

Sensata Technologies Holding N.V.  
Form 10-Q  
October 25, 2016  
Table of Contents

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

---

FORM 10-Q

---

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-34652

---

SENSATA TECHNOLOGIES HOLDING N.V.  
(Exact Name of Registrant as Specified in Its Charter)

---

THE NETHERLANDS  
(State or other jurisdiction of  
incorporation or organization)

98-0641254  
(I.R.S. Employer  
Identification No.)

Kolthofsingel 8, 7602 EM Almelo  
The Netherlands

31-546-879-555

(Address of Principal Executive Offices, including Zip Code) (Registrant's Telephone Number, Including Area Code)  
Former name, former address and former fiscal year, if changed since last report.

---

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of October 14, 2016, 170,860,233 ordinary shares were outstanding.

---

Table of Contents

TABLE OF CONTENTS

PART I

Item 1.	<u>Financial Statements (unaudited):</u>	
	<u>Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015</u>	<u>3</u>
	<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2016 and September 30, 2015</u>	<u>4</u>
	<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2016 and September 30, 2015</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2016 and September 30, 2015</u>	<u>6</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>38</u>
Item 4.	<u>Controls and Procedures</u>	<u>38</u>

PART II

Item 1.	<u>Legal Proceedings</u>	<u>39</u>
Item 1A.	<u>Risk Factors</u>	<u>39</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>39</u>
Item 3.	<u>Defaults Upon Senior Securities</u>	<u>40</u>
Item 6.	<u>Exhibits</u>	<u>40</u>
	<u>Signatures</u>	<u>41</u>

Table of Contents

## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements.

## SENSATA TECHNOLOGIES HOLDING N.V.

## Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)

(unaudited)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 299,887	\$ 342,263
Accounts receivable, net of allowances of \$11,256 and \$9,535 as of September 30, 2016 and December 31, 2015, respectively	532,571	467,567
Inventories	372,968	358,701
Prepaid expenses and other current assets	90,901	109,392
Total current assets	1,296,327	1,277,923
Property, plant and equipment, net	722,429	694,155
Goodwill	3,008,894	3,019,743
Other intangible assets, net of accumulated amortization of \$1,564,503 and \$1,412,931 as of September 30, 2016 and December 31, 2015, respectively	1,118,861	1,262,572
Deferred income tax assets	34,102	26,417
Other assets	70,380	18,100
Total assets	\$ 6,250,993	\$ 6,298,910
Liabilities and shareholders' equity		
Current liabilities:		
Current portion of long-term debt, capital lease and other financing obligations	\$ 14,475	\$ 300,439
Accounts payable	324,273	290,779
Income taxes payable	17,566	21,968
Accrued expenses and other current liabilities	265,631	251,989
Total current liabilities	621,945	865,175
Deferred income tax liabilities	410,019	390,490
Pension and other post-retirement benefit obligations	34,518	34,314
Capital lease and other financing obligations, less current portion	33,255	36,219
Long-term debt, net of discount and deferred financing costs, less current portion	3,262,409	3,264,333
Other long-term liabilities	34,610	39,803
Total liabilities	4,396,756	4,630,334
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Ordinary shares, €0.01 nominal value per share, 400,000 shares authorized; 178,437 shares issued as of September 30, 2016 and December 31, 2015	2,289	2,289
Treasury shares, at cost, 7,577 and 8,038 shares as of September 30, 2016 and December 31, 2015, respectively	(307,272)	(324,994)
Additional paid-in capital	1,639,303	1,626,024
Retained earnings	570,626	391,247
Accumulated other comprehensive loss	(50,709)	(25,990)
Total shareholders' equity	1,854,237	1,668,576
Total liabilities and shareholders' equity	\$ 6,250,993	\$ 6,298,910

The accompanying notes are an integral part of these condensed consolidated financial statements.

3

---

Table of Contents

SENSATA TECHNOLOGIES HOLDING N.V.  
Condensed Consolidated Statements of Operations  
(In thousands, except per share amounts)  
(unaudited)

	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net revenue	\$ 789,798	\$ 727,360	\$2,413,892	\$ 2,248,490
Operating costs and expenses:				
Cost of revenue	508,944	476,634	1,574,763	1,501,142
Research and development	31,601	30,816	95,240	92,794
Selling, general and administrative	75,046	66,233	224,637	203,637
Amortization of intangible assets	50,562	45,184	151,572	136,068
Restructuring and special charges	837	1,615	3,167	12,424
Total operating costs and expenses	666,990	620,482	2,049,379	1,946,065
Profit from operations	122,808	106,878	364,513	302,425
Interest expense, net	(41,176 )	(29,706 )	(125,201 )	(96,029 )
Other, net	(726 )	(10,805 )	4,892	(44,647 )
Income before taxes	80,906	66,367	244,204	161,749
Provision for income taxes	11,121	13,215	48,297	32,342
Net income	\$ 69,785	\$ 53,152	\$195,907	\$ 129,407
Basic net income per share	\$ 0.41	\$ 0.31	\$1.15	\$ 0.76
Diluted net income per share	\$ 0.41	\$ 0.31	\$1.14	\$ 0.75

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

SENSATA TECHNOLOGIES HOLDING N.V.  
 Condensed Consolidated Statements of Comprehensive Income  
 (In thousands)  
 (unaudited)

	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income	\$ 69,785	\$ 53,152	\$ 195,907	\$ 129,407
Other comprehensive loss, net of tax:				
Deferred loss on derivative instruments, net of reclassifications	(8,485 )	(17,430 )	(25,010 )	(13,058 )
Defined benefit and retiree healthcare plans	24	742	291	760
Other comprehensive loss	(8,461 )	(16,688 )	(24,719 )	(12,298 )
Comprehensive income	\$ 61,324	\$ 36,464	\$ 171,188	\$ 117,109

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

SENSATA TECHNOLOGIES HOLDING N.V.  
Condensed Consolidated Statements of Cash Flows  
(In thousands)  
(unaudited)

	For the nine months ended	
	September 30, 2016	September 30, 2015
Cash flows from operating activities:		
Net income	\$ 195,907	\$ 129,407
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	77,649	71,162
Amortization of deferred financing costs and original issue discounts	5,501	4,755
Currency remeasurement gain on debt	(66	) (2,082
Share-based compensation	13,279	11,093
Loss on debt financing	—	25,538
Amortization of inventory step-up to fair value	2,319	—
Amortization of intangible assets	151,572	136,068
Deferred income taxes	15,706	11,237
Unrealized loss on hedges and other non-cash items	726	13,541
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	(65,373	) (37,021
Inventories	(20,624	) 14,969
Prepaid expenses and other current assets	2,320	(22,483
Accounts payable and accrued expenses	33,371	8,840
Income taxes payable	(6,361	) 7,090
Other	(9,575	) (8,401
Net cash provided by operating activities	396,351	363,713
Cash flows from investing activities:		
Acquisition of CST, net of cash received	4,688	—
Acquisition of Schrader, net of cash received	—	(958
Other acquisitions, net of cash received	—	3,881
Additions to property, plant and equipment and capitalized software	(94,584	) (130,243
Investment in equity securities	(50,000	) —
Proceeds from the sale of assets	751	102
Net cash used in investing activities	(139,145	) (127,218
Cash flows from financing activities:		
Proceeds from exercise of stock options and issuance of ordinary shares	3,306	15,361
Proceeds from issuance of debt	—	1,795,120
Payments on debt	(297,698	) (1,970,685
Payments to repurchase ordinary shares	(4,672	) (50
Payments of debt issuance costs	(518	) (29,361
Net cash used in financing activities	(299,582	) (189,615
Net change in cash and cash equivalents	(42,376	) 46,880
Cash and cash equivalents, beginning of period	342,263	211,329
Cash and cash equivalents, end of period	\$ 299,887	\$ 258,209

The accompanying notes are an integral part of these condensed consolidated financial statements.





Table of Contents

SENSATA TECHNOLOGIES HOLDING N.V.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts, or unless otherwise noted)

(unaudited)

1. Business Description and Basis of Presentation

Description of Business

The accompanying unaudited condensed consolidated financial statements reflect the financial position, results of operations, comprehensive income, and cash flows of Sensata Technologies Holding N.V. ("Sensata Technologies Holding") and its wholly-owned subsidiaries, collectively referred to as the "Company," "Sensata," "we," "our," or "us."

Sensata Technologies Holding is incorporated under the laws of the Netherlands and conducts its operations through subsidiary companies that operate business and product development centers primarily in the United States (the "U.S."), the Netherlands, Belgium, China, Germany, Japan, South Korea, and the United Kingdom (the "U.K."); and manufacturing operations primarily in China, Malaysia, Mexico, Bulgaria, Poland, France, Germany, the U.K., and the U.S. We organize our operations into two businesses, Performance Sensing and Sensing Solutions.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q, and therefore do not include all of the information and note disclosures required by U.S. GAAP for complete financial statements. The accompanying financial information reflects all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the interim period results.

The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year, nor were those of the comparable periods in 2015 necessarily representative of those actually experienced for the full year 2015. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015.

All intercompany balances and transactions have been eliminated.

All U.S. dollar and share amounts presented, except per share amounts, are stated in thousands, unless otherwise indicated.

Certain reclassifications have been made to prior periods to conform to current period presentation.

2. New Accounting Standards

Adopted in fiscal year 2016:

In April 2015, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30) ("ASU 2015-03"), which simplifies the presentation of debt issuance costs. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 was effective for annual reporting periods beginning after December 15, 2015, including interim periods within those annual reporting periods. We adopted ASU 2015-03 on January 1, 2016, and as a result, as of September 30, 2016 and December 31, 2015, \$34.7 million and \$38.3 million, respectively, of deferred financing costs were classified as a reduction of long-term debt on our condensed consolidated balance sheets. The adoption of ASU 2015-03 did not have any impact on our statements of operations. Refer to Note 6, "Debt," for a reconciliation of the various components of long-term debt to the condensed consolidated balance sheets.

To be adopted in a future period:

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which modifies how all entities recognize revenue, and consolidates into one Accounting Standards Codification ("ASC") Topic (ASC Topic 606, Revenue from Contracts with Customers) the current guidance found in ASC Topic 605 and various other revenue accounting standards for specialized transactions and industries. ASU 2014-09 outlines a comprehensive five-step revenue recognition model based on the principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the

consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 may be applied using either a full retrospective approach, under which all

7

---

Table of Contents

years included in the financial statements will be presented under the revised guidance, or a modified retrospective approach, under which financial statements will be prepared under the revised guidance for the year of adoption, but not for prior years. Under the latter method, entities will recognize a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for contracts that still require performance by the entity.

In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date, which defers the effective date of ASU 2014-09 by one year. ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual reporting periods. We will adopt ASU 2014-09 on January 1, 2018, and are currently evaluating the impact that this adoption will have on our consolidated financial statements. At this time, we have not determined the transition method that will be used.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which establishes new accounting and disclosure requirements for leases. ASU 2016-02 requires lessees to classify most leases as either finance or operating leases and to initially recognize a lease liability and right-of-use asset. Entities may elect to account for certain short-term leases (with a term of 12 months or less) using a method similar to the current operating lease model. The statements of operations will include, for finance leases, separate recognition of interest on the lease liability and amortization of the right-of-use asset and for operating leases, a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a straight-line basis. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods, with early adoption permitted. ASU 2016-02 must be applied using a modified retrospective approach, which requires recognition and measurement of leases at the beginning of the earliest period presented, with certain practical expedients available. We are currently evaluating when to adopt ASU 2016-02 and the impact that this adoption will have on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09") as part of its simplification initiative. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions. The provisions of ASU 2016-09 that will impact us are as follows: (1) an accounting policy election may be made to account for forfeitures as they occur, rather than based on an estimate of future forfeitures, and (2) companies will be allowed to withhold shares, upon either the exercise of options or vesting of restricted securities, with an aggregate fair value in excess of the minimum statutory withholding requirement and still qualify for the exception to liability classification. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods, with early adoption permitted. Amendments related to the provisions that are applicable to Sensata must be applied using a modified retrospective approach by means of a cumulative-effect adjustment to equity as of the beginning of the period in which ASU 2016-09 is adopted. We are currently evaluating when to adopt ASU 2016-09 and the impact that this adoption will have on our consolidated financial statements.

### 3. Inventories

The components of inventories as of September 30, 2016 and December 31, 2015 were as follows:

	September 30, December 31,	
	2016	2015
Finished goods	\$ 150,894	\$ 154,827
Work-in-process	71,147	62,084
Raw materials	150,927	141,790
Inventories	\$ 372,968	\$ 358,701

### 4. Shareholders' Equity

#### Treasury Shares

We have a \$250.0 million share repurchase program in place. Under this program, we may repurchase ordinary shares from time to time, at such times and in amounts to be determined by our management, based on market conditions,

legal requirements, and other corporate considerations, on the open market or in privately negotiated transactions. The share repurchase program may be modified or terminated by our Board of Directors at any time. At September 30, 2016, \$250.0 million remained available for the repurchase of shares under this program.

Table of Contents

We did not repurchase any ordinary shares under this program during the nine months ended September 30, 2016 or September 30, 2015.

Ordinary shares repurchased by us are recorded at cost as treasury shares and result in a reduction of shareholders' equity. We reissue treasury shares as part of our share-based compensation programs. When shares are reissued, we determine the cost using the first-in, first-out method. During the nine months ended September 30, 2016 and September 30, 2015, we reissued 0.5 million and 0.9 million treasury shares, respectively. During the nine months ended September 30, 2016, in connection with our treasury share issuances, we recognized a reduction in Retained earnings of \$16.5 million.

**Accumulated Other Comprehensive Loss**

The following is a roll forward of the components of Accumulated other comprehensive loss, net of tax, for the nine months ended September 30, 2016:

	Deferred Gain/(Loss) on Derivative Instruments, Net of Reclassifications	Defined Benefit and Retiree Healthcare Plans	Accumulated Other Comprehensive Loss
Balance as of December 31, 2015	\$ 3,852	\$ (29,842 )	\$ (25,990 )
Other comprehensive loss before reclassifications	(24,847 )	—	(24,847 )
Amounts reclassified from accumulated other comprehensive loss	(163 )	291	128
Net current period other comprehensive loss	(25,010 )	291	(24,719 )
Balance as of September 30, 2016	\$ (21,158 )	\$ (29,551 )	\$ (50,709 )

The details of the amounts reclassified from Accumulated other comprehensive loss for the three and nine months ended September 30, 2016 and September 30, 2015 are as follows:

Component	Amount of (Gain)/Loss Reclassified from Accumulated Other Comprehensive Loss For the three months For the nine months ended ended September September 30, 2016 30, 2015 30, 2016 30, 2015				Affected Line in Condensed Consolidated Statements of Operations
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015	
Derivative instruments designated and qualifying as cash flow hedges					
Foreign currency forward contracts	\$(2,771)	\$(13,665)	\$(15,075)	\$(39,207)	Net revenue <sup>(1)</sup>
Foreign currency forward contracts	4,834	2,576	14,857	5,820	Cost of revenue <sup>(1)</sup>
Total, before taxes	2,063	(11,089 )	(218 )	(33,387 )	Income before taxes
Income tax effect	(514 )	2,767	55	8,347	Provision for income taxes
Total, net of taxes	\$1,549	\$(8,322 )	\$(163 )	\$(25,040)	Net income
Defined benefit and retiree healthcare plans	\$(5 )	\$1,017	\$324	\$1,327	Various <sup>(2)</sup>
Income tax effect	29	(275 )	(33 )	(567 )	Provision for income taxes
Total, net of taxes	\$24	\$742	\$291	\$760	Net income

<sup>(1)</sup> See Note 12, "Derivative Instruments and Hedging Activities," for additional details on amounts to be reclassified in the future from Accumulated other comprehensive loss.

<sup>(2)</sup> Amounts related to defined benefit and retiree healthcare plans reclassified from Accumulated other comprehensive loss affect the Cost of revenue, Research and development, Selling, general and administrative ("SG&A"), and Restructuring



Table of Contents

and special charges lines in the condensed consolidated statements of operations. The amounts reclassified are included in the computation of net periodic benefit cost. See Note 8, "Pension and Other Post-Retirement Benefits," for additional details of net periodic benefit cost.

#### 5. Restructuring and Special Charges

The following table presents amounts recorded within the condensed consolidated statements of operations associated with our restructuring actions for the three and nine months ended September 30, 2016 and September 30, 2015:

	For the three months ended September 30, 2016		For the nine months ended September 30, 2015	
Restructuring and special charges	\$837	\$ 1,615	\$3,167	\$ 12,424
Gain related to changes in foreign currency exchange rates	(36 )	(1,368 )	(88 )	(2,051 )
Total	\$801	\$ 247	\$3,079	\$ 10,373

Gains related to changes in foreign currency exchange rates are associated with the remeasurement of our restructuring liabilities and are recorded in Other, net.

The restructuring and special charges of \$0.8 million and \$3.2 million recognized during the three and nine months ended September 30, 2016, respectively, consisted primarily of facility exit costs related to the relocation of manufacturing lines from our facility in the Dominican Republic to a manufacturing facility in Mexico, and severance charges recorded in connection with acquired businesses and the termination of a limited number of employees. We completed the cessation of manufacturing in our Dominican Republic facility in the third quarter of 2016.

The restructuring and special charges of \$1.6 million and \$12.4 million recognized during the three and nine ended September 30, 2015, respectively, consisted primarily of costs associated with the termination of a limited number of employees in various locations throughout the world and severance charges recorded in connection with acquired businesses, including \$4.0 million of severance charges recorded in the second quarter of 2015 related to the closing of our Schrader Brazil manufacturing facility. Additional charges related to the closing of this facility were not recorded in Restructuring and special charges, and are discussed below in Exit and Disposal Activities.

The following table outlines the changes to the restructuring liability associated with the severance portion of our restructuring actions during the nine months ended September 30, 2016:

	Severance
Balance at December 31, 2015	\$ 23,986
Charges, net of reversals	1,197
Payments	(5,232 )
Impact of changes in foreign currency exchange rates	(88 )
Balance at September 30, 2016	\$ 19,863

#### Exit and Disposal Activities

In the second quarter of 2015, we decided to close our Schrader Brazil manufacturing facility. During the nine months ended September 30, 2015, in connection with this closing, and in addition to the \$4.0 million of severance charges recorded in the Restructuring and special charges line of our condensed consolidated statements of operations as discussed above, we incurred approximately \$5.0 million of charges, primarily recorded in Cost of revenue, related to the write-down of certain assets, including Property, plant and equipment and Inventory. These charges were not included in the restructuring and special charges table above.

Table of Contents

## 6. Debt

Our long-term debt and capital lease and other financing obligations as of September 30, 2016 and December 31, 2015 consisted of the following:

	Maturity Date	September 30, 2016	December 31, 2015
Term Loan	October 14, 2021	\$ 975,270	\$ 982,695
4.875% Senior Notes	October 15, 2023	500,000	500,000
5.625% Senior Notes	November 1, 2024	400,000	400,000
5.0% Senior Notes	October 1, 2025	700,000	700,000
6.25% Senior Notes	February 15, 2026	750,000	750,000
Revolving Credit Facility	March 26, 2020	—	280,000
Less: discount		(18,270	) (20,116 )
Less: deferred financing costs		(34,690	) (38,345 )
Less: current portion		(9,901	) (289,901 )
Long-term debt, net of discount and deferred financing costs, less current portion		\$ 3,262,409	\$ 3,264,333
Capital lease and other financing obligations		\$ 37,829	\$ 46,757
Less: current portion		(4,574	) (10,538 )
Capital lease and other financing obligations, less current portion		\$ 33,255	\$ 36,219

As of September 30, 2016, there was \$414.6 million of availability under our \$420.0 million revolving credit facility (the "Revolving Credit Facility"), net of \$5.4 million in letters of credit. Outstanding letters of credit are issued primarily for the benefit of certain operating activities. As of September 30, 2016, no amounts had been drawn against these outstanding letters of credit, which are scheduled to expire on various dates in 2016 and 2017.

## Accounting for Debt Financing Transactions

Gains or losses on debt financing transactions are recorded in Other, net. These gains or losses primarily represent charges related to the extinguishment or modification of existing debt, accounted for in accordance with ASC 470-50, and include, upon extinguishment of debt, fees paid to creditors and the write-off of unamortized deferred financing costs and original issue discount, and upon modification of debt, fees paid to third parties.

During the nine months ended September 30, 2016 and the three months ended September 30, 2015, we did not enter into any debt financing transactions.

During the nine months ended September 30, 2015, we recorded a loss of \$25.5 million in Other, net, which was primarily composed of fees paid to creditors of \$13.3 million and transaction costs incurred with third parties of \$5.9 million, with the remainder primarily related to the write-off of unamortized deferred financing costs and original issue discounts.

The debt financing transactions entered into in the nine months ended September 30, 2015 included (1) the settlement of the portion (\$620.9 million) of the 6.5% Senior Notes that was validly tendered in connection with a cash tender offer that commenced on March 19, 2015, (2) the redemption of the remaining \$79.1 million of the 6.5% Senior Notes on April 29, 2015, (3) the issuance and sale of the 5.0% Senior Notes on March 26, 2015, (4) the entry, on March 26, 2015, into the fifth amendment of our credit agreement dated as of May 12, 2011 (the "Credit Agreement"), which, among other things, increased the availability on the Revolving Credit Facility by \$100.0 million and extended its maturity date to March 26, 2020, and (5) the entry into the sixth amendment of the Credit Agreement on May 11, 2015, which consolidated our then existing terms loans into the Term Loan.

## Accrued Interest

Accrued interest associated with our outstanding debt is included as a component of Accrued expenses and other current liabilities in the condensed consolidated balance sheets. As of September 30, 2016 and December 31, 2015,



accrued interest totaled \$45.5 million and \$26.1 million, respectively.

11

---

Table of Contents

## 7. Income Taxes

We recorded a Provision for income taxes for the three months ended September 30, 2016 and September 30, 2015 of \$11.1 million and \$13.2 million, respectively, and for the nine months ended September 30, 2016 and September 30, 2015 of \$48.3 million and \$32.3 million, respectively. The Provision for income taxes consists of current tax expense, which relates primarily to our profitable operations in non-U.S. tax jurisdictions, and deferred tax expense, which relates to adjustments in book-to-tax basis differences primarily related to the step-up in fair value of fixed and intangible assets and goodwill, utilization of net operating losses, and adjustments to our U.S. valuation allowance in connection with acquisitions made by our U.S. subsidiaries.

During the three and nine months ended September 30, 2016, we recognized a benefit from income taxes of \$5.1 million and \$3.7 million, respectively, related to the change in our U.S. valuation allowance associated with the acquisition of CST (as defined in Note 16, "Acquisitions," of our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q), for which deferred tax liabilities were established related primarily to the step-up of tangible assets for book purposes. Refer to Note 16, "Acquisitions," for discussion of this acquisition.

## 8. Pension and Other Post-Retirement Benefits

We provide various pension and other post-retirement benefit plans for current and former employees, including defined benefit, defined contribution, and retiree healthcare benefit plans.

The components of net periodic benefit cost associated with our defined benefit and retiree healthcare plans for the three months ended September 30, 2016 and September 30, 2015 were as follows:

	U.S. Plans				Non-U.S. Plans			
	Defined Benefit		Retiree Healthcare		Defined Benefit		Total	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Service cost	\$—	\$—	\$ 25	\$ 26	\$ 697	\$ 705	\$ 722	\$ 731
Interest cost	332	381	94	66	298	264	724	711
Expected return on plan assets	(659)	(654)	—	—	(249)	(221)	(908)	(875)
Amortization of net loss	118	116	46	90	42	154	206	360
Amortization of prior service credit	—	—	(334)	(334)	(18)	(9)	(352)	(343)
Loss on settlement	140	273	—	—	1	147	141	420
Loss on curtailment	—	—	—	—	—	580	—	580
Net periodic benefit cost	\$(69)	\$ 116	\$(169)	\$(152)	\$ 771	\$ 1,620	\$ 533	\$ 1,584

Table of Contents

The components of net periodic benefit cost associated with our defined benefit and retiree healthcare plans for the nine months ended September 30, 2016 and September 30, 2015 were as follows:

	U.S. Plans				Non-U.S. Plans		Total	
	Defined Benefit		Retiree Healthcare		Defined Benefit			
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Service cost	\$—	\$—	\$76	\$77	\$2,003	\$2,199	\$2,079	\$2,276
Interest cost	1,109	1,142	283	198	887	807	2,279	2,147
Expected return on plan assets	(2,006)	(1,961)	—	—	(714)	(671)	(2,720)	(2,632)
Amortization of net loss/(gain)	355	348	142	270	89	(90)	586	528
Amortization of prior service (credit)/cost	—	—	(1,001)	(1,002)	8	(27)	(993)	(1,029)
Loss on settlement	730	273	—	—	1	440	731	713
Loss on curtailment	—	—	—	—	—	1,115	—	1,115
Net periodic benefit cost	\$188	\$ (198)	\$ (500)	\$ (457)	\$2,274	\$ 3,773	\$1,962	\$ 3,118

## 9. Share-Based Payment Plans

## Share-Based Compensation Expense

The table below presents non-cash compensation expense related to our equity awards, which is recorded within SG&A expense in the condensed consolidated statements of operations during the identified periods:

	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Stock options	\$1,621	\$ 1,650	\$5,547	\$ 5,305
Restricted securities	3,136	1,862	7,732	5,788
Share-based compensation expense	\$4,757	\$ 3,512	\$13,279	\$ 11,093

## Share-Based Compensation Awards

We grant share-based compensation awards for which vesting is subject only to continued employment and the passage of time (options and restricted stock units ("RSUs")), as well as those for which vesting also depends on the attainment of certain performance criteria (performance options and performance-based restricted stock units ("PRSUs")).

We granted the following options under the Sensata Technologies Holding N.V. 2010 Equity Incentive Plan (the "2010 Equity Plan") during the nine months ended September 30, 2016:

Awards Granted to	Number of Options Granted	Weighted- Average Grant Date Fair Value	Vesting Period
Various executives and employees	257	\$11.66	Three-year cliff <sup>(1)</sup>
Various executives and employees	396	\$12.36	25% per year over four years

<sup>(1)</sup> These performance options will vest on January 21, 2019, depending on the satisfaction of certain performance criteria.

Table of Contents

We granted the following RSUs and PRSUs under the 2010 Equity Plan during the nine months ended September 30, 2016:

Awards Granted to	Number of RSUs Granted <sup>(1)</sup>	Number of PRSUs Granted <sup>(2)</sup>	Weighted-Average Grant Date Fair Value (Combined)
Various executives and employees	280	180	\$ 38.76
Directors	37	—	\$ 37.08

<sup>(1)</sup> RSUs granted during the nine months ended September 30, 2016 vest on various dates between June 2017 and July 2019.

<sup>(2)</sup> PRSUs granted during the nine months ended September 30, 2016 vest in April 2019, depending on the extent to which certain performance criteria are met, and could range between 0.0% and 172.5% of the number granted.

On April 25, 2016, our Board of Directors approved retroactive amendments to our RSUs and PRSUs to allow for accelerated vesting upon termination without cause within 24 months after a change in control, as defined in the 2010 Equity Plan. These changes were made in order to provide consistency across our equity awards, to better align management and shareholder interests, and to incorporate equity compensation best practices. There was no change to the terms of our option awards, as Section 4.3(b) of the 2010 Equity Plan specifically provides for accelerated vesting of options upon termination without cause within 24 months after a change in control.

#### Option Exercises

During the nine months ended September 30, 2016, 342 stock options were exercised, all of which were settled with shares reissued from treasury.

#### 10. Commitments and Contingencies

##### Collaborative Arrangements

On March 4, 2016, we entered into a strategic partnership agreement (the "SPA") with Quanergy Systems, Inc. ("Quanergy") to jointly develop, manufacture, and sell solid state Light Detection and Ranging ("LiDAR") sensors. Under the terms of the SPA, we will be exclusive partners with Quanergy for component level solid state LiDAR sensors in the transportation market.

We are accounting for the SPA under the provisions of ASC Topic 808, Collaborative Arrangements, under which the accounting for certain transactions is determined using principal versus agent considerations. Using the guidance in ASC Subtopic 605-45, Principal Agent Considerations, we have determined that we are the principal with respect to the SPA.

During the three and nine months ended September 30, 2016, there were no amounts recorded to earnings related to the SPA.

##### Off-Balance Sheet Commitments

From time to time, we execute contracts that require us to indemnify the other parties to the contracts. These indemnification obligations generally arise in two contexts. First, in connection with certain transactions, such as the sale of a business or the issuance of debt or equity securities, the agreement typically contains standard provisions requiring us to indemnify the purchaser against breaches by us of representations and warranties contained in the agreement. These indemnities are generally subject to time and liability limitations. Second, we enter into agreements in the ordinary course of business, such as customer contracts, which might contain indemnification provisions relating to product quality, intellectual property infringement, governmental regulations and employment related matters, and other typical indemnities. In certain cases, indemnification obligations arise by law. Performance under any of these indemnification obligations would generally be triggered by a breach of the terms of the contract or by a third-party claim. Historically, we have experienced only immaterial and irregular losses associated with these indemnifications. Consequently, any future liabilities brought about by these indemnifications cannot reasonably be estimated or accrued.

##### Indemnifications Provided As Part of Contracts and Agreements

We are party to the following types of agreements pursuant to which we may be obligated to indemnify a third party with respect to certain matters.

Officers and Directors: Our articles of association provide for indemnification of directors and officers by us to the fullest extent permitted by applicable law, as it now exists or may hereinafter be amended (but, in the case of an amendment, only to

## Table of Contents

the extent such amendment permits broader indemnification rights than permitted prior thereto), against any and all liabilities, including all expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit, or proceeding, provided he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, our best interests, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful or outside of his or her mandate. The articles do not provide a limit to the maximum future payments, if any, under the indemnification. No indemnification is provided for in respect of any claim, issue, or matter as to which such person has been adjudged to be liable for gross negligence or willful misconduct in the performance of his or her duty on our behalf.

In addition, we have a liability insurance policy that insures directors and officers against the cost of defense, settlement, or payment of claims and judgments under some circumstances. Certain indemnification payments may not be covered under our directors' and officers' insurance coverage.

**Initial Purchasers of Senior Notes:** Pursuant to the terms of the purchase agreements entered into in connection with our private placement senior note offerings, we are obligated to indemnify the initial purchasers of our senior notes against certain liabilities caused by any untrue statement or alleged untrue statement of a material fact in various documents relied upon by such initial purchasers, or to contribute to payments the initial purchasers may be required to make in respect thereof. The purchase agreements do not provide a limit to the maximum future payments, if any, under these indemnifications.

**Intellectual Property and Product Liability Indemnification:** We routinely sell products with a limited intellectual property and product liability indemnification included in the terms of sale. Historically, we have had only immaterial and irregular losses associated with these indemnifications. Consequently, any future liabilities resulting from these indemnifications cannot reasonably be estimated or accrued.

### **Product Warranty Liabilities**

Our standard terms of sale provide our customers with a warranty against faulty workmanship and the use of defective materials, which, depending on the product, generally exists for a period of twelve to eighteen months after the date we ship the product to our customer or for a period of twelve months after the date the customer resells our product, whichever comes first. We do not offer separately priced extended warranty or product maintenance contracts. Our liability associated with this warranty is, at our option, to repair the product, replace the product, or provide the customer with a credit.

We also sell products to customers under negotiated agreements or where we have accepted the customer's terms of purchase. In these instances, we may provide additional warranties for longer durations, consistent with differing end-market practices, and where our liability is not limited. In addition, many sales take place in situations where commercial or civil codes, or other laws, would imply various warranties and restrict limitations on liability.

In the event a warranty claim based on defective materials exists, we may be able to recover some of the cost of the claim from the vendor from whom the materials were purchased. Our ability to recover some of the costs will depend on the terms and conditions to which we agreed when the materials were purchased. When a warranty claim is made, the only collateral available to us is the return of the inventory from the customer making the warranty claim.

Historically, when customers make a warranty claim, we either replace the product or provide the customer with a credit. We generally do not rework the returned product.

Our policy is to accrue for warranty claims when a loss is both probable and estimable. This is accomplished by accruing for estimated returns and estimated costs to replace the product at the time the related revenue is recognized. Liabilities for warranty claims have historically not been material. In some instances, customers may make claims for costs they incurred or other damages related to a claim. Any potentially material liabilities associated with these claims are discussed in this Note under the heading Legal Proceedings and Claims.

### **Environmental Remediation Liabilities**

Our operations and facilities are subject to U.S. and non-U.S. laws and regulations governing the protection of the environment and our employees, including those governing air emissions, water discharges, the management and disposal of hazardous substances and wastes, and the cleanup of contaminated sites. We could incur substantial costs,

including cleanup costs, fines, civil or criminal sanctions, or third-party property damage or personal injury claims, in the event of violations or liabilities under these laws and regulations, or non-compliance with the environmental permits required at our facilities. Potentially significant expenditures could be required in order to comply with environmental laws that may be adopted or imposed in the future. We are, however, not aware of any threatened or pending material environmental investigations, lawsuits, or claims involving us or our operations.

Table of Contents

In 2001, a subsidiary of Texas Instruments ("TI") in Brazil ("TI Brazil") was notified by the State of São Paulo, Brazil regarding its potential cleanup liability as a generator of wastes sent to the Aterro Mantovani disposal site, which operated near Campinas from 1972 to 1987. The site is a landfill contaminated with a variety of chemical materials, including petroleum products, allegedly disposed at the site. TI Brazil is one of over 50 companies notified of potential cleanup liability. There have been several lawsuits filed by third parties alleging personal injuries caused by exposure to drinking water contaminated by the disposal site. Our subsidiary, Sensata Technologies Sensores e Controles do Brasil Ltda. ("ST Brazil"), is the successor in interest to TI Brazil. However, in accordance with the terms of the acquisition agreement entered into in connection with the 2006 Acquisition, TI retained these liabilities (subject to the limitations set forth in that agreement) and has agreed to indemnify us with regard to these excluded liabilities. Additionally, in 2008, five lawsuits were filed against ST Brazil alleging personal injuries suffered by individuals who were exposed to drinking water allegedly contaminated by the Aterro Mantovani disposal site. These matters are managed and controlled by TI. TI is defending these five lawsuits in the 1st Civil Court of Jaquariuna, São Paulo. Although ST Brazil cooperates with TI in this process, we do not anticipate incurring any non-reimbursable expenses related to the matters described above. Accordingly, no amounts have been accrued for these matters as of September 30, 2016.

Control Devices, Inc. ("CDI"), a wholly-owned subsidiary of one of our U.S. operating subsidiaries, Sensata Technologies, Inc., acquired through our acquisition of First Technology Automotive, is party to a post-closure license, along with GTE Operations Support, Inc. ("GTE"), from the Maine Department of Environmental Protection ("DEP") with respect to a closed hazardous waste surface impoundment located on real property owned by CDI in Standish, Maine. The post-closure license obligates GTE to operate a pump and treatment process to reduce the levels of chlorinated solvents in the groundwater under the property. The post-closure license obligates CDI to maintain the property and provide access to GTE. We do not expect the costs to comply with the post-closure license to be material. As a related but separate matter, pursuant to the terms of an environmental agreement dated July 6, 1994, GTE retained liability and agreed to indemnify CDI for certain liabilities related to the soil and groundwater contamination from the surface impoundment and an out-of-service leach field at the Standish, Maine facility, and CDI and GTE have certain obligations related to the property and each other. The site is contaminated primarily with chlorinated solvents. In 2013, CDI subdivided and sold a portion of the property subject to the post-closure license, including a manufacturing building, but retained the portion of the property that contains the closed hazardous waste surface impoundment, for which it and GTE continue to be subject to the obligations of the post-closure license. The buyer of the facility is also now subject to certain restrictions of the post-closure license. In 2013, the Maine DEP required CDI to commence an ecological risk assessment on sediments in an unnamed stream crossing the sold and retained land. In the first quarter of 2016, after reviewing the completed study, the Maine DEP agreed that no further action is required with regard to the stream sediments.

**Legal Proceedings and Claims**

We account for litigation and claims losses in accordance with ASC Topic 450, Contingencies ("ASC 450"). Under ASC 450, loss contingency provisions are recorded for probable and estimable losses at our best estimate of a loss or, when a best estimate cannot be made, at our estimate of the minimum loss. These estimates are often developed prior to knowing the amount of the ultimate loss, require the application of considerable judgment, and are refined each accounting period as additional information becomes known. Accordingly, we are often initially unable to develop a best estimate of loss and therefore the minimum amount, which could be an immaterial amount, is recorded. As information becomes known, either the minimum loss amount is increased, or a best estimate can be made, generally resulting in additional loss provisions. A best estimate amount may be changed to a lower amount when events result in an expectation of a more favorable outcome than previously expected.

We are regularly involved in a number of claims and litigation matters in the ordinary course of business. Most of our litigation matters are third-party claims for property damage allegedly caused by our products, but some involve allegations of personal injury or wrongful death. We believe that the ultimate resolution of the current litigation matters pending against us, except potentially those matters described below, will not be material to our financial statements.



Pending Litigation and Claims

Korean Supplier: In the first quarter of 2014, one of our Korean suppliers, Yukwang Co. Ltd. ("Yukwang"), notified us that it was terminating its existing agreement with us and stopped shipping product to us. We brought legal proceedings against Yukwang in Seoul Central District Court, seeking an injunction to protect Sensata-owned manufacturing equipment physically located at Yukwang's facility. Yukwang countered that we were in breach of contract and alleged damages of approximately \$7.6 million. The Seoul Central District Court granted our request for an injunction ordering Yukwang not to destroy any of our assets physically located at Yukwang's facility, but on August 25, 2014 did not grant injunctive relief requiring Yukwang to return equipment and inventory to us.

Table of Contents

In the first quarter of 2014, Yukwang filed a complaint against us with the Small and Medium Business Administration (the "SMBA"), a Korean government agency charged with protecting the interests of small and medium sized businesses. The SMBA attempted to mediate the dispute between us and Yukwang, but its efforts failed. We believe that the SMBA has abandoned its efforts to mediate the dispute.

On May 27, 2014, Yukwang filed a patent infringement action against us and our equipment supplier with the Suwon district court seeking a preliminary injunction for infringement of Korean patent number 847,738. Yukwang also filed a patent scope action on the same patent with the Korean Intellectual Property Tribunal ("KIPT") and sought police investigation into the alleged infringement. Yukwang is seeking unspecified damages as well as an injunction barring us from using parts covered by the patent in the future. On October 8, 2014, the Suwon district court entered an order dismissing the patent infringement action on invalidity grounds. On October 14, 2014, Yukwang filed an appeal of that decision to the Seoul High Court (an intermediate appellate court). The Seoul High Court decided in our favor on February 29, 2016, and Yukwang did not attempt to appeal this decision to the Korean Supreme Court, so this decision is now final. On April 24, 2015, the KIPT issued a decision in our favor, finding the patent to be invalid. On January 22, 2016, the Korean Patent Court affirmed the invalidity decision. On February 12, 2016, Yukwang filed an appeal to the Korean Supreme Court. On June 9, 2016, the Korean Supreme Court decided not to hear further appeals. This concludes the intellectual property matters.

In August 2014, the Korean Fair Trade Commission (the "KFTC") opened investigations into allegations made by Yukwang that our indirect, wholly-owned subsidiary, Sensata Technologies Korea Limited, engaged in unfair trade practices and violated a Korean law relating to subcontractors (the "Subcontracting Act"). We have responded to information requests from the KFTC. A hearing was held by the KFTC on October 2, 2015, and we held several meetings and responded to a subpoena for documents in early 2016. On March 15, 2016, the KFTC issued a decision that found us "not guilty" of several allegations involving alleged violations of the Fair Trade Act but found us "guilty" of imposing unfair trade terms and conditions. The agency has issued a "strict warning" to compel future compliance but will not issue a fine. On April 7, 2016, the KFTC issued a decision that found us "not guilty" of alleged violations of the Subcontracting Act.

We believe that all of the above matters have now been resolved, with no amount due by us, and as a result, as of September 30, 2016, we have not recorded an accrual related to these matters.

Brazil Local Tax: Schrader International Brasil Ltda. is involved in litigation with the tax department of the State of São Paulo, Brazil (the "São Paulo Tax Department"), which is claiming underpayment of state taxes. The total amount claimed is approximately \$26.0 million, which includes penalties and interest. It is our understanding that the courts have denied the São Paulo Tax Department's claim, a decision which has been appealed. Although we do not believe that a loss is probable in this matter, Schrader International Brasil Ltda. has been requested to pledge certain of its assets as collateral for the disputed amount while the case is heard. Certain of our subsidiaries have been indemnified by Tomkins Limited (a previous owner of Schrader) for any potential loss relating to this issue, and Tomkins Limited is responsible for and is currently managing the defense of this matter. As of September 30, 2016, we have not recorded an accrual related to this matter.

Hassett Class Action Lawsuit: On March 19, 2015, two named plaintiffs filed a class action complaint in the U.S. District Court for the Eastern District of Michigan against Chrysler and Schrader-Bridgeport International, Inc., styled Hassett v. FCA US, LLC et al., case number 2:2015cv11030 (E.D. Michigan). The lawsuit alleged that faulty valve stems were used in Schrader tire pressure monitoring sensors installed on Chrysler vehicles in model years 2007 through 2014. It alleged breach of warranty, unjust enrichment, and violations of the Michigan Consumer Protection Act and the federal Magnuson-Moss Warranty Act, and was seeking compensatory and punitive damages. Both the size of the class and the damages sought were unspecified. The plaintiffs, joined by an additional individual, filed an amended complaint dated June 2, 2015. On July 23, 2015, along with Chrysler, we filed motions to dismiss. The court held a hearing on these motions on December 2, 2015. On December 7, 2015, the court dismissed the complaint on procedural grounds. The plaintiffs did not re-file their claim, and as a result, this matter is concluded.

Automotive Customers: In the fourth quarter of 2013, one of our automotive customers alleged defects in certain of our sensor products installed in the customer's vehicles during 2013. The alleged defects are not safety related. In the

third quarter of 2014, we made a contribution to this customer in the amount of \$0.7 million, which resolved a portion of the claim. In the first quarter of 2016, this customer requested an additional reimbursement, which we are currently evaluating, related to these alleged defects. We continue to work towards a final resolution of this matter and consider a loss to be probable. As of September 30, 2016, we have recorded an accrual of \$2.2 million, representing our estimate of the minimum loss related to this matter. We are still in negotiations with the customer, and cannot estimate an upper end of the potential range of loss as we do not know the number of parts or vehicles that will ultimately be involved in the claim.

Table of Contents

In the first quarter of 2014, a second customer alleged similar non-safety related defects. In the second quarter of 2015, we settled with this customer for an immaterial amount.

In the fourth quarter of 2015, an additional customer raised similar complaints involving other vehicles from the same approximate production period. On April 15, 2016, we settled this matter with this customer for \$0.4 million.

## 11. Fair Value Measures

Our assets and liabilities recorded at fair value have been categorized based upon the fair value hierarchy in accordance with ASC Topic 820, Fair Value Measurement.

## Measured on a Recurring Basis

The following table presents information about our assets and liabilities measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015, aggregated by the level in the fair value hierarchy within which those measurements fell:

	September 30, 2016		December 31, 2015	
	Quoted Prices in Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Quoted Prices in Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Foreign currency forward contracts	\$ 5,131	\$ —	\$ 28,569	\$ —
Commodity forward contracts	—5,098	—	—42	—
Total	\$ 5,131	\$ —	\$ 28,569	\$ —
Liabilities				
Foreign currency forward contracts	\$ 28,639	\$ —	\$ 20,561	\$ —
Commodity forward contracts	—1,853	—	—13,685	—
Total	\$ 28,639	\$ —	\$ 20,561	\$ —

The valuations of the foreign currency and commodity forward contracts are determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each instrument. This analysis utilizes observable market-based inputs, including foreign currency and commodity forward curves, and reflects the contractual terms of these instruments, including the period to maturity. The specific contractual terms utilized as inputs in determining fair value and a discussion of the nature of the risks being mitigated by these instruments are detailed in Note 12, "Derivative Instruments and Hedging Activities," under the captions "Hedges of Foreign Currency Risk" and "Hedges of Commodity Risk."

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to appropriately reflect both our own non-performance risk and the respective counterparties' non-performance risk in the fair value measurement. However, as of September 30, 2016 and December 31, 2015, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that our derivatives in their entirety are classified in Level 2 in the fair value hierarchy.

## Measured on a Non-Recurring Basis

We evaluate the recoverability of goodwill and indefinite-lived intangible assets in the fourth quarter of each fiscal year, or more frequently if events or changes in circumstances indicate that goodwill or other intangible assets may be impaired. As of October 1, 2015, we evaluated our goodwill for impairment using the qualitative method, and

determined that it was more likely than not that the fair values of each of our reporting units were greater than their net book values at that date.

Table of Contents

As of October 1, 2015, we evaluated our indefinite-lived intangible assets for impairment (using the quantitative method), and determined that the fair values of our indefinite-lived intangible assets exceeded their carrying values on that date. The fair values of indefinite-lived intangible assets are considered Level 3 fair value measurements.

As of September 30, 2016, no events or changes in circumstances occurred that would have triggered the need for an additional impairment review of goodwill or indefinite-lived intangible assets.

**Financial Instruments Not Recorded at Fair Value**

The following table presents the carrying values and fair values of financial instruments not recorded at fair value in the condensed consolidated balance sheets as of September 30, 2016 and December 31, 2015:

	September 30, 2016			December 31, 2015				
	Carrying Value <sup>(1)</sup>	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Carrying Value <sup>(1)</sup>	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
<b>Liabilities</b>								
Term Loan	\$975,270	\$—	\$977,708	\$—	\$982,695	\$—	\$963,041	\$—
4.875% Senior Notes	\$500,000	\$—	\$521,875	\$—	\$500,000	\$—	\$484,690	\$—
5.625% Senior Notes	\$400,000	\$—	\$423,500	\$—	\$400,000	\$—	\$409,252	\$—
5.0% Senior Notes	\$700,000	\$—	\$717,500	\$—	\$700,000	\$—	\$675,941	\$—
6.25% Senior Notes	\$750,000	\$—	\$814,223	\$—	\$750,000	\$—	\$781,410	\$—
Revolving Credit Facility	\$—	\$—	\$—	\$—	\$280,000	\$—	\$266,877	\$—

<sup>(1)</sup> The carrying value is presented excluding discount and deferred financing costs.

The fair values of our term loans and senior notes are primarily determined using observable prices in markets where these instruments are generally not traded on a daily basis. The fair value of the Revolving Credit Facility is calculated as the present value of the difference between the contractual spread on the loan and the estimated replacement credit spread using the current outstanding balance on the loan projected to the loan maturity.

Cash and cash equivalents, trade receivables, and trade payables are carried at their cost, which approximates fair value, because of their short-term nature.

In March 2016, we acquired \$50.0 million of Series B Preferred Stock of Quanergy. In accordance with the guidance in ASC Topic 323, Investments - Equity Method and Joint Ventures, we have accounted for this investment as a cost method investment under ASC 325-20, Cost Method Investments, as the Series B Preferred Stock is not "in substance" common stock and does not have a readily determinable fair value. Fair value of this cost method investment as of September 30, 2016 has not been estimated, as there are no indicators of impairment, and it is not practicable to estimate its fair value due to the restricted marketability of this investment.

**12. Derivative Instruments and Hedging Activities**

As required by ASC Topic 815, Derivatives and Hedging ("ASC 815"), we record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate the derivative as being in a hedging relationship, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as hedges of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. We currently only utilize cash flow hedges.

Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge, or the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain risks, even though we elect not to apply hedge accounting under ASC 815. Changes in the fair value of derivatives not designated in hedging

relationships are recorded directly in the condensed

19

---

Table of Contents

consolidated statements of operations. Specific information about the valuations of derivatives and classification of derivatives in the fair value hierarchy is described in Note 11, "Fair Value Measures."

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recorded in Accumulated other comprehensive loss and is subsequently reclassified into earnings in the period in which the hedged forecasted transaction affects earnings. Refer to Note 4, "Shareholders' Equity," and elsewhere in this Note, for more details on the reclassification of amounts from Accumulated other comprehensive loss into earnings. The ineffective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recognized directly in earnings.

We do not offset the fair value amounts recognized for derivative instruments against fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral. As of September 30, 2016 and December 31, 2015, we had posted no cash collateral.

**Hedges of Foreign Currency Risk**

We are exposed to fluctuations in various foreign currencies against our functional currency, the U.S. dollar. We use foreign currency forward agreements to manage this exposure. We currently have outstanding foreign currency forward contracts that qualify as cash flow hedges intended to offset the effect of exchange rate fluctuations on forecasted sales and certain manufacturing costs. We also have outstanding foreign currency forward contracts that are intended to preserve the economic value of foreign currency denominated monetary assets and liabilities; these instruments are not designated for hedge accounting treatment in accordance with ASC 815. Derivatives not designated as hedges are not speculative and are used to manage our exposure to foreign exchange movements. For the three and nine months ended September 30, 2016 and September 30, 2015, the ineffective portion of the changes in the fair value of these derivatives that was recognized directly in earnings was not material and no amounts were excluded from the assessment of effectiveness. As of September 30, 2016, we estimate that \$20.6 million in net losses will be reclassified from Accumulated other comprehensive loss to earnings during the twelve months ending September 30, 2017.



Table of Contents

As of September 30, 2016, we had the following outstanding foreign currency forward contracts:

Notional (in millions)	Effective Date	Maturity Date	Index	Weighted- Average Strike Rate	Hedge Designation
96.3 EUR	Various from November 2014 to September 2016	October 31, 2016	Euro to U.S. Dollar Exchange Rate	1.13 USD	Non-designated
417.1 EUR	Various from December 2014 to September 2016	Various from November 2016 to August 2018	Euro to U.S. Dollar Exchange Rate	1.14 USD	Designated
194.0 CNY	September 27, 2016	October 31, 2016	U.S. Dollar to Chinese Renminbi Exchange Rate	6.70 CNY	Non-designated
600.0 JPY	September 28, 2016	October 31, 2016	U.S. Dollar to Japanese Yen Exchange Rate	100.48 JPY	Non-designated
54,189.4 KRW	Various from December 2014 to September 2016	October 31, 2016	U.S. Dollar to Korean Won Exchange Rate	1,106.94 KRW	Non-designated
50,073.1 KRW	Various from December 2014 to September 2016	Various from November 2016 to August 2018	U.S. Dollar to Korean Won Exchange Rate	1,155.94 KRW	Designated
5.7 MYR	Various from November 2014 to November 2015	October 28, 2016 and October 31, 2016	U.S. Dollar to Malaysian Ringgit Exchange Rate	3.92 MYR	Non-designated
92.1 MYR	Various from December 2014 to September 2016	Various from November 2016 to August 2018	U.S. Dollar to Malaysian Ringgit Exchange Rate	4.12 MYR	Designated
231.2 MXN	Various from November 2014 to September 2016	October 31, 2016	U.S. Dollar to Mexican Peso Exchange Rate	17.94 MXN	Non-designated
2,016.5 MXN	Various from December 2014 to September 2016	Various from November 2016 to August 2018	U.S. Dollar to Mexican Peso Exchange Rate	18.19 MXN	Designated
4.2 GBP	Various from November 2014 to November 2015	October 31, 2016	British Pound Sterling to U.S. Dollar Exchange Rate	1.52 USD	Non-designated
55.7 GBP	Various from December 2014 to September 2016	Various from November 2016 to December 2018	British Pound Sterling to U.S. Dollar Exchange Rate	1.45 USD	Designated

The notional amounts above represent the total quantities we have outstanding over the remaining contracted periods.  
Hedges of Commodity Risk

Our objective in using commodity forward contracts is to offset a portion of our exposure to the potential change in prices associated with certain commodities used in the manufacturing of our products, including silver, gold, nickel, aluminum, copper, platinum, palladium, and zinc. The terms of these forward contracts fix the price at a future date for various notional amounts associated with these commodities. These instruments are not designated for hedge

accounting treatment in accordance with ASC 815. Commodity forward contracts not designated as hedges are not speculative and are used to manage our exposure to commodity price movements.

Table of Contents

We had the following outstanding commodity forward contracts, none of which were designated as derivatives in qualifying hedging relationships, as of September 30, 2016:

Commodity	Notional	Remaining Contracted Periods	Weighted-Average Strike Price Per Unit
Silver	1,056,717 troy oz.	October 2016- August 2018	\$16.97
Gold	12,961 troy oz.	October 2016- August 2018	\$1,223.70
Nickel	325,909 pounds	October 2016- August 2018	\$5.07
Aluminum	5,112,035 pounds	October 2016- August 2018	\$0.77
Copper	6,633,092 pounds	October 2016- August 2018	\$2.35
Platinum	7,642 troy oz.	October 2016- August 2018	\$1,037.15
Palladium	1,757 troy oz.	October 2016- August 2018	\$625.13
Zinc	12,500 pounds	October 2016	\$1.03

The notional amounts above represent the total quantities we have outstanding over the remaining contracted periods.

**Financial Instrument Presentation**

The following table presents the fair values of our derivative financial instruments and their classification in the condensed consolidated balance sheets as of September 30, 2016 and December 31, 2015:

	Asset Derivatives		Liability Derivatives			
	Balance Sheet Location	Fair Value September 30, 2016	Fair Value December 31, 2015	Balance Sheet Location	Fair Value September 30, 2016	Fair Value December 31, 2015
<b>Derivatives designated as hedging instruments under ASC 815</b>						
Foreign currency forward contracts	Prepaid expenses and other current assets	\$3,219	\$ 20,057	Accrued expenses and other current liabilities	\$19,758	\$ 13,851
Foreign currency forward contracts	Other assets	1,254	5,382	Other long-term liabilities	5,839	3,763
<b>Total</b>		<b>\$4,473</b>	<b>\$ 25,439</b>		<b>\$25,597</b>	<b>\$ 17,614</b>
<b>Derivatives not designated as hedging instruments under ASC 815</b>						
Commodity forward contracts	Prepaid expenses and other current assets	\$3,839	\$ —	Accrued expenses and other current liabilities	\$1,545	\$ 10,876
Commodity forward contracts	Other assets	1,259	42	Other long-term liabilities	308	2,809
Foreign currency forward contracts	Prepaid expenses and other current assets	658	3,130	Accrued expenses and other current liabilities	3,042	2,947
<b>Total</b>		<b>\$5,756</b>	<b>\$ 3,172</b>		<b>\$4,895</b>	<b>\$ 16,632</b>

These fair value measurements are all categorized within Level 2 of the fair value hierarchy. Refer to Note 11, "Fair Value Measures," for more information on these measurements.

Table of Contents

The following tables present the effect of our derivative financial instruments on the condensed consolidated statements of operations for the three months ended September 30, 2016 and September 30, 2015:

Derivatives designated as hedging instruments under ASC 815	Amount of Deferred (Loss)/Gain Recognized in Other Comprehensive Loss		Location of Net Gain/(Loss) Reclassified from Accumulated Other Comprehensive Loss into Net Income	Amount of Net Gain/(Loss) Reclassified from Accumulated Other Comprehensive Loss into Net Income	
	September 30, 2016	September 30, 2015		September 30, 2016	September 30, 2015
Foreign currency forward contracts	\$ (6,929)	\$ 1,672	Net revenue	\$ 2,771	\$ 13,665
Foreign currency forward contracts	\$ (6,450)	\$ (13,816 )	Cost of revenue	\$ (4,834)	\$ (2,576 )
Derivatives not designated as hedging instruments under ASC 815	Amount of Gain/(Loss) on Derivatives Recognized in Net Income		Location of Gain/(Loss) on Derivatives Recognized in Net Income		
	September 30, 2016		September 30, 2015		
Commodity forward contracts	\$ 1,318	\$ (7,995 )	Other, net		
Foreign currency forward contracts	\$ (3,827)	\$ (939 )	Other, net		

The following tables present the effect of our derivative financial instruments on the condensed consolidated statements of operations for the nine months ended September 30, 2016 and September 30, 2015:

Derivatives designated as hedging instruments under ASC 815	Amount of Deferred (Loss)/Gain Recognized in Other Comprehensive Loss		Location of Net Gain/(Loss) Reclassified from Accumulated Other Comprehensive Loss into Net Income	Amount of Net Gain/(Loss) Reclassified from Accumulated Other Comprehensive Loss into Net Income	
	September 30, 2016	September 30, 2015		September 30, 2016	September 30, 2015
Foreign currency forward contracts	\$ (12,810)	\$ 33,576	Net revenue	\$ 15,075	\$ 39,207
Foreign currency forward contracts	\$ (20,319)	\$ (17,600 )	Cost of revenue	\$ (14,857)	\$ (5,820 )
Derivatives not designated as hedging instruments under ASC 815	Amount of Gain/(Loss) on Derivatives Recognized in Net Income		Location of Gain/(Loss) on Derivatives Recognized in Net Income		
	September 30, 2016		September 30, 2015		
Commodity forward contracts	\$ 12,049	\$ (14,111 )	Other, net		
Foreign currency forward contracts	\$ (7,912 )	\$ 2,391	Other, net		
Credit Risk Related Contingent Features					

We have agreements with certain of our derivative counterparties that contain a provision whereby if we default on our indebtedness, and where repayment of the indebtedness has been accelerated by the lender, then we could also be

declared in default on our derivative obligations.

As of September 30, 2016, the termination value of outstanding derivatives in a liability position, excluding any adjustment for non-performance risk, was \$31.0 million. As of September 30, 2016, we have not posted any cash collateral related to these agreements. If we breach any of the default provisions on any of our indebtedness, as described above, we could be required to settle our obligations under the derivative agreements at their termination values.

Table of Contents

## 13. Other, Net

Other, net consisted of the following (losses)/gains for the three and nine months ended September 30, 2016 and September 30, 2015:

	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Currency remeasurement gain/(loss) on net monetary assets	\$ 1,707	\$ (1,944 )	\$550	\$ (7,672 )
Gain/(loss) on commodity forward contracts	1,318	(7,995 )	12,049	(14,111 )
(Loss)/gain on foreign currency forward contracts	(3,827 )	(939 )	(7,912 )	2,391
Loss on debt financing	—	—	—	(25,538 )
Other	76	73	205	283
Other, net	\$ (726 )	\$ (10,805 )	\$4,892	\$ (44,647 )

## 14. Segment Reporting

We organize our business into two reportable segments, Performance Sensing and Sensing Solutions, each of which is also an operating segment. Our operating segments are businesses that we manage as components of an enterprise, for which separate financial information is available and is evaluated regularly by our chief operating decision maker in deciding how to allocate resources and assess performance.

An operating segment's performance is primarily evaluated based on Segment operating income, which excludes share-based compensation expense, restructuring and special charges, and certain corporate costs not associated with the operations of the segment, including amortization expense and a portion of depreciation expense associated with assets recorded in connection with acquisitions. In addition, an operating segment's performance excludes results from discontinued operations, if any. Corporate costs excluded from an operating segment's performance are separately stated below and also include costs that are related to functional areas such as finance, information technology, legal, and human resources. We believe that Segment operating income, as defined above, is an appropriate measure for evaluating the operating performance of our segments. However, this measure should be considered in addition to, and not as a substitute for, or superior to, income from operations or other measures of financial performance prepared in accordance with U.S. GAAP. The accounting policies of each of our two reporting segments are materially consistent with those in the summary of significant accounting policies as described in Note 2, "Significant Accounting Policies," included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Table of Contents

The following table presents Net revenue and Segment operating income for the reported segments and other operating results not allocated to the reported segments for the three and nine months ended September 30, 2016 and September 30, 2015:

	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net revenue:				
Performance Sensing	\$584,650	\$ 576,476	\$1,797,395	\$ 1,774,081
Sensing Solutions	205,148	150,884	616,497	474,409
Total net revenue	\$789,798	\$ 727,360	\$2,413,892	\$ 2,248,490
Segment operating income (as defined above):				
Performance Sensing	\$ 155,228	\$ 150,782	\$453,540	\$ 447,662
Sensing Solutions	67,314	49,734	198,737	151,069
Total segment operating income	222,542	200,516	652,277	598,731
Corporate and other	(48,335 )	(46,839 )	(133,025 )	(147,814 )
Amortization of intangible assets	(50,562 )	(45,184 )	(151,572 )	(136,068 )
Restructuring and special charges	(837 )	(1,615 )	(3,167 )	(12,424 )
Profit from operations	122,808	106,878	364,513	302,425
Interest expense, net	(41,176 )	(29,706 )	(125,201 )	(96,029 )
Other, net	(726 )	(10,805 )	4,892	(44,647 )
Income before taxes	\$80,906	\$ 66,367	\$244,204	\$ 161,749

## 15. Net Income per Share

Basic and diluted net income per share are calculated by dividing Net income by the number of basic and diluted weighted-average ordinary shares outstanding during the period. For the three and nine months ended September 30, 2016 and September 30, 2015, the weighted-average ordinary shares outstanding for basic and diluted net income per share were as follows:

	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Basic weighted-average ordinary shares outstanding	170,840	170,147	170,656	169,880
Dilutive effect of stock options	431	1,093	504	1,359
Dilutive effect of unvested restricted securities	207	368	199	273
Diluted weighted-average ordinary shares outstanding	171,478	171,608	171,359	171,512

Net income and net income per share are presented in the condensed consolidated statements of operations.

For the three and nine months ended September 30, 2016 and September 30, 2015, certain potential ordinary shares were excluded from our calculation of diluted weighted-average shares outstanding because they would have had an anti-dilutive effect on net income per share, or because they related to share-based awards that were contingently issuable, for which the contingency had not been satisfied.

	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Anti-dilutive shares excluded	1,355	1,160	1,418	707
Contingently issuable shares excluded	735	429	632	401





Table of Contents

## 16. Acquisitions

## CST

On December 1, 2015, we completed the acquisition of all of the outstanding shares of certain subsidiaries of Custom Sensors & Technologies Ltd. in the U.S., the U.K., and France, as well as certain assets in China (collectively, "CST"), for an aggregate purchase price of \$1,000.8 million. The acquisition included the Kavlico, BEI, Crydom, and Newall product lines and brands, and encompassed sales, engineering, and manufacturing sites in the U.S., the U.K., Germany, France, and Mexico. We acquired CST to further extend our sensing content beyond automotive markets and build scale in pressure sensing. Portions of CST are being integrated into each of our segments.

Kavlico is a provider of linear and rotary position sensors to aerospace original equipment manufacturers and Tier 1 suppliers, and pressure sensors to the general industrial and HVOR markets. BEI provides harsh environment position sensors, optical and magnetic encoders, and motion control sensors to the industrial, aerospace, agricultural, and medical device markets. Crydom manufactures solid state relays for power control applications in industrial markets. Newall provides encoders and digital readouts to machinery and machine tool markets.

The following table summarizes the preliminary allocation of the purchase price to the estimated fair values of the assets acquired and liabilities assumed:

Accounts receivable	\$41,100
Inventories	40,679
Prepaid expenses and other current assets	13,881
Property, plant and equipment	42,109
Other intangible assets	535,826
Goodwill	576,528
Other assets	39
Accounts payable	(19,088 )
Accrued expenses and other current liabilities	(27,123 )
Deferred income tax liabilities	(207,586 )
Pension and other post-retirement benefit obligations	(3,767 )
Other long term liabilities	(415 )
Fair value of net assets acquired, excluding cash and cash equivalents	992,183
Cash and cash equivalents	8,612
Fair value of net assets acquired	\$1,000,795

The allocation of the purchase price related to this acquisition is preliminary and is based on management's judgments after evaluating several factors, including preliminary valuation assessments of tangible and intangible assets, and preliminary estimates of the fair value of liabilities assumed. The final allocation of the purchase price to the assets acquired and liabilities assumed will be completed when the final valuation assessments of tangible and intangible assets are completed and estimates of the fair value of liabilities assumed are finalized. The preliminary goodwill of \$576.5 million represents future economic benefits expected to arise from synergies from combining operations and the extension of existing customer relationships. None of the goodwill recorded is expected to be deductible for tax purposes.

Table of Contents

In connection with the preliminary allocation of purchase price to the assets acquired and liabilities assumed, we identified certain definite-lived intangible assets. The following table presents the acquired intangible assets, their preliminary estimated fair values, and preliminary weighted-average lives:

	Acquisition	
	Date Fair	Weighted- Average Life (years)
	Value	
Acquired definite-lived intangible assets:		
Completed technologies	\$ 184,890	16
Customer relationships	308,496	15
Tradenames	41,900	25
Computer software	540	2
Total	\$ 535,826	16

The definite-lived intangible assets were valued using the income approach. We used the relief-from-royalty and the multi-period excess earnings methods to value completed technologies. The customer relationships were valued using the multi-period excess earnings and distributor methods. Tradenames were valued using the relief-from-royalty method. These valuation methods incorporate assumptions including expected discounted future cash flows resulting from either the future estimated after-tax royalty payments avoided as a result of owning the completed technologies, or the future earnings related to existing customer relationships. The fair value of these assets is considered to be a Level 3 fair value measurement.

## Pro forma results

The following unaudited table presents the pro forma Net revenue and Net income of the combined entity for the nine months ended September 30, 2015, had we acquired CST on January 1, 2014.

	For the nine months ended September 30, 2015
Pro forma net revenue	\$ 2,485,424
Pro forma net income	\$ 122,686

Table of Contents

CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

In addition to historical facts, this Quarterly Report on Form 10-Q, including any documents incorporated by reference herein, includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These forward-looking statements also relate to our future prospects, developments, and business strategies. These forward-looking statements may be identified by terminology such as "may," "will," "could," "should," "expect," "anticipate," "believe," "estimate," "predict," "project," "forecast," "continue," "intend," "plan," and similar terms or phrases, or the negative of such terminology, including references to assumptions. However, these terms are not the exclusive means of identifying such statements. Forward-looking statements contained herein, or in other statements made by us, are made based on management's expectations and beliefs concerning future events impacting us, and are subject to uncertainties and other important factors relating to our operations and business environment, all of which are difficult to predict, and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed or implied by forward-looking statements. Although we believe that our plans, intentions, and expectations reflected in, or suggested by, such forward-looking statements are reasonable, we can give no assurances that any of the events anticipated by these forward-looking statements will occur or, if any of them do, what impact they will have on our results of operations and financial condition.

We believe that the following important factors, among others (including those described in our Annual Report on Form 10-K for the year ended December 31, 2015 and those described in Part II, Item 1A of this Quarterly Report on Form 10-Q), could affect our future performance and the liquidity and value of our securities and cause our actual results to differ materially from those expressed or implied by forward-looking statements made by us or on our behalf:

- adverse conditions in the automotive industry have had, and may in the future have, adverse effects on our businesses;
- competitive pressures could require us to lower our prices or result in reduced demand for our products;
- integration of acquired companies, including the acquisitions of August Cayman Company, Inc. ("Schrader") and certain subsidiaries of Custom Sensors & Technologies Ltd. in the U.S., the U.K., and France, as well as certain assets in China (collectively, "CST"), and any future acquisitions and joint ventures or dispositions, may require significant resources and/or result in significant unanticipated losses, costs, or liabilities, and we may not realize all of the anticipated operating synergies and cost savings from acquisitions;
- risks associated with our non-U.S. operations, including compliance with export control regulations, foreign currency risks, and the potential for changes in socio-economic conditions and/or monetary and fiscal policies, including as a result of the impending exit of the U.K. from the European Union;
- we may incur material losses and costs as a result of intellectual property, product liability, warranty, and recall claims that may be brought against us;
- taxing authorities could challenge our historical and future tax positions or our allocation of taxable income among our subsidiaries, or tax laws to which we are subject could change in a manner adverse to us;
- labor disruptions or increased labor costs could adversely affect our business;
- our substantial indebtedness could adversely affect our financial condition and our ability to operate our business, and
- we may not be able to generate sufficient cash flows to meet our debt service obligations or comply with the covenants contained in the credit agreements;
- risks associated with security breaches and other disruptions to our information technology infrastructure; and
- the other risks set forth in Item 1A, "Risk Factors," included in our Annual Report on Form 10-K for the year ended December 31, 2015.

All forward-looking statements attributable to us or persons acting on our behalf speak only as of the date of this Quarterly Report on Form 10-Q and are expressly qualified in their entirety by the cautionary statements contained in this Quarterly Report on Form 10-Q. We undertake no obligation to update or revise forward-looking statements that may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of

unanticipated events. We urge readers to review carefully the risk factors described in this Quarterly Report on Form 10-Q and in the other documents that we file with the U.S. Securities and Exchange Commission. You can read these documents at [www.sec.gov](http://www.sec.gov) or on our website at [www.sensata.com](http://www.sensata.com).

Table of Contents

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion of our financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the U.S. Securities and Exchange Commission on February 2, 2016, and the unaudited condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

## Results of Operations

The tables below present our results of operations, in millions of dollars and as a percentage of net revenue, for the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015. We have derived the results of operations from the condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. Amounts and percentages have been calculated based on unrounded numbers. Accordingly, certain amounts may not add due to the effect of rounding.

## Three Months Ended September 30, 2016 Compared to the Three Months Ended September 30, 2015

(Dollars in millions)	For the three months ended					
	September 30, 2016			September 30, 2015		
	Amount	Percent of Net Revenue		Amount	Percent of Net Revenue	
Net revenue:						
Performance Sensing	\$584.7	74.0 %		\$576.5	79.3 %	
Sensing Solutions	205.1	26.0		150.9	20.7	
Net revenue	789.8	100.0		727.4	100.0	
Operating costs and expenses:						
Cost of revenue	508.9	64.4		476.6	65.5	
Research and development	31.6	4.0		30.8	4.2	
Selling, general and administrative	75.0	9.5		66.2	9.1	
Amortization of intangible assets	50.6	6.4		45.2	6.2	
Restructuring and special charges	0.8	0.1		1.6	0.2	
Total operating costs and expenses	667.0	84.5		620.5	85.3	
Profit from operations	122.8	15.5		106.9	14.7	
Interest expense, net	(41.2 )	(5.2 )		(29.7 )	(4.1 )	
Other, net	(0.7 )	(0.1 )		(10.8 )	(1.5 )	
Income before taxes	80.9	10.2		66.4	9.1	
Provision for income taxes	11.1	1.4		13.2	1.8	
Net income	\$69.8	8.8 %		\$53.2	7.3 %	

Net revenue. Net revenue for the three months ended September 30, 2016 increased \$62.4 million, or 8.6%, to \$789.8 million from \$727.4 million for the three months ended September 30, 2015. This increase in net revenue was composed of a 1.4% increase in Performance Sensing and a 36.0% increase in Sensing Solutions, as described in more detail below. Organic revenue growth (or decline), a non-GAAP financial measure, will also be addressed in the following discussion. See the section entitled "Non-GAAP Financial Measures" below for further information.

Performance Sensing net revenue for the three months ended September 30, 2016 increased \$8.2 million, or 1.4%, to \$584.7 million from \$576.5 million for the three months ended September 30, 2015. Excluding 1.8% growth due to the net impact of an acquisition and exited businesses (described in more detail below) and a 1.9% decline due to changes in foreign currency exchange rates, particularly the Euro to U.S. dollar, organic revenue growth was 1.5% when compared to the three months ended September 30, 2015. We acquired CST (as defined in Note 16, "Acquisitions," of our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q), a portion of which is being integrated into the Performance Sensing segment, in the fourth quarter of 2015. The increase in revenue related to this acquisition was partially offset by the decrease in revenue related to the

exit from unprofitable businesses during the last twelve months. The organic revenue growth was primarily driven by continued content growth, particularly in our automotive end-markets in Europe and China, and market stabilization in China, partially offset by price reductions and weak heavy vehicle on- and off-road ("HVOR") markets, particularly the North American Class 8 truck and global construction and agriculture markets.

## Table of Contents

However, content growth in our HVOR end-markets, which was better than anticipated, helped partially mitigate the impact of this weakness on our results. In general, regulatory requirements for higher fuel efficiency, lower emissions, and safer vehicles, such as the Corporate Average Fuel Economy ("CAFE") requirements in the U.S., "Euro VI" requirements in Europe, and "China 4" requirements in Asia, as well as consumer demand for operator productivity and convenience, drive the need for advancements in engine management, safety features, and operator controls that in turn lead to greater demand for our sensors.

Sensing Solutions net revenue for the three months ended September 30, 2016 increased \$54.3 million, or 36.0%, to \$205.1 million from \$150.9 million for the three months ended September 30, 2015. Excluding 34.3% growth due to the impact of the acquisition of CST in the fourth quarter of 2015 and a 0.7% decline due to changes in foreign currency exchange rates, organic revenue growth was 2.4% when compared to the three months ended September 30, 2015. The organic revenue growth was primarily due to stabilization of the market in China. However, global economic conditions remain broadly weak across many of our served end-markets.

Cost of revenue. Cost of revenue for the three months ended September 30, 2016 and September 30, 2015 was \$508.9 million (64.4% of net revenue) and \$476.6 million (65.5% of net revenue), respectively. Cost of revenue decreased as a percentage of net revenue primarily due to certain charges incurred in the third quarter of 2015 that did not recur in 2016, including a \$6.0 million charge related to the settlement of the Bridgestone litigation (refer to Note 14, "Commitments and Contingencies," of the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 for discussion of this litigation and the related settlement) and productivity gains. We anticipate that cost of revenue as a percentage of net revenue will further decline as we continue to drive improvements in productivity and operational efficiencies and as we integrate recently acquired businesses. We generally complete integration activities within 18 to 24 months after the related acquisition. However, the integrations of certain acquisitions, for example Schrader and CST, are anticipated to take up to three years due to their size and scope.

Research and development expense. Research and development ("R&D") expense for the three months ended September 30, 2016 and September 30, 2015 was \$31.6 million (4.0% of net revenue) and \$30.8 million (4.2% of net revenue), respectively. We invest in R&D to support new platform and technology developments, both in our recently acquired and existing businesses, in order to drive future revenue growth. The level of R&D expense is related to the number of products in development, the stage of such products in the development process, the complexity of the underlying technology, the potential scale of the product upon successful commercialization, and the level of our exploratory research. These factors may impact our level of R&D expense in the future.

Selling, general and administrative expense. Selling, general and administrative ("SG&A") expense for the three months ended September 30, 2016 and September 30, 2015 was \$75.0 million (9.5% of net revenue) and \$66.2 million (9.1% of net revenue), respectively. SG&A expense increased primarily due to SG&A expense related to CST. SG&A expense consists of all expenditures incurred in connection with the sales and marketing of our products, as well as administrative overhead costs. These costs may be fixed or variable in nature, and we may at times experience increased or decreased variable costs for reasons other than increased or decreased net revenue. As a result, SG&A expense will not necessarily remain consistent as a percentage of net revenue.

Amortization of intangible assets. Amortization expense associated with definite-lived intangible assets for the three months ended September 30, 2016 and September 30, 2015 was \$50.6 million and \$45.2 million, respectively. Acquisition-related intangible assets are amortized on an economic benefit basis according to the useful lives of the assets, or on a straight-line basis if a pattern of economic benefits cannot be determined. Amortization expense increased primarily due to additional amortization related to intangible assets recognized as a result of the acquisition of CST, partially offset by a difference in the pattern of economic benefits over which intangible assets were amortized (as intangible assets age, there is generally less economic benefit associated with them). For further discussion of intangible assets related to CST, refer to Note 16, "Acquisitions," of our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Restructuring and special charges. Restructuring and special charges for the three months ended September 30, 2016 and September 30, 2015 were \$0.8 million and \$1.6 million, respectively. Refer to Note 5, "Restructuring and Special Charges," of our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form

10-Q for discussion of these charges.

Interest expense, net. Interest expense, net for the three months ended September 30, 2016 and September 30, 2015 was \$41.2 million and \$29.7 million, respectively. Interest expense, net increased primarily as a result of the issuance of new debt related to the acquisition of CST in the fourth quarter of 2015. Refer to Note 6, "Debt," of our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for details of our existing debt at September 30, 2016.

Other, net. Other, net for the three months ended September 30, 2016 and September 30, 2015 represented losses of \$0.7 million and \$10.8 million, respectively. The favorable change in Other, net relates primarily to commodity forward contracts.



Table of Contents

Refer to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further information on our commodity forward contracts (Note 12, "Derivative Instruments and Hedging Activities") and the other gains and losses included within this account (Note 13, "Other, Net").

Provision for income taxes. Provision for income taxes for the three months ended September 30, 2016 and September 30, 2015 was \$11.1 million and \$13.2 million, respectively. The provision for income taxes consists of current tax expense, which relates primarily to our profitable operations in non-U.S. tax jurisdictions and withholding taxes on interest and royalty income, and deferred tax expense, which relates to adjustments in book-to-tax basis differences primarily related to the step-up in fair value of fixed and intangible assets and goodwill, utilization of net operating losses, and adjustments to our U.S. valuation allowance in connection with acquisitions made by our U.S. subsidiaries.

During the three months ended September 30, 2016, we recognized a benefit from income taxes of \$5.1 million related to the change in our U.S. valuation allowance associated with the acquisition of CST, for which deferred tax liabilities were established related primarily to the step-up of tangible assets for book purposes. Refer to Note 16, "Acquisitions," of our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for discussion of the acquisition of CST. The remaining change in the provision for income taxes was primarily due to a change in the amount of income recorded in profitable jurisdictions.

Deferred taxes, in part, involve accounting for differences between the financial statement carrying values of existing assets and liabilities and their respective tax bases. The future related consequences of these differences result in deferred tax assets and liabilities. We assess the recoverability of deferred tax assets by assessing whether it is more likely than not that some or all of the deferred tax asset will be realized. To the extent we believe that a more likely than not standard cannot be met, we record a valuation allowance against the related deferred tax asset. Significant management judgment is required in determining the need for a valuation allowance against deferred tax assets. We review the need for valuation allowances jurisdictionally during each reporting period based on information available to us at that time. We have significant valuation allowances in certain jurisdictions where our businesses have historically incurred operating losses. Should our judgment change about the need for a valuation allowance, it may result in the recognition of a valuation allowance or the reduction of some or all of the previously recognized valuation allowances, possibly resulting in a material tax provision or benefit in the period of such change.

Nine Months Ended September 30, 2016 Compared to the Nine Months Ended September 30, 2015

(Dollars in millions)	For the nine months ended		September 30, 2016		September 30, 2015	
	Amount	Percent of Net Revenue	Amount	Percent of Net Revenue	Amount	Percent of Net Revenue
Net revenue:						
Performance Sensing	\$1,797.4	74.5 %	\$1,774.1	78.9 %		
Sensing Solutions	616.5	25.5	474.4	21.1		
Net revenue	2,413.9	100.0	2,248.5	100.0		
Operating costs and expenses:						
Cost of revenue	1,574.8	65.2	1,501.1	66.8		
Research and development	95.2	3.9	92.8	4.1		
Selling, general and administrative	224.6	9.3	203.6	9.1		
Amortization of intangible assets	151.6	6.3	136.1	6.1		
Restructuring and special charges	3.2	0.1	12.4	0.6		
Total operating costs and expenses	2,049.4	84.9	1,946.1	86.5		
Profit from operations	364.5	15.1	302.4	13.5		
Interest expense, net	(125.2)	(5.2)	(96.0)	(4.3)		
Other, net	4.9	0.2	(44.6)	(2.0)		
Income before taxes	244.2	10.1	161.7	7.2		
Provision for income taxes	48.3	2.0	32.3	1.4		

Edgar Filing: Sensata Technologies Holding N.V. - Form 10-Q

Net income \$195.9 8.1 % \$129.4 5.8 %

Net revenue. Net revenue for the nine months ended September 30, 2016 increased \$165.4 million, or 7.4%, to \$2,413.9 million from \$2,248.5 million for the nine months ended September 30, 2015. This increase in net revenue was composed of a 1.3% increase in Performance Sensing and a 30.0% increase in Sensing Solutions, as described in more detail below. Organic

31

---

Table of Contents

revenue growth (or decline), a non-GAAP financial measure, will also be addressed in the following discussion. See the section entitled "Non-GAAP Financial Measures" below for further information.

Performance Sensing net revenue for the nine months ended September 30, 2016 increased \$23.3 million, or 1.3%, to \$1,797.4 million from \$1,774.1 million for the nine months ended September 30, 2015. Excluding 2.1% growth due to the net impact of an acquisition and exited businesses (described in more detail below) and a 1.8% decline due to changes in foreign currency exchange rates, particularly the Euro to U.S. dollar, organic revenue growth was 1.0% when compared to the nine months ended September 30, 2015. We acquired CST, a portion of which is being integrated into the Performance Sensing segment, in the fourth quarter of 2015. The increase in revenue related to this acquisition was partially offset by the decrease in revenue related to the exit from unprofitable businesses during the last twelve months. The organic revenue growth was primarily driven by continued content growth, particularly in our automotive end-markets in Europe and China, and market stabilization in China, partially offset by price reductions and weak HVOR markets, particularly the North American Class 8 truck and global construction markets. However, content growth in our HVOR end-markets helped partially mitigate the impact of this weakness on our results. In general, regulatory requirements for higher fuel efficiency, lower emissions, and safer vehicles, such as the Corporate Average Fuel Economy ("CAFE") requirements in the U.S., "Euro VI" requirements in Europe, and "China 4" requirements in Asia, as well as consumer demand for operator productivity and convenience, drive the need for advancements in engine management, safety features, and operator controls that in turn lead to greater demand for our sensors.

Sensing Solutions net revenue for the nine months ended September 30, 2016 increased \$142.1 million, or 30.0%, to \$616.5 million from \$474.4 million for the nine months ended September 30, 2015. Excluding 33.4% growth due to the impact of the acquisition of CST in the fourth quarter of 2015 and a 1.0% decline due to changes in foreign currency exchange rates, organic revenue decline was 2.4% when compared to the nine months ended September 30, 2015. The organic revenue decline was primarily due to the effects of broadly weak global economic conditions across many of our served end-markets, partially offset by stabilization of the market in China.

Cost of revenue. Cost of revenue for the nine months ended September 30, 2016 and September 30, 2015 was \$1,574.8 million (65.2% of net revenue) and \$1,501.1 million (66.8% of net revenue), respectively. Cost of revenue decreased as a percentage of net revenue primarily due to lower material costs (driven in part by lower commodity prices) and other productivity gains, partially offset by additional amortization of inventory related to the step-up in fair value as a result of the acquisition of CST. In addition, there were certain charges incurred in the first nine months of 2015 that did not recur in 2016, including a \$6.0 million charge related to the settlement of the Bridgestone litigation in the third quarter of 2015, a \$5.0 million charge related to the write-down of certain assets associated with the shutdown of our Schrader Brazil manufacturing facility in the second quarter of 2015, and certain charges taken in the second quarter of 2015 related to litigation and claims, including \$4.0 million associated with a warranty claim by a U.S. automaker, and \$0.8 million associated with the settlement of litigation with SGL Italia. Refer to Note 14, "Commitments and Contingencies," of the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 for discussion of the settlement of the Bridgestone and SGL Italia litigation and the U.S. automaker warranty claim. Refer to Note 5, "Restructuring and Special Charges," of our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for more details around the charge related to the shutdown of the Schrader Brazil manufacturing facility. We anticipate that cost of revenue as a percentage of net revenue will further decline as we continue to drive improvements in productivity and operational efficiencies and as we integrate recently acquired businesses. We generally complete integration activities within 18 to 24 months after the related acquisition. However, the integrations of certain acquisitions, for example Schrader and CST, are anticipated to take up to three years due to their size and scope.

Research and development expense. R&D expense for the nine months ended September 30, 2016 and September 30, 2015 was \$95.2 million (3.9% of net revenue) and \$92.8 million (4.1% of net revenue), respectively. We invest in R&D to support new platform and technology developments, both in our recently acquired and existing businesses, in order to drive future revenue growth. The level of R&D expense is related to the number of products in development, the stage of such products in the development process, the complexity of the underlying technology, the potential scale of the product upon successful commercialization, and the level of our exploratory research. These factors may

impact our level of R&D expense in the future.

Selling, general and administrative expense. SG&A expense for the nine months ended September 30, 2016 and September 30, 2015 was \$224.6 million (9.3% of net revenue) and \$203.6 million (9.1% of net revenue), respectively. SG&A expense increased primarily due to SG&A expense related to CST, partially offset by the one-time write-off, in the second quarter of 2015, of a \$5.0 million tax indemnification asset related to a pre-acquisition tax liability that was favorably resolved. SG&A expense consists of all expenditures incurred in connection with the sales and marketing of our products, as well as administrative overhead costs. These costs may be fixed or variable in nature, and we may at times experience increased or decreased variable costs for reasons other than increased or decreased net revenue. As a result, SG&A expense will not necessarily remain consistent as a percentage of net revenue.

Table of Contents

Amortization of intangible assets. Amortization expense associated with definite-lived intangible assets for the nine months ended September 30, 2016 and September 30, 2015 was \$151.6 million and \$136.1 million, respectively. Acquisition-related intangible assets are amortized on an economic benefit basis according to the useful lives of the assets, or on a straight-line basis if a pattern of economic benefits cannot be determined. Amortization expense increased primarily due to additional amortization related to intangible assets recognized as a result of the acquisition of CST, partially offset by a difference in the pattern of economic benefits over which intangible assets were amortized (as intangible assets age, there is generally less economic benefit associated with them). For further discussion of intangible assets related to CST, refer to Note 16, "Acquisitions," of our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Restructuring and special charges. Restructuring and special charges for the nine months ended September 30, 2016 and September 30, 2015 were \$3.2 million and \$12.4 million, respectively. Restructuring and special charges decreased primarily due to certain restructuring charges incurred in 2015 that did not recur in 2016, including \$4.0 million of severance charges incurred in the second quarter of 2016 related to the closing of our Schrader Brazil manufacturing facility. Refer to Note 5, "Restructuring and Special Charges," of our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further discussion of these charges.

Interest expense, net. Interest expense, net for the nine months ended September 30, 2016 and September 30, 2015 was \$125.2 million and \$96.0 million, respectively. Interest expense, net increased primarily as a result of the issuance of new debt related to the acquisition of CST in the fourth quarter of 2015, partially offset by the impact of lower interest rates due to the refinancing of certain debt instruments in 2015. Refer to Note 6, "Debt," of our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for details of our debt balances as of September 30, 2016 and for further discussion of our refinancing activities in 2015.

Other, net. Other, net for the nine months ended September 30, 2016 and September 30, 2015 represented a gain of \$4.9 million and a loss of \$44.6 million, respectively. The favorable change in Other, net relates primarily to commodity forward contracts and losses on debt financing transactions incurred during 2015 that did not recur in 2016. Refer to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further information on our commodity forward contracts (Note 12, "Derivative Instruments and Hedging Activities"), debt financing transactions (Note 6, "Debt"), and the other gains and losses included within this account (Note 13, "Other, Net").

Provision for income taxes. Provision for income taxes for the nine months ended September 30, 2016 and September 30, 2015 was \$48.3 million and \$32.3 million, respectively. The provision for income taxes consists of current tax expense, which relates primarily to our profitable operations in non-U.S. tax jurisdictions and withholding taxes on interest and royalty income, and deferred tax expense, which relates to adjustments in book-to-tax basis differences primarily related to the step-up in fair value of fixed and intangible assets and goodwill, utilization of net operating losses, and adjustments to our U.S. valuation allowance in connection with acquisitions made by our U.S. subsidiaries.

During the nine months ended September 30, 2016, we recognized a benefit from income taxes of \$3.7 million related to the change in our U.S. valuation allowance associated with the acquisition of CST, for which deferred tax liabilities were established related primarily to the step-up of tangible assets for book purposes. Refer to Note 16, "Acquisitions," of our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for discussion of the acquisition of CST. The remaining change in the provision for income taxes was primarily due to a change in the amount and distribution of income recorded in profitable jurisdictions and the impact of changes in foreign currency exchange rates.

Non-GAAP Financial Measures

This Quarterly Report on Form 10-Q includes references to organic revenue growth (or decline), which is a non-GAAP financial measure. Organic revenue growth (or decline) is defined as the reported percentage change in net revenue calculated in accordance with U.S. generally accepted accounting principles ("GAAP"), excluding the impact of acquisitions, net of exited businesses that occurred within the previous 12 months, and the effect of changes in foreign currency exchange rates.

We believe organic revenue growth (or decline) provides investors with helpful information with respect to our operating performance, and we use organic revenue growth (or decline) to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe organic revenue growth (or decline) provides useful information in evaluating the results of our business because it excludes items that we believe are not indicative of ongoing performance or that we believe impact comparability with the prior year.

However, organic revenue growth (or decline) should be considered as supplemental in nature and is not intended to be considered in isolation or as a substitute for net revenue growth prepared in accordance with U.S. GAAP. In addition, our measure of organic revenue growth (or decline) may not be the same as, or comparable to, similar non-GAAP financial measures presented by other companies.

Table of Contents

## Liquidity and Capital Resources

We held cash and cash equivalents of \$299.9 million and \$342.3 million at September 30, 2016 and December 31, 2015, respectively, of which \$43.5 million and \$124.6 million, respectively, was held in the Netherlands, \$9.7 million and \$33.4 million, respectively, was held by U.S. subsidiaries, and \$246.7 million and \$184.3 million, respectively, was held by other foreign subsidiaries. The amount of cash and cash equivalents held in the Netherlands and in our U.S. and other foreign subsidiaries fluctuates throughout the year due to a variety of factors, including timing of cash receipts and disbursements in the normal course of business.

## Cash Flows:

The table below summarizes our primary sources and uses of cash for the nine months ended September 30, 2016 and September 30, 2015. We have derived the summarized statements of cash flows from the condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. Amounts in the table below have been calculated based on unrounded numbers. Accordingly, certain amounts may not add due to the effect of rounding.

(Amount in millions)	For the nine months ended	
	September 30, 2016	September 30, 2015
Net cash provided by/(used in):		
Operating activities:		
Net income adjusted for non-cash items	\$462.6	\$ 400.7
Changes in operating assets and liabilities, net of effects of acquisitions	(66.2 )	(37.0 )
Operating activities	396.4	363.7
Investing activities	(139.1 )	(127.2 )
Financing activities	(299.6 )	(189.6 )
Net change	\$(42.4 )	\$ 46.9

Operating activities. Net cash provided by operating activities for the nine months ended September 30, 2016 and September 30, 2015 was \$396.4 million and \$363.7 million, respectively. The increase in cash provided by operating activities relates primarily to improved profitability, partially offset by the timing of customer receipts.

Investing activities. Net cash used in investing activities for the nine months ended September 30, 2016 and September 30, 2015 was \$139.1 million and \$127.2 million, respectively, which included \$94.6 million and \$130.2 million, respectively, in capital expenditures. The decrease in capital expenditures was contemplated in our planning and relates largely to the completion of certain activities in 2015, including the construction of certain equipment and facilities and capital spending related to acquisition and integration activities. Net cash used in investing activities for the nine months ended September 30, 2016 also included an investment of \$50.0 million in preferred stock of Quanergy Systems, Inc.

In 2016, we anticipate capital expenditures of approximately \$125 million to \$150 million, which we expect to be funded with cash flows from operations.

Financing activities. Net cash used in financing activities for the nine months ended September 30, 2016 and September 30, 2015 was \$299.6 million and \$189.6 million, respectively. Net cash used in financing activities for the nine months ended September 30, 2016 consisted primarily of \$297.7 million in payments on debt, including \$280.0 million in payments on the Revolving Credit Facility.

For the nine months ended September 30, 2015, net cash used in financing activities consisted primarily of \$1,970.7 million in payments on debt and \$29.4 million in payments of debt issuance costs, partially offset by \$1,795.1 million of proceeds from the issuance of debt. Payments on debt and proceeds from the issuance of debt relate primarily to certain debt refinancing activities and \$105.0 million of borrowings and \$180.0 million of payments under the Revolving Credit Facility at various times during the nine months ended September 30, 2015. The debt refinancing activities include (1) the refinancing of \$990.1 million of certain outstanding term loans through the issuance of the Term Loan and (2) the refinancing of \$700.0 million in aggregate principal amount of 6.5% senior notes due 2019 with \$700.0 million aggregate principal amount of 5.0% senior notes due 2025. The remaining cash payments on debt primarily consisted of \$75.0 million paid on a previously held term loan facility.





Table of Contents

## Indebtedness and Liquidity:

Our liquidity requirements are significant due to our highly leveraged nature. As of September 30, 2016, we had \$3,363.1 million in gross outstanding indebtedness, including our outstanding capital lease and other financing obligations.

A summary of our indebtedness as of September 30, 2016 is as follows:

	Maturity Date	September 30, 2016
Term Loan	October 14, 2021	\$ 975,270
4.875% Senior Notes	October 15, 2023	500,000
5.625% Senior Notes	November 1, 2024	400,000
5.0% Senior Notes	October 1, 2025	700,000
6.25% Senior Notes	February 15, 2026	750,000
Revolving Credit Facility	March 26, 2020	—
Less: discount		(18,270 )
Less: deferred financing costs		(34,690 )
Less: current portion		(9,901 )
Long-term debt, net of discount and deferred financing costs, less current portion		\$ 3,262,409
Capital lease and other financing obligations		\$ 37,829
Less: current portion		(4,574 )
Capital lease and other financing obligations, less current portion		\$ 33,255

As of September 30, 2016, there was \$414.6 million of availability under the Revolving Credit Facility, net of \$5.4 million in letters of credit. Outstanding letters of credit are issued primarily for the benefit of certain operating activities. As of September 30, 2016, no amounts had been drawn against these outstanding letters of credit, which are scheduled to expire on various dates in 2016 and 2017.

## Capital Resources

Our sources of liquidity include cash on hand, cash flows from operations, and available capacity under the Revolving Credit Facility. In addition, our senior secured credit facilities provide for incremental facilities (the "Accordion"), under which additional term loans may be issued or the capacity of the Revolving Credit Facility may be increased. As of September 30, 2016, \$230.0 million remained available for issuance under the Accordion.

We believe, based on our current level of operations as reflected in our results of operations for the three and nine months ended September 30, 2016, and taking into consideration the restrictions and covenants discussed below, that these sources of liquidity will be sufficient to fund our operations, capital expenditures, ordinary share repurchases, and debt service for at least the next twelve months.

However, we cannot make assurances that our business will generate sufficient cash flows from operations or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. Further, our highly leveraged nature may limit our ability to procure additional financing in the future.

The credit agreement dated as of May 12, 2011 (as amended, the "Credit Agreement") stipulates certain events and conditions that may require us to use excess cash flow, as defined by the terms of the Credit Agreement, generated by operating, investing, or financing activities, to prepay some or all of the outstanding borrowings under the Term Loan. The Credit Agreement also requires mandatory prepayments of the outstanding borrowings under the Term Loan upon certain asset dispositions and casualty events, in each case subject to certain reinvestment rights, and the incurrence of certain indebtedness (excluding any permitted indebtedness). These provisions were not triggered during the nine months ended September 30, 2016.

Our ability to raise additional financing, and our borrowing costs, may be impacted by short-term and long-term debt ratings assigned by independent rating agencies, which are based, in significant part, on our performance as measured by certain credit metrics such as interest coverage and leverage ratios. As of October 20, 2016, Moody's Investors Service's corporate credit rating for Sensata Technologies B.V. ("STBV") was Ba2 with a negative outlook and

Standard & Poor's corporate credit rating for STBV was BB with a positive outlook. Any future downgrades to STBV's credit ratings may increase our borrowing costs, but will not reduce availability under the Credit Agreement.

## Table of Contents

We have a \$250.0 million share repurchase program in place. Under this program, we may repurchase ordinary shares from time to time, at such times and in amounts to be determined by our management, based on market conditions, legal requirements, and other corporate considerations, on the open market or in privately negotiated transactions. We expect that any future repurchases of ordinary shares will be funded by cash from operations. The share repurchase program may be modified or terminated by our Board of Directors at any time. During the nine months ended September 30, 2016, we did not repurchase any ordinary shares under the program. At September 30, 2016, \$250.0 million remained available for share repurchase under the program.

The Credit Agreement and the indentures under which each of our various senior notes were issued (the "Senior Notes Indentures") contain restrictions and covenants that limit the ability of STBV and certain of its subsidiaries to, among other things, incur subsequent indebtedness, sell assets, make capital expenditures, pay dividends, and make other restricted payments. These restrictions and covenants, which are subject to important exceptions and qualifications set forth in the Credit Agreement and Senior Notes Indentures, and which are described in more detail below and in Note 8, "Debt," of our audited consolidated financial statements included in our 2015 Annual Report on Form 10-K, were taken into consideration in establishing our share repurchase program, and are evaluated periodically with respect to future potential funding. We do not believe that these restrictions and covenants will prevent us from funding share repurchases under our share repurchase program with available cash and cash flows from operations, should we decide to do so.

STBV is limited in its ability to pay dividends or otherwise make distributions to its immediate parent company and, ultimately, to us, under the Credit Agreement and the Senior Notes Indentures. Specifically, the Credit Agreement prohibits STBV from paying dividends or making any distributions to its parent companies except for limited purposes, including, but not limited to: (i) customary and reasonable operating expenses, legal and accounting fees and expenses, and overhead of such parent companies incurred in the ordinary course of business in the aggregate not to exceed \$10.0 million in any fiscal year, plus reasonable and customary indemnification claims made by our directors or officers attributable to the ownership of STBV and its Restricted Subsidiaries (currently all of the subsidiaries of STBV); (ii) franchise taxes, certain advisory fees, and customary compensation of officers and employees of such parent companies to the extent such compensation is attributable to the ownership or operations of STBV and its Restricted Subsidiaries; (iii) repurchase, retirement, or other acquisition of equity interest of the parent from certain present, future, and former employees, directors, managers, consultants of the parent companies, STBV, or its subsidiaries in an aggregate amount not to exceed \$15.0 million in any fiscal year, plus the amount of cash proceeds from certain equity issuances to such persons, the amount of equity interests subject to a certain deferred compensation plan, and the amount of certain key-man life insurance proceeds; (iv) so long as no default or event of default exists and the senior secured net leverage ratio is less than 2.0:1.0 calculated on a pro forma basis, dividends and other distributions in an aggregate amount not to exceed \$100.0 million, plus certain amounts, including the retained portion of excess cash flow; (v) dividends and other distributions in an aggregate amount not to exceed \$40.0 million in any calendar year (subject to increase upon the achievement of certain ratios); and (vi) so long as no default or event of default exists, dividends and other distributions in an aggregate amount not to exceed \$150.0 million.

As of September 30, 2016, we were in compliance with all covenants and default provisions under our credit arrangements.

### Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which modifies how all entities recognize revenue, and consolidates into one Accounting Standards Codification ("ASC") Topic (ASC Topic 606, Revenue from Contracts with Customers) the current guidance found in ASC Topic 605 and various other revenue accounting standards for specialized transactions and industries. ASU 2014-09 outlines a comprehensive five-step revenue recognition model based on the principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 may be applied using either a full retrospective approach, under which all years included in the financial statements will be presented under the revised guidance, or a modified retrospective approach, under which financial statements will be prepared under the revised guidance for the

year of adoption, but not for prior years. Under the latter method, entities will recognize a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for contracts that still require performance by the entity.

In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date, which defers the effective date of ASU 2014-09 by one year. ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual reporting periods. We will adopt ASU 2014-09 on January 1, 2018, and are currently evaluating the impact that

Table of Contents

this adoption will have on our consolidated financial statements. At this time, we have not determined the transition method that will be used.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which establishes new accounting and disclosure requirements for leases. ASU 2016-02 requires lessees to classify most leases as either finance or operating leases and to initially recognize a lease liability and right-of-use asset. Entities may elect to account for certain short-term leases (with a term of 12 months or less) using a method similar to the current operating lease model. The statements of operations will include, for finance leases, separate recognition of interest on the lease liability and amortization of the right-of-use asset and for operating leases, a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a straight-line basis. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods, with early adoption permitted. ASU 2016-02 must be applied using a modified retrospective approach, which requires recognition and measurement of leases at the beginning of the earliest period presented, with certain practical expedients available. We are currently evaluating when to adopt ASU 2016-02 and the impact that this adoption will have on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09") as part of its simplification initiative. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions. The provisions of ASU 2016-09 that will impact us are as follows: (1) an accounting policy election may be made to account for forfeitures as they occur, rather than based on an estimate of future forfeitures, and (2) companies will be allowed to withhold shares, upon either the exercise of options or vesting of restricted securities, with an aggregate fair value in excess of the minimum statutory withholding requirement and still qualify for the exception to liability classification. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods, with early adoption permitted. Amendments related to the provisions that are applicable to Sensata must be applied using a modified retrospective approach by means of a cumulative-effect adjustment to equity as of the beginning of the period in which ASU 2016-09 is adopted. We are currently evaluating when to adopt ASU 2016-09 and the impact that this adoption will have on our consolidated financial statements.

**Critical Accounting Policies and Estimates**

For a discussion of the critical accounting policies that require the use of significant judgments and estimates by management, refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates," included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes to our market risk since December 31, 2015. For a discussion of market risk affecting us, refer to Part II, Item 7A—"Quantitative and Qualitative Disclosures About Market Risk," included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 4. Controls and Procedures.

The required certifications of our Chief Executive Officer and Chief Financial Officer are included as exhibits to this Quarterly Report on Form 10-Q. The disclosures set forth in this Item 4 contain information concerning the evaluation of our disclosure controls and procedures and changes in internal control over financial reporting referred to in these certifications. These certifications should be read in conjunction with this Item 4 for a more complete understanding of the matters covered by the certifications.

Evaluation of Disclosure Controls and Procedures

With the participation of our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2016, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the three months ended September 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

There are inherent limitations to the effectiveness of any system of internal control over financial reporting. Accordingly, even an effective system of internal control over financial reporting can only provide reasonable assurance with respect to financial statement preparation and presentation in accordance with U.S. generally accepted accounting principles. Our internal controls over financial reporting are subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error, and the risk of fraud. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may be inadequate because of changes in conditions and the risk that the degree of compliance with policies or procedures may deteriorate over time.

Table of Contents

## PART II—OTHER INFORMATION

## Item 1. Legal Proceedings.

As discussed in Part I, Item 3—"Legal Proceedings," in our Annual Report on Form 10-K for the year ended December 31, 2015, we are regularly involved in a number of claims and litigation matters in the ordinary course of business. Most of our litigation matters are third-party claims related to patent infringement allegations or for property damage allegedly caused by our products, but some involve allegations of personal injury or wrongful death. From time to time, we are also involved in disagreements with vendors and customers. Information on certain legal proceedings in which we are involved is included in Note 10, "Commitments and Contingencies," of our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. We believe that the ultimate resolution of the current litigation matters that are pending against us will not have a material effect on our financial condition or results of operations.

## Item 1A. Risk Factors.

Information regarding risk factors appears in Part I, Item 1A—"Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2015. The information presented below updates and should be read in connection with the risk factors and information previously disclosed therein.

The recent vote by the United Kingdom to leave the European Union could adversely affect us.

The United Kingdom ("U.K.") held a referendum on June 23, 2016 on its membership in the European Union ("E.U."), in which a majority of U.K. voters voted to exit the E.U. (commonly referred to as "Brexit"). The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could last at least two years after the government of the U.K. formally initiates a withdrawal process. These negotiations will determine the future terms of the U.K.'s relationship with the E.U., including the terms of trade between the U.K. and the E.U. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace or replicate. The referendum has also given rise to calls for the governments of other E.U. member states to consider withdrawal from the E.U.

The effects of Brexit will depend on any agreements the U.K. makes to retain access to E.U. markets either during a transitional period or more permanently. Brexit could adversely affect European or worldwide economic or market conditions and contribute to instability in global financial markets. We have substantial sales and operations in the E.U., and manufacturing operations in the U.K. Any of these effects of Brexit, and others we cannot anticipate, could adversely affect our business, business opportunities, results of operations, financial condition, and cash flows.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

## Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Weighted-Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan or Programs (in millions)
July 1 through July 31, 2016	464	(1) \$ 35.99	—	\$ 250.0
August 1 through August 31, 2016	—	\$ —	—	\$ 250.0
September 1 through September 30, 2016	3,667	(1) \$ 37.89	—	\$ 250.0
Total	4,131	\$ 37.68	—	\$ 250.0

(1) Pursuant to the "withhold to cover" method for collecting and paying withholding taxes for our employees upon the vesting of restricted securities, we withheld from certain employees the shares noted in the table above to cover such statutory minimum tax withholdings. These transactions took place outside of a publicly-announced

repurchase plan. The weighted-average price per share listed in the above table is the weighted-average of the fair market prices at which we calculated the number of shares withheld to cover tax withholdings for the employees.



Table of Contents

Item 3. Defaults Upon Senior Securities.

None.

Item 6. Exhibits.

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101	The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows and (v) Notes to the Condensed Consolidated Financial Statements.

---

\* Filed herewith

Table of Contents

SIGNATURES

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

Date: October 25, 2016

SENSATA TECHNOLOGIES HOLDING N.V.

/s/ Martha Sullivan  
(Martha Sullivan)  
President and Chief Executive Officer  
(Principal Executive Officer)

/s/ Paul Vasington  
(Paul Vasington)  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)