and transportation. We
potential for any unusual customer returns based on
quality or business issues and write-off inventory los
scrap or non-saleable material. Inventory not otherw
identified to be written down is compared to an asse
our 12-month forecasted demand. The result of this
methodology is compared against the product life cy
competitive situations in the marketplace to determi
appropriateness of the resulting inventory levels. De
our products may fluctuate significantly over time, a
demand and market conditions may be more or less
than those that we project. In the event that actual de
lower or market conditions are worse than originally
additional inventory write-downs may be required.

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Stock-based compensation We recognize the fair-value stock-based compensation transactions in the Conso Statements of Income. The fair value of our full-valu awards (with the exception of market-based perform awards) equals the fair market value of our stock on grant. The fair value of our market-based performan is estimated at the date of grant using a Monte-Carlo simulation. The fair value of our stock option and en stock purchase plan grants is estimated at the date of using the Black-Scholes option pricing model. In ad are required to estimate the expected forfeiture rate stock grants and only recognize the expense for thos expected to vest. If our actual experience differs sig from the assumptions used to compute our stock-bas compensation cost, or if different assumptions had b we may have recorded too much or too little stock-b compensation cost. See Note 9, *Stock-Based Compe* the Condensed Consolidated Financial Statements fo additional information.

Investments in auction-rate securities We determine the our investments in auction-rate securities using a dis cash flow model. The assumptions used in preparing discounted cash flow model include estimates for in rates, amount of cash flows, expected holding perio securities and a discount to reflect our inability to li securities. For available-for-sale auction-rate securit calculated value is below the carrying amount of the we then determine if the decline in value is other-than-temporary. We consider various factors i determining whether an impairment is other-than-te including the severity and duration of the impairmen in underlying credit ratings, forecasted recovery, ou sell or the likelihood that we would be required to s investment before its anticipated recovery in market the probability that the scheduled cash payments wi to be made. When we conclude that an other-than-te impairment has occurred, we assess whether we inte the security or if it is more likely than not that we w required to sell the security before recovery. If eithe two conditions is met, we recognize a charge in earn to the entire difference between the security s amor basis and its fair value. If we do not intend to sell a s and it is not more likely than not that we will be req

sell the security before recovery, the unrealized loss
separated into an amount representing the credit loss
recognized in earnings, and the amount related to all
factors, which is recorded in accumulated other com
income (loss).

Acquired intangible assets When we acquire a business
of the purchase price is typically allocated to identif
intangible assets, such as acquired technology and c
relationships. Fair value of these assets is determined
using the income approach, which requires us to pro
cash flows and apply an appropriate discount rate. W
amortize intangible assets with finite lives over their
useful lives. Our estimates are based upon assumptio
believed to be reasonable but which are inherently u
and unpredictable. Assumptions may be incomplete
inaccurate, and unanticipated events and circumstan
occur. Incorrect estimates could result in future impa
charges, and those charges could be material to our r
operations.

Impairment of goodwill and other long-lived assets We rev
long-lived assets which are held and used, including
assets and purchased intangible assets, for impairme
whenever changes in circumstances indicate that the
amount of the assets may not be recoverable. Such e
compare the carrying amount of an asset to future
undiscounted net cash flows expected to be generate
asset over its expected useful life and are significant
impacted by estimates of future prices and volumes
products, capital needs, economic trends and other f
which are inherently difficult to forecast. If the asset
considered to be impaired, we record an impairment
equal to the amount by which the carrying value of t
exceeds its fair value determined by either a quoted
price, if any, or a value determined by utilizing a dis
cash flow technique.

We test our goodwill for impairment annually as of the first day
fiscal quarter and in interim periods if certain events occur indic
carrying value of goodwill may be impaired. The goodwill impa
a two-step process. The first step of the impairment analysis co
fair value to our net book value. In determining fair value, the a
guidance allows for the use of several valuation methodologies,
states quoted market prices are the best evidence of fair value. I
value is less than the net book value, the second step of the anal
compares the implied fair value of our goodwill to its carrying a

carrying amount of goodwill exceeds its implied fair value, we r
impairment loss equal to that excess amount.

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Income taxes We are required to calculate income ta
of the jurisdictions in which we operate. This proces
calculating the actual current tax liability together w
assessing temporary differences in recognition of inc
(loss) for tax and accounting purposes. These differe
in deferred tax assets and liabilities, which are incluc
Consolidated Balance Sheet. We record a valuation
when it is more likely than not that some portion or
deferred tax assets will not be realized. In assessing
for a valuation allowance, we are required to estimat
amount of expected future taxable income. Judgmen
inherent in this process and differences between the
and actual taxable income could result in a material
our Consolidated Financial Statements.

We recognize liabilities for uncertain tax positions based on a tw
process. The first step requires us to determine whether the weig
available evidence indicates that the tax position has met the thr
recognition. Therefore, we must evaluate whether it is more like
that the position will be sustained on audit, including resolution
related appeals or litigation processes. The second step requires
measure the tax benefit of the tax position taken, or expected to
an income tax return as the largest amount that is more than 50%
being realized upon ultimate settlement. This measurement step
complex and requires subjective estimations of such amounts to
the probability of various possible outcomes. We re-evaluate the
tax positions each quarter based on factors including, but not lin
changes in facts or circumstances, changes in tax law, expiration
of limitation, effectively settled issues under audit, and new aud
Such a change in recognition or measurement would result in th
of a tax benefit or an additional charge to the tax provision in th

Although we believe the measurement of our liabilities for unce
positions is reasonable, no assurance can be given that the final
these matters will not be different than what is reflected in the h
income tax provisions and accruals. If additional taxes are asses
result of an audit or litigation, they could have a material effect
income tax provision and net income in the period or periods fo
determination is made. We operate within multiple taxing jurisd
are subject to audit in these jurisdictions. These audits can invol
issues which may require an extended period of time to resolve
result in additional assessments of income tax. We believe adeq
provisions for income taxes have been made for all periods.

Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (FA Accounting Standards Update (ASU) No. 2017-03*, Accounting Error Corrections (Topic 250) and Investments Equity Method Ventures (Topic 323).* This ASU amends the disclosure requirem ASU No. 2014-09, *Revenue from Contracts with Customers (To* ASU No. 2016-02, *Leases (Topic 842)* and ASU No. 2016-13, *I Instruments Credit Losses (Topic 326): Measurement of Credit Financial Instruments*. This ASU states that if a registrant does cannot reasonably estimate the impact that the adoption of the a is expected to have on the financial statements, then in addition statement to that effect, the registrant should consider additional financial statement disclosures to assist the reader in assessing t significance of the impact that the standard will have on the fina statements of the registrant when adopted. This ASU was effect issuance. The adoption did not have a material impact on our fin statements.

In January 2017, the FASB issued ASU No. 2017-04*, Intangible and Other (Topic 350): Simplifying the Test for Goodwill Impai* ASU eliminates Step 2 from the goodwill impairment test. Inste should recognize an impairment charge for the amount by which value exceeds the reporting unit s fair value, not to exceed the t goodwill allocated to that reporting unit. This ASU is effective f any interim goodwill impairment tests in fiscal years beginning December 15, 2019. We are currently evaluating the effect that of this ASU will have on our financial statements.

In January 2017, the FASB issued ASU No. 2017-01*, Business Combinations (Topic 805): Clarifying the Definition of a Busine* ASU clarifies the definition of a business with the objective of a guidance to assist entities with evaluating whether transactions s accounted for as acquisitions (or disposals) of assets or business ASU is effective for annual periods beginning after December 1 including interim periods within those periods. We are currently the effect that the adoption of this ASU will have on our financi statements.

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In August 2016, the FASB issued ASU No. 2016-16, *Income Ta*
740): Intra-Entity Transfers of Assets Other Than Inventory. Th
requires the recognition of the income tax consequences of an in
transfer of an asset other than inventory when the transfer occur
amendments in this ASU should be applied on a modified retros
through a cumulative-effect adjustment directly to retained earn
beginning of the period of adoption. We early adopted this ASU
January 1, 2017. The adoption did not have a material impact on
financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement*
Flows (Topic 230): Classification of Certain Cash Receipts and
Payments. This ASU provides guidance on statement of cash flo
presentation for eight specific cash flow issues where diversity i
exists. This ASU is effective for fiscal years beginning after De
2017, and interim periods within those fiscal years. We are curr
evaluating the effect of the adoption of this ASU, but anticipate
adoption will not have a material impact on our financial statem

In June 2016, the FASB issued ASU No. 2016-13, *Financial*
Instruments Credit Losses (Topic 326: Measurement of Credit
Financial Instruments. This ASU requires instruments measured
amortized cost to be presented at the net amount expected to be
Entities are also required to record allowances for available-for-
securities rather than reduce the carrying amount. This ASU is e
fiscal years beginning after December 15, 2019, including interi
within those fiscal years. We are currently evaluating the effect
adoption of this ASU, but anticipate that the adoption will not h
material impact on our financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensa*
Compensation (Topic 718): Improvements to Employee Share-B
Payment Accounting. This ASU simplifies several aspects of th
for share-based payment transactions, including the income tax
consequences, classification of awards as either equity or liabili
classification on the statement of cash flows. We adopted this A
January 1, 2017. Amendments related to the classification of ex
benefits on the statement of cash flows were applied prospective
periods have not been adjusted. In connection with our ad
ASU 2016-09, we recorded excess tax benefits of $3
in the three months ended April 1, 2017. The adopti
other material impact on our financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (*
The core principle of Topic 842 is that a lessee should recogniz
and liabilities that arise from leases. For operating leases, a less

to recognize a right-of-use asset and a lease liability, initially me present value of the lease payments, in the statement of financia This ASU is effective for fiscal years beginning after December including interim periods within those fiscal years. We are curre evaluating the effect that the adoption of this ASU will have on statements. We currently expect that most of our operating lease commitments will be subject to the new standard and recognized right-of-use assets and operating lease liabilities upon our adopt 2016-02, which will increase our total assets and total liabilities report relative to such amounts prior to adoption.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments Overall (Subtopic 825-10): Recognition and Meas Financial Assets and Financial Liabilities.* This ASU addresses aspects of recognition, measurement, presentation and disclosur instruments. This ASU is effective for fiscal years beginning aft December 15, 2017, including interim periods within those fisca are currently evaluating the effect of the adoption of this ASU, that the adoption will not have a material impact on our financia

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In May 2014, the FASB issued ASU No. 2014-09*, Revenue fro*
with Customers (Topic 606), which supersedes the revenue reco
requirements in Accounting Standards Codification (ASC) 605,
Recognition. The core principle of ASU 2014-09 is that an entit
recognize revenue to depict the transfer of promised goods or se
customers in an amount that reflects the consideration to which
expects to be entitled in exchange for those goods or services. T
provides a five-step process to achieve that core principle. In Au
the FASB issued ASU No. 2015-14, *Revenue from Contracts w*
Customers (Topic 606): Deferral of the Effective Date, which de
effective date of ASU 2014-09 to annual reporting periods begi
December 15, 2017, including interim periods within that report
In 2016, the FASB issued the following amendments to ASC 60
No. 2016-08, *Revenue from Contracts with Customers (Topic 6*
Principal versus Agent Considerations (Reporting Revenue Gro
Net), which clarifies the implementation guidance on principal v
considerations; ASU No. 2016-10, *Revenue from Contracts wit*
(Topic 606): Identifying Performance Obligations and Licensin
clarifies guidance on identification of performance obligations a
implementation; ASU No. 2016-12, *Compensation Revenue fr*
with Customers (Topic 606): Narrow-Scope Improvements and
Expedients, which provides clarifying guidance on assessing co
presentation of sales taxes, noncash consideration, contract mod
and completed contracts; and ASU No. 2016-20, *Technical Cor*
Improvements to Topic 606, Revenue from Contracts with Custo
clarifies narrow aspects of ASC 606 or corrects unintended appl
guidance. The standard may be applied retrospectively to each p
presented (full retrospective method) or retrospectively with the
effect recognized as of the date of initial application (modified r
method). Under the new standard, we expect the timing of rever
recognition from sales to distributors to be accelerated. We will
revenue at the time of sale to the distributor, net of the impact o
price adjustments and rights of return. We currently anticipate a
standard using the modified retrospective method. Under this m
incremental disclosures will be provided to present each financi
line item for fiscal 2018 under the prior standard. We have comp
initial assessment of the new standard and are continuing to eva
effect that the adoption will have on our financial statements.

Quantitative and Qualitative Disclosures about Market Risk

Interest Income

Our investment portfolio includes cash, cash equivalents, short-
investments and long-term investments. Our main investment ob
the preservation of investment capital and the maximization of a
returns on our investment portfolio. Our interest income is sensi
changes in the general level of U.S. interest rates. Our investme
holdings as of April 1, 2017 yielded less than 100 basis points. A

yield to zero basis points on our investment portfolio holdings a
2017 would decrease our future annual interest income by appro
$5.6 million. We believe that our investment policy, which defi
duration, concentration, and minimum credit quality of the allov
investments, meets our investment objectives.

Interest Expense

We are exposed to interest rate fluctuations in the normal cours
business, including through our Credit Facility. The interest rate
Credit Facility consists of a variable-rate of interest and an appl
margin. While we have drawn from the Credit Facility in the pa
no borrowings as of April 1, 2017. If we borrow from the Credi
the future, we will again be exposed to interest rate fluctuations

Foreign currency exchange rate risk

We are exposed to foreign currency exchange rate risk primarily
assets and liabilities of our subsidiaries denominated in currenci
the U.S. dollar. Our foreign subsidiaries are considered to be ex
the U.S. parent. The functional currency of the foreign subsidiar
U.S. dollar. Accordingly, gains and losses resulting from remea
transactions denominated in currencies other than U.S. dollars a
in other, net in the Consolidated Statements of Income. We use
currency forward contracts to manage exposure to foreign excha
Gains and losses on foreign currency forward contracts are reco
earnings in the same period as the remeasurement loss and gain
foreign currency denominated asset or liability.

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Investments in Auction-rate Securities

As of April 1, 2017, we held $6.0 million par value auction-rate
all of which have experienced failed auctions because sell order
buy orders. We are unable to predict if these funds wil
available before their maturity dates. Additionally, i
determine that an other-than-temporary decline in th
value of any of our available-for-sale auction-rate se
has occurred, we may be required to adjust the carry
of the investments through an impairment charge.

Available Information

Our website address is www.silabs.com. Our annual report on F
quarterly reports on Form 10-Q, current reports on Form 8-K an
amendments to those reports filed or furnished pursuant to Secti
15(d) of the Securities Exchange Act of 1934 are available throu
investor relations page of our website free of charge as soon as
practicable after we electronically file such material with, or fur
Securities and Exchange Commission (SEC). Our website and t
information contained therein or connected thereto are not inten
incorporated into this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Ma

Information related to quantitative and qualitative disclosures re
market risk is set forth in Management s Discussion and Analy
Financial Condition and Results of Operations under Item 2 abo
information is incorporated by reference herein.

Item 4. Controls and Procedures

We have performed an evaluation under the supervision and wit
participation of our management, including our Chief Executive
(CEO) and Chief Financial Officer (CFO), of the effectiveness o
disclosure controls and procedures, as defined in Rule 13a-15(e
Securities Exchange Act of 1934 (the Exchange Act). Based on
evaluation, our management, including our CEO and CFO, conc

our disclosure controls and procedures were effective as of Apri provide reasonable assurance that information required to be dis in the reports filed or submitted by us under the Exchange Act i processed, summarized and reported within the time periods spe SEC s rules and forms. Such disclosure controls and procedure controls and procedures designed to ensure that information req disclosed is accumulated and communicated to our managemen our CEO and CFO, to allow timely decisions regarding required There was no change in our internal controls during the fiscal qu April 1, 2017 that materially affected, or is reasonably likely to affect, our internal controls over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

Patent Litigation

On January 21, 2014, Cresta Technology Corporation (Cresta Delaware corporation, filed a lawsuit against us, Samsung Elect Co., Ltd., Samsung Electronics America, Inc., LG Electronics In Electronics U.S.A., Inc. in the United States District Court in th Delaware, alleging infringement of three United States Patents (Patents). The Delaware District Court action has been stayed.

We challenged the validity of the claims of the Cresta Patents th series of *Inter-Partes* Review (IPR) proceedings at the Trial and Appeal Board (PTAB) of the United States and Trademark Office (USPTO). On October 21, 20 USPTO issued final written decisions on a first set o claims finding all of the reviewed claims invalid. Th Circuit summarily affirmed the USPTO s first deter November 8, 2016 and the mandate issued on Decen 2016, rendering the USPTO s determination final.

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On August 11, 2016, the PTAB issued its final written decisions
proceedings against a second set of claims in the Cresta Patents
these claims unpatentable. On October 13, 2016, the patent own
known as CF Crespe LLC, filed a notice of appeal with the Fede
That appeal is currently pending. No hearing date has been set.

On March 18, 2016, Cresta Technology filed for chapter 7 bank
United States Bankruptcy Court for the Northern District of Cal

On May 13, 2016, the Bankruptcy Court approved an agreemen
Credit Funding LLC (DBD) to buy Cresta Technology s ent
and certain related litigation. Following that sale, DBD (through
assignee, CF Crespe LLC) has substituted in the Delaware Distr
action and the appeal proceedings at the U.S. Court of Appeals
Federal Circuit for the second set of IPRs.

On July 16, 2014, we filed a lawsuit against Cresta Technology
States District Court in the Northern District of California allegi
infringement of six United States Patents. We are seeking a pern
injunction and an award of damages and attorney fees. As a resu
chapter 7 bankruptcy filing by Cresta Technology, these procee
stayed. However, as a result of the May 13, 2016 sale order by t
Bankruptcy Court, DBD and CF Crespe LLC were ordered to su
Defendant for Cresta Technology. DBD and CF Crespe LLC ha
the Bankruptcy Court s order in that regard. Subject to that app
infringement trial against DBD and CF Crespe LLC is set to beg
October 2, 2017.

As is customary in the semiconductor industry, we provide inde
protection to our customers for intellectual property claims relat
products. We have not accrued any material liability on our Con
Balance Sheet related to such indemnification obligations in con
the Cresta Technology litigation.

We intend to continue to vigorously defend against Cresta Tech
(now DBD and CF Crespe LLC s) allegations and to continue t
claims against DBD and CF Crespe LLC and their patents. At th
cannot predict the outcome of these matters or the resulting fina
to us, if any.

Other

We are involved in various other legal proceedings that have ari
normal course of business. While the ultimate results of these m
be predicted with certainty, we do not expect them to have a ma
effect on our Consolidated Financial Statements.

Item 1A. Risk Factors

Risks Related to our Business

**We may not be able to maintain our historical growth and m
experience significant period-to-period fluctuations in our re
operating results, which may result in volatility in our stock**

Although we have generally experienced revenue growth in our
may not be able to sustain this growth. We may also experience
period-to-period fluctuations in our revenues and operating resu
future due to a number of factors, and any such variations may c
stock price to fluctuate. In some future period our revenues or o
results may be below the expectations of public market analysts
If this occurs, our stock price may drop, perhaps significantly.

A number of factors, in addition to those cited in other risk facto
to our business, may contribute to fluctuations in our revenues a
results, including:

- The timing and volume of orders received customers;
- The timeliness of our new product introduc the rate at which our new products may cannibalize products;

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- The rate of acceptance of our products by c customers, including the acceptance of new products develop for integration in the products manufactured customers, which we refer to as design wins ;
- The time lag and realization rate between and production orders;
- The demand for, and life cycles of, the proc incorporating our mixed-signal solutions;
- The rate of adoption of mixed-signal produ markets we target;
- Deferrals or reductions of customer orders anticipation of new products or product enhancemen or our competitors or other providers of mixed-signa
- Changes in product mix;
- The average selling prices for our products drop suddenly due to competitive offerings or comp predatory pricing;
- The average selling prices for our products decline over time;
- Changes in market standards;

- Impairment charges related to inventory, e
or other long-lived assets;

- The software used in our products, includi
provided by third parties, may not meet the needs o
customers;

- Significant legal costs to defend our intelle
property rights or respond to claims against us; and

- The rate at which new markets emerge for
we are currently developing or for which our design
can be utilized to develop products for these new m

The markets for consumer electronics, for example, are charact
rapid fluctuations in demand and seasonality that result in corre
fluctuations in the demand for our products that are incorporate
devices. Additionally, the rate of technology acceptance by our
results in fluctuating demand for our products as customers are
incorporate a new IC into their products until the new IC has a
market acceptance. Once a new IC achieves market acceptance,
the new IC can quickly accelerate to a point and then level off s
historical growth in sales of a product should not be viewed as i
continued future growth. In addition, demand can quickly decli
product when a new IC product is introduced and receives mark
acceptance. Due to the various factors mentioned above, the res
prior quarterly or annual periods should not be relied upon as a
of our future operating performance.

**If we are unable to develop or acquire new and enhanced p
achieve market acceptance in a timely manner, our operati
and competitive position could be harmed**

Our future success will depend on our ability to develop or acq
products and product enhancements that achieve market accept
timely and cost-effective manner. The development of mixed-s
highly complex, and we have at times experienced delays in co
development and introduction of new products and product enh
Successful product development and market acceptance of our
depend on a number of factors, including:

- Requirements of customers;

- Accurate prediction of market and technica
requirements;

- Timely completion and introduction of nev

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- Timely qualification and certification of ou
for use in our customers products;

- Commercial acceptance and volume produ
the products into which our ICs will be incorporated

- Availability of foundry, assembly and test

- Achievement of high manufacturing yields

- Quality, price, performance, power use and
our products;

- Availability, quality, price and performanc
competing products and technologies;

- Our customer service, application support
and responsiveness;

- Successful development of our relationship
existing and potential customers;

- Technology, industry standards or end-user
preferences; and

- Cooperation of third-party software provid
semiconductor vendors to support our chips within a

We cannot provide any assurance that products which we recen developed or may develop in the future will achieve market acc have introduced to market or are in development of many produ products fail to achieve market acceptance, or if we fail to devel products on a timely basis that achieve market acceptance, our g prospects, operating results and competitive position could be a affected. The growth of the IoT market is dependent on the adop industry standards to permit devices to connect and communica other. If the industry cannot agree on a common set of standards growth of the IoT market may be slower than expected.

Our research and development efforts are focused on a limit of new technologies and products, and any delay in the deve abandonment, of these technologies or products by industry participants, or their failure to achieve market acceptance, c compromise our competitive position

Our products serve as components and solutions in electronic de various markets. As a result, we have devoted and expect to con devote a large amount of resources to develop products based o emerging technologies and standards that will be commercially the future. Research and development expense during the three ended April 1, 2017 was $52.3 million, or 29.2% of revenues. A companies are actively involved in the development of these ne technologies and standards. Should any of these companies dela their efforts to develop commercially available products based o technologies and standards, our research and development effor respect to these technologies and standards likely would have n value. In addition, if we do not correctly anticipate new technol standards, or if the products that we develop based on these new technologies and standards fail to achieve market acceptance, o competitors may be better able to address market demand than w Furthermore, if markets for these new technologies and standard later than we anticipate, or do not develop at all, demand for our that are currently in development would suffer, resulting in low these products than we currently anticipate.

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Significant litigation over intellectual property in our indust cause us to become involved in costly and lengthy litigation seriously harm our business

In recent years, there has been significant litigation in the Unite involving patents and other intellectual property rights. From ti we receive letters from various industry participants alleging in patents, trademarks or misappropriation of trade secrets or from suppliers requesting indemnification for claims brought against parties. The exploratory nature of these inquiries has become re common in the semiconductor industry. We respond when we d appropriate and as advised by legal counsel. We have been invo litigation to protect our intellectual property rights in the past a become involved in such litigation again in the future. We are c involved in litigation in which we and certain of our customers accused of patent infringement related to our television tuner pr future, we may become involved in additional litigation to defe of infringement asserted by others, both directly and indirectly certain industry-standard indemnities we may offer to our custo suppliers. Legal proceedings could subject us to significant liab damages or invalidate our proprietary rights. Legal proceedings us to protect our intellectual property rights could also result in counterclaims or countersuits against us. Any litigation, regardl outcome, would likely be time-consuming and expensive to res would divert our management s time and attention. Intellectual litigation also could force us to take specific actions, including:

- Cease selling or manufacturing products th challenged intellectual property;
- Obtain from the owner of the infringed inte property a right to a license to sell or use the relevan technology, which license may not be available on r terms, or at all;
- Redesign those products that use infringin intellectual property; or
- Pursue legal remedies with third parties to our indemnification rights, which may not adequate our interests.

**Any acquisitions we make could disrupt our business and ha
financial condition**

As part of our growth and product diversification strategy, we c
evaluate opportunities to acquire other businesses, intellectual p
technologies that would complement our current offerings, expa
breadth of our markets or enhance our technical capabilities. Th
acquisitions that we have made and may make in the future enta
of risks that could materially and adversely affect our business a
results, including:

- Problems integrating the acquired operatio
technologies or products with our existing business a
products;

- Diversion of management s time and atten
our core business;

- Need for financial resources above our plan
investment levels;

- Difficulties in retaining business relationsh
suppliers and customers of the acquired company;

- Risks associated with entering markets in w
lack prior experience;

- Risks associated with the transfer of license
intellectual property;

- Increased operating costs due to acquired o

- Tax issues associated with acquisitions;

- Acquisition-related disputes, including disp
earn-outs and escrows;

- Potential loss of key employees of the acqu
company; and

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- Potential impairment of related goodwill ar
intangible assets.

Future acquisitions also could cause us to incur debt or continge
or cause us to issue equity securities that could negatively impa
ownership percentages of existing shareholders.

**We may be unable to protect our intellectual property, whic
negatively affect our ability to compete**

Our products rely on our proprietary technology, and we expect
technological advances made by us will be critical to sustain ma
acceptance of our products. Therefore, we believe that the prote
intellectual property rights is and will continue to be important
of our business. We rely on a combination of patent, copyright,
and trade secret laws and restrictions on disclosure to protect ou
property rights. We also enter into confidentiality or license agr
our employees, consultants, intellectual property providers and
partners, and control access to and distribution of our document
other proprietary information. Despite these efforts, unauthorize
may attempt to copy or otherwise obtain and use our proprietary
Monitoring unauthorized use of our technology is difficult, and
certain that the steps we have taken will prevent unauthorized u
technology, particularly in foreign countries where the laws may
our proprietary rights as fully as in the United States. We canno
that patents will be issued as a result of our pending application
be certain that any issued patents would protect or benefit us or
adequate protection from competing products. For example, issu
may be circumvented or challenged and declared invalid or une
We also cannot be certain that others will not develop effective
technologies on their own.

**Failure to manage our distribution channel relationships co
our future growth**

The future growth of our business will depend in large part on o
manage our relationships with current and future distributors an
representatives, develop additional channels for the distribution
our products and manage these relationships. During the three m
April 1, 2017, 70% of our revenue was derived from distributor
execute our indirect sales strategy, we must manage the potentia
that may arise with our direct sales efforts. For example, conflic
distributor may arise when a customer begins purchasing directl
rather than through the distributor. The inability to successfully

manage a multi-channel sales strategy could impede our future g
addition, relationships with our distributors often involve the us
protection and inventory return rights. This often requires a sign
amount of sales management s time and system resources to m
properly.

We depend on a limited number of customers for a significa our revenues, and the loss of, or a significant reduction in or any key customer could significantly reduce our revenues

The loss of any of our key customers, or a significant reduction any one of them, would significantly reduce our revenues and ad affect our business. During the three months ended April 1, 201 largest customers accounted for 23% of our revenues. Some of t for our products are dominated by a small number of potential c Therefore, our operating results in the foreseeable future will co depend on our ability to sell to these dominant customers, as we ability of these customers to sell products that incorporate our I In the future, these customers may decide not to purchase our pr purchase fewer products than they did in the past or alter their p patterns, particularly because:

- We do not have material long-term purchas contracts with our customers;

- Substantially all of our sales to date have b on a purchase order basis, which permits our custom cancel, change or delay product purchase commitme little or no notice to us and without penalty;

- Some of our customers may have efforts ur actively diversify their vendor base which could red purchases of our products; and

- Some of our customers have developed or products that compete directly with products these c purchase from us, which could affect our customers purchasing decisions in the future.

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Our customers regularly evaluate alternative sources of supply i
diversify their supplier base, which increases their negotiating le
us and protects their ability to secure these components. We bel
expansion of our customers supplier bases could have an adve
the prices we are able to charge and volume of product that we a
sell to our customers, which would negatively affect our revenu
operating results.

**We are subject to increased inventory risks and costs becaus
our products based on forecasts provided by customers befo
purchase orders for the products**

In order to ensure availability of our products for some of our la
customers, we start the manufacturing of our products in advanc
receiving purchase orders based on forecasts provided by these
However, these forecasts do not represent binding purchase con
and we do not recognize sales for these products until they are s
customer. As a result, we incur inventory and manufacturing co
advance of anticipated sales. Because demand for our products r
materialize, manufacturing based on forecasts subjects us to inc
of high inventory carrying costs, increased obsolescence and inc
operating costs. These inventory risks are exacerbated when our
purchase indirectly through contract manufacturers or hold com
inventory levels greater than their consumption rate because this
have less visibility regarding the accumulated levels of inventor
customers. A resulting write-off of unusable or excess inventori
adversely affect our operating results.

**Our products are complex and may contain errors which co
liability, an increase in our costs and/or a reduction in our r**

Our products are complex and may contain errors, particularly w
introduced or as new versions are released. Our products are inc
being designed in more complex processes, include higher level
and hardware integration in modules and system-level solutions
include elements provided by third parties which further increas
errors. We rely primarily on our in-house testing personnel to de
operations and procedures to detect any errors or vulnerabilities
delivery of our products to our customers.

Should problems occur in the operation or performance of our p
may experience delays in meeting key introduction dates or sche
delivery dates to our customers. These errors also could cause u
significant re-engineering costs, divert the attention of our engin

personnel from our product development efforts and cause signi
customer relations and business reputation problems. Any defec
result in refunds or other liability or require product replacemen
Any of the foregoing could impose substantial costs and harm o

Product liability, data breach or cyber liability claims may be as
respect to our products. Our products are typically sold at prices
significantly lower than the cost of the end-products into which
incorporated. A defect or failure in our product could cause failu
customer s end-product, so we could face claims for damages t
disproportionately higher than the revenues and profits we recei
products involved. Furthermore, product liability risks are partic
significant with respect to medical and automotive applications
the risk of serious harm to users of these products. There can be
that any insurance we maintain will sufficiently protect us from
claims.

**We rely on third parties to manufacture, assemble and test o
and the failure to successfully manage our relationships with
manufacturers and subcontractors would negatively impact
to sell our products**

We do not have our own wafer fab manufacturing facilities. The
rely on third-party vendors to manufacture the products we desi
currently rely on Asian third-party assembly subcontractors to a
package the silicon chips provided by the wafers for use in final
Additionally, we rely on these offshore subcontractors for a sub
portion of the testing requirements of our products prior to shipp
expect utilization of third-party subcontractors to continue in the

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The cyclical nature of the semiconductor industry drives wide fl available capacity at third-party vendors. On occasion, we have to adequately respond to unexpected increases in customer dem capacity constraints and, therefore, were unable to benefit from incremental demand. We may be unable to obtain adequate fou assembly or test capacity from our third-party subcontractors to customers delivery requirements even if we adequately foreca demand.

There are significant risks associated with relying on these third foundries and subcontractors, including:

- Failure by us, our customers or their end cu qualify a selected supplier;
- Potential insolvency of the third-party subc
- Reduced control over delivery schedules ar
- Limited warranties on wafers or products s us;
- Potential increases in prices or payments i for capacity;
- Increased need for international-based supp logistics and financial management;
- Their inability to supply or support new or packaging technologies; and
- Low test yields.

We typically do not have long-term supply contracts with our th vendors which obligate the vendor to perform services and supp to us for a specific period, in specific quantities, and at specific third-party foundry, assembly and test subcontractors typically guarantee that adequate capacity will be available to us within t required to meet demand for our products. In the event that thes to meet our demand for whatever reason, we expect that it woul 12 months to transition performance of these services to new pr a transition may also require qualification of the new providers customers or their end customers.

Most of the silicon wafers for the products that we have sold we manufactured either by Taiwan Semiconductor Manufacturing or TSMC s affiliates or by Semiconductor Manufacturing Inter Corporation (SMIC). Our customers typically complete their ov qualification process. If we fail to properly balance customer de the existing semiconductor fabrication facilities that we utilize required by our foundry partners to increase, or otherwise chang of fab lines that we utilize for our production, we might not be a demand for our products and may need to divert our engineerin away from new product development initiatives to support the f transition, which would adversely affect our operating results.

Our customers require our products to undergo a lengthy ar qualification process without any assurance of product sales

Prior to purchasing our products, our customers require that our undergo an extensive qualification process, which involves testi products in the customer s system as well as rigorous reliability qualification process may continue for six months or longer. Ho qualification of a product by a customer does not ensure any sal product to that customer. Even after successful qualification and product to a customer, a subsequent revision to the product or s changes in the IC s manufacturing process or the selection of a by us may require a new qualification process, which may resul and in us holding excess or obsolete inventory. After our produc qualified, it can take an additional six months or more before th commences volume production of components or devices that i our products. Despite these uncertainties, we devote substantial including design, engineering, sales, marketing and managemen toward qualifying our products with customers in anticipation o are unsuccessful or delayed in qualifying any of our products w customer, such failure or delay would preclude or delay sales of to the customer, which may impede our growth and cause our b suffer.

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**We are a global company, which subjects us to additional bu
including logistical and financial complexity, political instab
currency fluctuations**

We have established international subsidiaries and have opened
international markets to support our activities in Asia, the Amer
Europe. This has included the establishment of a headquarters i
for non-U.S. operations. The percentage of our revenues derived
outside of the United States was 86% during the three months e
2017. We may not be able to maintain or increase global marke
our products. Our international operations are subject to a numb
including:

- Complexity and costs of managing internat
operations and related tax obligations, including our
headquarters for non-U.S. operations in Singapore;

- Protectionist laws and business practices;

- Difficulties related to the protection of our
intellectual property rights in some countries;

- Multiple, conflicting and changing tax and
and regulations that may impact both our internation
domestic tax and other liabilities and result in increa
complexity and costs;

- Longer sales cycles;

- Greater difficulty in accounts receivable co
and longer collection periods;

- High levels of distributor inventory subject
protection and rights of return to us;

- Political and economic instability;

- Greater difficulty in hiring and retaining qu
personnel; and

- The need to have business and operations s
that can meet the needs of our international business
operating structure.

To date, substantially all of our sales to international customers
purchases of components from international suppliers have been
denominated in U.S. dollars. As a result, an increase in the valu
U.S. dollar relative to foreign currencies could make our produc
expensive for our international customers to purchase, thus rend
products less competitive. Similarly, a decrease in the value of t
dollar could reduce our buying power with respect to internation

**Our inability to manage growth could materially and advers
our business**

Our past growth has placed, and any future growth of our opera
continue to place, a significant strain on our management person
and resources. We anticipate that we will need to implement a v
and upgraded sales, operational and financial enterprise-wide sy
information technology infrastructure, procedures and controls,
improvement of our accounting and other internal management
manage this growth and maintain compliance with regulatory gu
including Sarbanes-Oxley Act requirements. To the extent our b
grows, our internal management systems and processes will nee
to ensure that we remain in compliance. We also expect that we
continue to expand, train, manage and motivate our workforce.
endeavors will require substantial management effort, and we ar
we will require additional management personnel and internal p
manage these efforts and to plan for the succession from time to
certain persons who have been key management and technical p
we are unable to effectively manage our expanding global opera
including our international headquarters in Singapore, our busin
materially and adversely affected.

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Our products incorporate technology licensed from third pa

We incorporate technology (including software) licensed from t
in our products. We could be subjected to claims of infringemen
of our lack of involvement in the development of the licensed te
Although a third-party licensor is typically obligated to indemni
licensed technology infringes on another party s intellectual pro
such indemnification is typically limited in amount and may be
the licensor becomes insolvent. See *Significant litigation over in
property in our industry may cause us to become involved in co
lengthy litigation which could seriously harm our business.* Furt
failure of third-party technology to perform properly would adv
sales of our products incorporating such technology.

We are subject to risks relating to product concentration

We derive a substantial portion of our revenues from a limited n
products, and we expect these products to continue to account fo
percentage of our revenues in the near term. Continued market a
these products, is therefore, critical to our future success. In add
substantially all of our products that we have sold include techn
to one or more of our issued U.S. patents. If these patents are fo
invalid or unenforceable, our competitors could introduce comp
products that could reduce both the volume and price per unit o
products. Our business, operating results, financial condition an
could therefore be adversely affected by:

- A decline in demand for any of our more si
products;

- Failure of our products to achieve continue
acceptance;

- Competitive products;

- New technological standards or changes to
standards that we are unable to address with our pro

- A failure to release new products or enhanc versions of our existing products on a timely basis; a

- The failure of our new products to achieve acceptance.

We are subject to credit risks related to our accounts receiv

We do not generally obtain letters of credit or other security for from customers, distributors or contract manufacturers. Accordi not protected against accounts receivable default or bankruptcy entities. Our ten largest customers or distributors represent a sub majority of our accounts receivable. If any such customer or dis material portion of our smaller customers or distributors, were t insolvent or otherwise not satisfy their obligations to us, we cou materially harmed.

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We depend on our key personnel to manage our business eff rapidly changing market, and if we are unable to retain our personnel and hire additional personnel, our ability to devel successfully market our products could be harmed

We believe our future success will depend in large part upon ou attract and retain highly skilled managerial, engineering, sales a personnel. We believe that our future success will be dependent the services of our key personnel, developing their successors ar internal processes to reduce our reliance on specific individuals. properly managing the transition of key roles when they occur. currently a shortage of qualified personnel with significant expe design, development, manufacturing, marketing and sales of ana mixed-signal products. In particular, there is a shortage of engin familiar with the intricacies of the design and manufacturability elements, and competition for such personnel is intense. Our key personnel represent a significant asset and serve as the primary our technological and product innovations. We may not be succ attracting and retaining sufficient numbers of technical personne our anticipated growth. The loss of any of our key employees or to attract or retain qualified personnel both in the United States internationally, including engineers, sales, applications and mar personnel, could delay the development and introduction of, and impact our ability to sell, our products.

Any dispositions could harm our financial condition

Any disposition of a product line would entail a number of risks materially and adversely affect our business and operating resul

- Diversion of management s time and atten our core business;

- Difficulties separating the divested busines

- Risks to relations with customers who prev purchased products from our disposed product line;

- Reduced leverage with suppliers due to red aggregate volume;
- Risks related to employee relations;
- Risks associated with the transfer and licen intellectual property;
- Security risks and other liabilities related to transition services provided in connection with the d
- Tax issues associated with dispositions; an
- Disposition-related disputes, including disp earn-outs and escrows.

Our stock price may be volatile

The market price of our common stock has been volatile in the p be volatile in the future. The market price of our common stock significantly affected by the following factors:

- Actual or anticipated fluctuations in our op results;
- Changes in financial estimates by securitie or our failure to perform in line with such estimates;
- Changes in market valuations of other tech companies, particularly semiconductor companies;

- Announcements by us or our competitors of significant technical innovations, acquisitions, strate partnerships, joint ventures or capital commitments;

- Introduction of technologies or product enhancements that reduce the need for our products;

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- The loss of, or decrease in sales to, one or r
customers;

- A large sale of stock by a significant sharel

- Dilution from the issuance of our stock in c
with acquisitions;

- The addition or removal of our stock to or f
stock index fund;

- Departures of key personnel;

- The required expensing of stock awards; ar

- The required changes in our reported reven
revenue recognition accounting policy expected und
Accounting Standards Update (ASU) No. 2014-09, *A
from Contracts with Customers (Topic 606).*

The stock market has experienced extreme volatility that often h
unrelated to the performance of particular companies. These ma
fluctuations may cause our stock price to fall regardless of our p

**Most of our current manufacturers, assemblers, test service
distributors and customers are concentrated in the same geo
region, which increases the risk that a natural disaster, epid
strike, war or political unrest could disrupt our operations o**

Most of our foundries and several of our assembly and test subc
sites are located in Taiwan and most of our other foundry, assem
subcontractors are located in the Pacific Rim region. In addition

our customers are located in the Pacific Rim region. The risk of
in Taiwan and the Pacific Rim region is significant due to the pr
major earthquake fault lines in the area. Earthquakes, tsunamis,
flooding, lack of water or other natural disasters, an epidemic, p
unrest, war, labor strikes or work stoppages in countries where o
semiconductor manufacturers, assemblers and test subcontracto
located, likely would result in the disruption of our foundry, ass
capacity. There can be no assurance that alternate capacity coul
on favorable terms, if at all.

A natural disaster, epidemic, labor strike, war or political unrest
customers facilities are located would likely reduce our sales t
customers. North Korea s geopolitical maneuverings have crea
Such unrest could create economic uncertainty or instability, co
to war or otherwise adversely affect South Korea and our South
customers and reduce our sales to such customers, which would
and adversely affect our operating results. In addition, a signific
of the assembly and testing of our products occurs in South Kor
disruption resulting from these events could also cause significa
shipments of our products until we are able to shift our manufac
assembling or testing from the affected subcontractor to another
vendor.

**The semiconductor manufacturing process is highly comple
time to time, manufacturing yields may fall below our expec
which could result in our inability to satisfy demand for our
a timely manner and may decrease our gross margins due to
costs**

The manufacturing of our products is a highly complex and tech
demanding process. Although we work closely with our foundri
assemblers to minimize the likelihood of reduced manufacturing
have from time to time experienced lower than anticipated manu
yields. Changes in manufacturing processes or the inadvertent u
defective or contaminated materials could result in lower than a
manufacturing yields or unacceptable performance deficiencies.
lower our gross margins. If our foundries fail to deliver fabricate
wafers of satisfactory quality in a timely manner, we will be una
our customers demand for our products in a timely manner, wh
adversely affect our operating results and damage our customer
relationships.

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**We depend on our customers to support our products, and s
customers offer competing products**

We rely on our customers to provide hardware, software, intelle
property indemnification and other technical support for the pro
supplied by our customers. If our customers do not provide the r
functionality or if our customers do not provide satisfactory sup
products, the demand for these devices that incorporate our proc
diminish or we may otherwise be materially adversely affected.
reduction in the demand for these devices would significantly re
revenues.

In certain products, some of our customers offer their own comp
products. These customers may find it advantageous to support
offerings in the marketplace in lieu of promoting our products.

**Our convertible senior notes could adversely affect our oper
and financial condition**

Upon conversion, our convertible senior notes may be settled in
of our common stock or a combination of cash and shares, at ou
We intend to settle the principal amount of the notes in cash. If
have adequate cash available, we may not be able to settle the p
amount in cash. In such case, we will be required to settle the pr
amount in stock, which would result in immediate, and possibly
dilution to the ownership interests of our existing stockholders.
the public market of our common stock issuable upon such conv
adversely affect prevailing market prices of our common stock.

Following any conclusion that we no longer have the ability to s
convertible senior notes in cash, we will be required on a going
basis to change our accounting policy for earnings per share fro
treasury stock method to the if-converted method. Earnings per
lower under the if-converted method as compared to the treasur
method.

The principal balance of the convertible senior notes was separa
liability and equity components, which were recorded initially a
The excess of the principal amount of the liability component o
carrying amount represents the debt discount, which is accreted
expense over the term of the notes using the effective interest m
Accordingly, we will report higher interest expense because of t

recognition of both the debt discount amortization and the notes
interest.

Our debt could adversely affect our operations and financia

We believe we have the ability to service our debt, but our abili
the required payments thereunder when due depends upon our f
performance, which will be subject to general economic conditi
cycles and other factors affecting our operations, including risk
described herein, many of which are beyond our control. Our cr
also contains covenants, including financial covenants. If we bre
the covenants under our credit facility and do not obtain approp
then, subject to any applicable cure periods, our outstanding ind
thereunder could be declared immediately due and payable.

**We could seek to raise additional debt or equity capital in th
but additional capital may not be available on terms accepta
at all**

We believe that our existing cash, cash equivalents, investments
under our credit facility will be sufficient to meet our working c
capital expenditures, investment requirements and commitments
the next 12 months. However, our ability to borrow furthe
the credit facility is dependent upon our ability to sa
various conditions, covenants and representations. It
possible that we may need to raise additional funds t
our activities or to facilitate acquisitions of other bus
products, intellectual property or technologies. We b
could raise these funds, if needed, by selling equity o
securities to the public or to selected investors. In ad
even though we may not need additional funds, we m
elect to sell additional equity or debt securities or ob
facilities for other reasons. However, we may not be
obtain additional funds on favorable terms, or at all.
decide to raise additional funds by issuing equity or
convertible debt securities, the ownership percentage
existing shareholders would be reduced.

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We have limited resources compared to some of our current potential competitors and we may not be able to compete eff increase market share

Some of our current and potential competitors have longer oper histories, significantly greater resources and name recognition a base of customers than we have. As a result, these competitors m greater credibility with our existing and potential customers. Th be able to adopt more aggressive pricing policies and devote gre resources to the development, promotion and sale of their produ can to ours. In addition, some of our current and potential comp already established supplier or joint development relationships w decision makers at our current or potential customers. These com may be able to leverage their existing relationships to discourag customers from purchasing products from us or persuade them t products with their products. Our competitors may also offer bu solutions offering a more complete product despite the technica advantages of our products. These competitors may elect not to products which could complicate our sales efforts. These and ot competitive pressures may prevent us from competing successfu current or future competitors, and may materially harm our busi Competition could decrease our prices, reduce our sales, lower g margins and/or decrease our market share.

Provisions in our charter documents and Delaware law coul delay or impede a change in control of us and may reduce th price of our common stock

Provisions of our certificate of incorporation and bylaws could h effect of discouraging, delaying or preventing a merger or acqui stockholder may consider favorable. For example, our certificat incorporation and bylaws provide for:

- The division of our Board of Directors into classes to be elected on a staggered basis, one class e

- The ability of our Board of Directors to iss of our preferred stock in one or more series without authorization of our stockholders;

- A prohibition on stockholder action by wri consent;

- Elimination of the right of stockholders to special meeting of stockholders;

- A requirement that stockholders provide ac notice of any stockholder nominations of directors o proposal of new business to be considered at any me stockholders; and

- A requirement that a supermajority vote be to amend or repeal certain provisions of our certifica incorporation.

We also are subject to the anti-takeover laws of Delaware whicl discourage, delay or prevent someone from acquiring or mergin which may adversely affect the market price of our common sto

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Risks related to our industry

We are subject to the cyclical nature of the semiconductor i which has been subject to significant fluctuations

The semiconductor industry is highly cyclical and is characteriz constant and rapid technological change, rapid product obsolesc price erosion, evolving standards, short product life cycles and v fluctuations in product supply and demand. The industry has ex significant fluctuations, often connected with, or in anticipation product cycles and new product introductions of both semicond companies and their customers products and fluctuations in g economic conditions. Deteriorating general worldwide economi including reduced economic activity, concerns about credit and increased energy costs, decreased consumer confidence, reduce profits, decreased spending and similar adverse business conditi make it very difficult for our customers, our vendors, and us to forecast and plan future business activities and could cause U.S businesses to slow spending on our products. We cannot predict strength, or duration of any economic slowdown or economic re the economy or markets in which we operate deteriorate, our bu financial condition, and results of operations would likely be ma adversely affected.

Downturns have been characterized by diminished product dem production overcapacity, high inventory levels and accelerated average selling prices. In the recent past, we believe the semico industry suffered a downturn due in large part to adverse condit global credit and financial markets, including diminished liquid availability, declines in consumer confidence, declines in econo increased unemployment rates and general uncertainty regardin economy. Such downturns may have a material adverse effect o business and operating results.

Upturns have been characterized by increased product demand production capacity constraints created by increased competitio to third-party foundry, assembly and test capacity. We are depe availability of such capacity to manufacture, assemble and test None of our third-party foundry, assembly or test subcontractor provided assurances that adequate capacity will be available to

The average selling prices of our products could decrease ra may negatively impact our revenues and gross margins

We may experience substantial period-to-period fluctuations in operating results due to the erosion of our average selling prices reduced the average unit price of our products in anticipation of response to competitive pricing pressures, new product introduc or our competitors and other factors. If we are unable to offset a reductions in our average selling prices by increasing our sales v increasing our sales content per application or reducing product gross margins and revenues will suffer. To maintain our gross m percentage, we will need to develop and introduce new products enhancements on a timely basis and continually reduce our cost to do so could cause our revenues and gross margin percentage

Competition within the numerous markets we target may re our products and reduce our market share

The markets for semiconductors in general, and for mixed-signa particular, are intensely competitive. We expect that the market products will continually evolve and will be subject to rapid tec change. In addition, as we target and supply products to numero and applications, we face competition from a relatively large nu competitors. We compete with Analog Devices, Broadcom, Co Cypress, IDT, Marvell Technology Group, Maxim Integrated P MaxLinear, Microchip, Microsemi, Nordic Semicon NXP Semiconductors, Qualcomm, Renesas, STMicroelectronics, Texas Instruments, Vectron Int and others. We expect to face competition in the fut our current competitors, other manufacturers and de semiconductors, and start-up semiconductor design As the markets for communications products grow, may face competition from traditional communicati companies. These companies may enter the mixed-s semiconductor market by introducing their own pro entering into strategic relationships with or acquirin existing providers of semiconductor products. In ad large companies may restructure their operations to separate companies or may acquire new businesses focused on providing the types of products we produ acquire our customers.

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**We may be the victim of cyber-attacks against our products
networks, which could lead to liability and damage our repu
financial results**

Many of our products focus on wireless connectivity and the Io
such connectivity may make these products particularly suscept
cyber-attacks. We routinely face attacks attempting to breach ou
protocols, gain access to or disrupt our computerized systems, o
proprietary company, customer, partner or employee informatio
attacks are sometimes successful. We may be subject to security
employee error, theft, malfeasance, phishing schemes, ransomw
password or data security management, or other irregularities. T
or misuse of personal or business data collected, used, stored or
by us to run our business could result in increased security costs
related to defending legal claims. Industrial espionage, theft or l
intellectual property data could lead to counterfeit products or h
competitive position of our products and services. Costs to com
implement privacy-related and data protection measures could b
Federal, state or international privacy-related or data protection
regulations could result in proceedings against us by governmen
others. Attempted or successful attacks against our products and
could damage our reputation with customers or users and reduce
our products and services.

**We may be subject to information technology failures that c
damage our reputation, business operations and financial co**

We rely on information technology for the effective operation o
business. Our systems are subject to damage or interruption fron
of potential sources, including natural disasters, accidents, powe
disruptions, telecommunications failures, acts of terrorism or wa
viruses, theft, physical or electronic break-ins, cyber-attacks, sa
vandalism, or similar events or disruptions. Our security measur
detect or prevent such security breaches. Any such compromise
information security could result in the theft or unauthorized pu
use of our confidential business or proprietary information, resu
unauthorized release of customer, supplier or employee data, re
violation of privacy or other laws, expose us to a risk of litigatio
our reputation. In addition, our inability to use or access informa
at critical points in time could unfavorably impact the timely an
operation of our business, which could negatively affect our bus
operating results.

Third parties with which we conduct business, such as foundries
and test contractors, distributors and customers, have access to c
portions of our sensitive data. In the event that these third partie
properly safeguard our data that they hold, security breaches cou

negatively impact our reputation, business operations and financ

Our products must conform to industry standards and techn order to be accepted by end users in our markets

Generally, our products comprise only a part of a device. All co such devices must uniformly comply with industry standards in operate efficiently together. We depend on companies that prov components of the devices to support prevailing industry standa these companies are significantly larger and more influential in industry standards than we are. Some industry standards may no adopted or implemented uniformly, and competing standards m that may be preferred by our customers or end users. If larger co not support the same industry standards that we do, or if compet emerge, market acceptance of our products could be adversely a which would harm our business.

Products for certain applications are based on industry standards continually evolving. Our ability to compete in the future will d ability to identify and ensure compliance with these evolving in standards. The emergence of new industry standards could rend products incompatible with products developed by other supplie result, we could be required to invest significant time and effort significant expense to redesign our products to ensure complian relevant standards. If our products are not in compliance with pr industry standards for a significant period of time, we could mis opportunities to achieve crucial design wins.

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Our pursuit of necessary technological advances may require su
and expense. We may not be successful in developing or using n
technologies or in developing new products or product enhance
achieve market acceptance. If our products fail to achieve mark
acceptance, our growth prospects, operating results and competi
could be adversely affected.

**Customer demands and new regulations related to conflict-f
may adversely affect us**

The Dodd-Frank Wall Street Reform and Consumer Protection
new disclosure requirements regarding the use of conflict mi
from the Democratic Republic of Congo and adjoining countrie
whether or not these products are manufactured by third parties.
requirements could affect the pricing, sourcing and availability
used in the manufacture of semiconductor devices (including ou
There will be additional costs associated with complying with th
requirements, such as costs related to determining the source of
minerals used in our products. Our supply chain is complex and
unable to verify the origins for all metals used in our products.
encounter challenges with our customers and stockholders if we
to certify that our products are conflict free.

Item 2. Unregistered Sales of Equity Securities and Use of P

Our registration statement (Registration No. 333-94853) under t
Act of 1933, as amended, relating to our initial public offering o
common stock became effective on March 23, 2000.

The following table summarizes repurchases of our common sto
the three months ended April 1, 2017 (in thousands, except per
amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approx Value o Ma Purchas Plans o
January 1, 2017 January 28, 2017		$		$

January 29, 2017 February 25, 2017	$	$
February 26, 2017 April 1, 2017	$	$
Total	$	

In January 2017, the Board of Directors authorized a program to
up to $100 million of our common stock through December 201
programs allow for repurchases to be made in the open market o
transactions, including structured or accelerated transactions, su
applicable legal requirements and market conditions.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

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Item 6. Exhibits

The following exhibits are filed as part of this report:

Exhibit Number	
3.1*	Form of Fourth Amended and Restated Certificate o Incorporation of Silicon Laboratories Inc. (filed as E the Registrant s Registration Statement on Form S- and Exchange Commission File No. 333-94853) (th Registration Statement)).
3.2*	Fourth Amended and Restated Bylaws of Silicon La Inc. (filed as Exhibit 3.2 to the Registrant s Current Form 8-K filed on January 27, 2017).
4.1*	Specimen certificate for shares of common stock (fi Exhibit 4.1 to the IPO Registration Statement).
4.2*	Indenture between Silicon Laboratories Inc. and Wi Trust, National Association, as trustee, dated March (filed as Exhibit 4.1 to the Registrant s Current Rep Form 8-K filed on March 6, 2017).
4.3*	Form of 1.375% Convertible Senior Note due 2022 Exhibit 4.2 to the Registrant s Current Report on Fo on March 6, 2017).
10.1*	Second Amendment to Credit Agreement, dated Fel 2017, by and among Silicon Laboratories Inc., the s the borrower identified therein, Wells Fargo Bank, I Association and the lenders party thereto (filed as E the Registrant s Current Report on Form 8-K filed February 27, 2017).
10.2*	Purchase Agreement between Silicon Laboratories I Goldman, Sachs & Co. and Wells Fargo Securities, representatives of the several initial purchasers nam dated February 28, 2017 (filed as Exhibit 10.1 to the Current Report on Form 8-K filed on March 6, 2017
31.1	Certification of the Principal Executive Officer, as r Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer, as re Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification as required by Section 906 of the Sarba Act of 2002.
101.INS	XBRL Instance Document

101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase I
101.LAB	XBRL Taxonomy Extension Label Linkbase Docum
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase D

* Incorporated herein by reference to the indicated filing.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of
registrant has duly caused this report to be signed on its behalf b
undersigned thereunto duly authorized.

SILICON LABORATO

April 26, 2017	/s/ G. Tyson T
Date	G. Tyson Tut
	President ar
	Chief Executive
	(Principal Executiv
April 26, 2017	/s/ John C. Hol
Date	John C. Hollis
	Senior Vice Presid
	Chief Financial
	(Principal Financ Accounting Off

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