PERMA FIX ENVIRONMENTAL SERVICES INC
Form 10-Q
August 08, 2012

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2012

Or

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

For the transition period from to

Commission File No. 111596

PERMA-FIX ENVIRONMENTAL SERVICES, INC.
(Exact name of registrant as specified in its charter)

Delaware	58-1954497
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

8302 Dunwoody Place, Suite 250, Atlanta, GA	30350
(Address of principal executive offices)	(Zip Code)

(770) 587-9898
(Registrant's telephone number)

N/A

(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 T 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 T 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 definition 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 T Non-accelerated Filer £ 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 T

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the close of the latest practical date.

Class	Outstanding at August 1, 2012
Common Stock, $.001 Par Value	56,140,017 shares of registrant’s Common Stock

PERMA-FIX ENVIRONMENTAL SERVICES, INC.

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PART I - FINANCIAL INFORMATION
ITEM 1. – Financial Statements

PERMA-FIX ENVIRONMENTAL SERVICES, INC.
Consolidated Balance Sheets
(Unaudited)

(Amount in Thousands, Except for Share and per Share Amounts)	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash	$1,260	$12,055
Restricted cash	35	1,535
Accounts receivable, net of allowance for doubtful accounts of $275 and $228, respectively	17,404	19,106
Unbilled receivables - current	13,308	9,871
Retainage receivable	540	912
Inventories	401	573
Prepaid and other assets	3,478	4,604
Deferred tax assets - current	3,300	2,426
Current assets related to discontinued operations	767	693
Total current assets	40,493	51,775
Property and equipment:		
Buildings and land	26,200	26,026
Equipment	34,463	34,283
Vehicles	823	818
Leasehold improvements	11,529	11,529
Office furniture and equipment	2,126	2,081
Construction-in-progress	746	764
	75,887	75,501
Less accumulated depreciation and amortization	(38,099)	(35,666)
Net property and equipment	37,788	39,835
Property and equipment related to discontinued operations	1,614	1,650
Intangibles and other long term assets:		
Permits	16,827	16,854
Goodwill	27,021	27,063
Other intangible assets - net	3,906	4,258
Unbilled receivables – non-current	381	424
Finite risk sinking fund	21,253	19,354
Deferred tax asset, net of liabilities	1,295	1,295
Other assets	1,623	1,595
Total assets	$152,201	$164,103

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

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.
Consolidated Balance Sheets, Continued
(Unaudited)

(Amount in Thousands, Except for Share and per Share Amounts)	June 30, 2012	December 31, 2011
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$10,747	$13,117
Accrued expenses	7,340	9,533
Disposal/transportation accrual	2,025	1,957
Unearned revenue	2,691	6,260
Billings in excess of costs and estimated earnings	3,043	3,226
Current liabilities related to discontinued operations	2,040	2,197
Current portion of long-term debt	3,649	3,936
Total current liabilities	31,535	40,226
Accrued closure costs	11,715	11,937
Other long-term liabilities	643	610
Deferred tax liability	54	¾
Long-term liabilities related to discontinued operations	1,873	1,775
Long-term debt, less current portion	13,814	15,007
Total long-term liabilities	28,099	29,329
Total liabilities	59,634	69,555
Commitments and Contingencies		
Preferred Stock of subsidiary, $1.00 par value; 1,467,396 shares authorized, 1,284,730 shares issued and outstanding, liquidation value $1.00 per share plus accrued and unpaid dividends	1,285	1,285
Stockholders' Equity:		
Preferred Stock, $.001 par value; 2,000,000 shares authorized, no shares issued and outstanding	¾	¾
Common Stock, $.001 par value; 75,000,000 shares authorized, 56,133,185 and 56,068,248 shares issued, respectively; 56,094,975 and 56,030,038 shares outstanding, respectively	56	56
Additional paid-in capital	102,611	102,411
Accumulated deficit	(11,846)	(9,505)
Accumulated other comprehensive income (loss)	(1)	(3)
Less Common Stock in treasury at cost; 38,210 shares	(88)	(88)
Total Perma-Fix Environmental Services, Inc. stockholders' equity	90,732	92,871
Noncontrolling interest	550	392
Total stockholders' equity	91,282	93,263
Total liabilities and stockholders' equity	$152,201	$164,103

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

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(Amounts in Thousands, Except for Per Share Amounts)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net revenues	$33,978	$28,913	$72,051	$52,528
Cost of goods sold	30,204	20,864	63,976	41,449
Gross profit	3,774	8,049	8,075	11,079
Selling, general and administrative expenses	4,589	3,436	9,627	6,808
Research and development	574	395	937	661
Gain on disposal of property and equipment	(3)	¾	(3)	¾
(Loss) income from operations	(1,386)	4,218	(2,486)	3,610
Other income (expense):				
Interest income	7	13	21	26
Interest expense	(199)	(183)	(420)	(359)
Interest expense-financing fees	(26)	(54)	(60)	(156)
Other	1	3	1	3
(Loss) income from continuing operations before taxes	(1,603)	3,997	(2,944)	3,124
Income tax (benefit) expense	(474)	1,445	(959)	1,105
(Loss) income from continuing operations, net of taxes	(1,129)	2,552	(1,985)	2,019
(Loss) income from discontinued operations, net of taxes	(60)	(32)	(198)	180
Net (loss) income	(1,189)	2,520	(2,183)	2,199
Less: net income attributable to noncontrolling interest	102	¾	158	¾
Net (loss) income attributable to Perma-Fix Environmental Services, Inc. common stockholders	$(1,291)	$2,520	$(2,341)	$2,199
Net (loss) income per common share attributable to Perma-Fix Environmental Services, Inc. stockholders - basic:				
Continuing operations	$(.02)	$.05	$(.04)	$.04
Discontinued operations	$¾	$¾	$¾	$¾
Net (loss) income per common share	$(.02)	$.05	$(.04)	$.04
Net (loss) income per common share attributable to Perma-Fix Environmental Services, Inc. stockholders - diluted:				
Continuing operations	$(.02)	$.05	$(.04)	$.04
Discontinued operations	$¾	$¾	$¾	$¾
Net (loss) income per common share	$(.02)	$.05	$(.04)	$.04

Number of common shares used in computing net (loss) income per share:				
Basic	56,094	55,136	56,078	55,118
Diluted	56,094	55,136	56,078	55,123

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

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.
Consolidated Statements of Comprehensive (Loss) Income
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in Thousands)	2012	2011	2012	2011
Net (loss) income	$ (1,189)	$ 2,520	$ (2,183)	$ 2,199
Other comprehensive (loss) income:				
Foreign currency translation (loss) gain	(9)		2	
Total other comprehensive (loss) income	(9)		2	
Comprehensive (loss) income	(1,198)	2,520	(2,181)	2,199
Comprehensive income attributable to non-controlling interest	102		158	
Comprehensive (loss) income attributable to Perma-Fix Environmental Services, Inc. stockholders	$ (1,300)	$ 2,520	$ (2,339)	$ 2,199

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

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Amounts in Thousands)	Six Months Ended June 30, 2012	2011
Cash flows from operating activities:		
Net (loss) income	$(2,183)	$2,199
Less: (loss) income on discontinued operations	(198)	180
(Loss) income from continuing operations	(1,985)	2,019
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	3,443	2,332
Amortization of debt discount	12	121
Amortization of fair value of customer contracts	(1,943)	
Deferred tax (benefit) expense	(959)	1,227
Provision (benefit) for bad debt and other reserves	43	(15)
Gain on disposal of plant, property and equipment	(3)	
Foreign exchange gain	2	
Issuance of common stock for services	102	108
Stock-based compensation	98	192
Changes in operating assets and liabilities of continuing operations, net of effect from business acquisitions:		
Accounts receivable	2,031	(6,322)
Unbilled receivables	(3,632)	(322)
Prepaid expenses, inventories and other assets	651	667
Accounts payable, accrued expenses and unearned revenue	(6,557)	4,126
Cash (used in) provided by continuing operations	(8,697)	4,133
Cash used in discontinued operations	(372)	(31)
Cash (used in) provided by operating activities	(9,069)	4,102
Cash flows from investing activities:		
Purchases of property and equipment	(387)	(1,689)
Change in restricted cash, net	1,500	
Proceeds from sale of plant, property and equipment	3	
Payment to finite risk sinking fund	(1,899)	(1,905)
Cash used in investing activities of continuing operations	(783)	(3,594)
Cash used in investing activities of discontinued operations		(135)
Net cash used in investing activities	(783)	(3,729)
Cash flows from financing activities:		
Net borrowing of revolving credit	643	1,047
Principal repayments of long term debt	(2,134)	(2,124)
Proceeds from finite risk financing	565	685
Cash used in financing activities of continuing operations	(926)	(392)
Principal repayments of long term debt for discontinued operations	(17)	(55)
Cash used in financing activities	(943)	(447)

Decrease in cash	(10,795)	(74)
Cash at beginning of period	12,055	101
Cash at end of period	$1,260	$27
Supplemental disclosure:		
Interest paid	$479	$409
Income taxes paid	470	70
Non-cash investing and financing activities:		
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The accompanying notes are an integral part of these consolidated financial statements.

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited, for the six months ended June 30, 2012)

	Common Stock							
	Shares	Amount	Additional Paid-In Capital	Common Stock Held In Treasury	Accumulated Other Comprehensive (Loss) Income	Noncontolling Interest in Subsidiary	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2011	56,068,248	$56	$ 102,411	$ (88)	$ (3)	$ 392	$ (9,505)	$ 93,263
Net income (loss)	¾	¾	¾	¾	¾	158	(2,341)	(2,183)
Foreign currency translation adjustment	¾	¾	¾	¾	2	¾	¾	2
Issuance of Common Stock for services	64,937	¾	102	¾	¾	¾	¾	102
Stock-Based Compensation	¾	¾	98	¾	¾	¾	¾	98
Balance at June 30, 2012	56,133,185	$56	$ 102,611	$ (88)	$ (1)	$ 550	$ (11,846)	$ 91,282

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

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

June 30, 2012
(Unaudited)

Reference is made herein to the notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011.

1. Basis of Presentation

The consolidated financial statements included herein have been prepared by the Company (which may be referred to as we, us or our), without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“the Commission”). Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes the disclosures which are made are adequate to make the information presented not misleading. Further, the consolidated condensed financial statements reflect, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position and results of operations as of and for the periods indicated. The results of operations for the six months ended June 30, 2012 are not necessarily indicative of results to be expected for the fiscal year ending December 31, 2012.

It is suggested that these consolidated condensed financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Reclassifications
Certain prior period amounts have been reclassified to conform with the current period presentation.

2. Summary of Significant Accounting Policies

Our accounting policies are as set forth in the notes to consolidated financial statements referred to above.

Recently Adopted Accounting Standards
In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-04 (“ASU 2011-04”), “Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs”. ASU 2011-04 improves comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and International Financial Reporting Standards (“IFRSs)." ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. The amendments in this guidance are to be applied prospectively, and are effective for interim and annual periods beginning after December 15, 2011. We adopted ASU 2011-04 January 1, 2012.

Certain assets and liabilities are required to be recorded at fair value on a recurring basis, while other assets and liabilities are recorded at fair value on a nonrecurring basis. Fair value is determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Assets measured at fair value on a nonrecurring basis include long-lived assets and goodwill and other intangible assets. The three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies, is:

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Level 1—Valuations based on quoted prices for identical assets and liabilities in active markets.
Level 2—Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
Level 3—Valuations based on unobservable inputs reflecting the Company's own assumptions, consistent with reasonably available assumptions made by other market participants.

Financial instruments include cash and restricted cash (Level 1), accounts receivable, accounts payable, debt obligations and contingent consideration (Level 3). At June 30, 2012 and December 31, 2011, the fair value of the Company's financial instruments approximated their carrying values. The fair value of the Company's revolving credit facility approximates its carrying value due to the variable interest rate.

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220) - Presentation of Comprehensive Income," and in December 2011, the FASB issued ASU No. 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income." Both ASUs amend guidance for the presentation of comprehensive income. The amended guidance requires an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. Although the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under existing guidance. Both ASUs were effective for interim and annual periods beginning after December 15, 2011 with early adoption permitted. These ASUs changed our financial statement presentation of comprehensive income but did not impact our net income, financial position, or cash flows. Upon adoption on January 1, 2012, we elected to present comprehensive income in two separate but consecutive statements as part of the condensed financial statements included in this Quarterly Report on Form 10-Q.

3. Business Acquisition

On October 31, 2011, we completed the acquisition of all of the issued and outstanding shares of capital stock of Safety and Ecology Holdings Corporation ("SEHC") and its subsidiaries, Safety & Ecology Corporation ("Safety & Ecology"), SEC Federal Services Corporation, Safety and Ecology Corporation Limited ("SECL" – a United Kingdom operation) and SEC Radcon Alliance, LLC ("SECRA", which we own 75%), (collectively, "SEC") pursuant to that certain Stock Purchase Agreement, dated July 15, 2011 ("Purchase Agreement"), between the Company, Homeland Capital Security Corporation ("Homeland") and SEHC. SEC is an international provider of environmental, hazardous and radiological remediation infrastructure upgrades and nuclear energy services. SEC provides remediation of nuclear materials for the U.S. government and other commercial customers. We acquired SEC for a total consideration of approximately $17,885,000 determined as follows:

(i) cash consideration of approximately $14,885,000, after certain working capital closing adjustments. This cash consideration was reduced by approximately $1,000,000 total consideration for our Common Stock purchased from us by certain security holders of Homeland as discussed below;

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(ii) $2,500,000 unsecured, non-negotiable promissory note (the "Note"), bearing an annual rate of interest of 6%, payable in 36 monthly installments, which Note provides that we have the right to prepay such at any time without interest or penalty. We prepaid $500,000 of the principal amount of the Note within 10 days of closing of the acquisition. The Note may be subject to offset of amounts Homeland owes us for indemnification for breach of, or failure to perform, certain terms and provisions of the Purchase Agreement if the Escrow Agreement has terminated pursuant to its terms or the amount held in escrow has been exhausted pursuant to the terms of the Purchase Agreement (see Note 13 - "Subsequent Event – Homeland Capital Security Corporation ("Homeland")" regarding certain indemnification claims that the Company is offsetting against this Note). Under the terms of the Note, in the event of a continuing event of default under the Note, Homeland has the option to convert the unpaid portion of the Note into our restricted shares of Common Stock equal to the quotient determined by dividing the principal amount owing under the Note and all accrued and unpaid interest thereon, plus certain expenses, by the average of the closing prices per share of our Common Stock as reported by the primary national securities exchange or automatic quotation system on which our Common Stock is traded during the 30 consecutive trading day period ending on the trading day immediately prior to receipt by us of Homeland's written notice of its election to receive our Common Stock as a result of the event of default that is continuing; provided that the number of shares of our Common Stock to be issued to Homeland under the Note in the event of a continuing event of default plus the number of shares of our Common Stock issued to the Management Investors, as discussed below, shall not exceed 19.9% of the voting power of all of our voting securities issued and outstanding as of the date of the Purchase Agreement; and

(iii) the sum of $2,000,000 deposited in an escrow account to satisfy any claims that we may have against Homeland for indemnification pursuant to the Purchase Agreement and the Escrow Agreement, dated October 31, 2011 ("Escrow Agreement"). Homeland and SEHC further agreed that if certain conditions were not met by December 31, 2011, relating to a certain contract, then the Company could withdraw $1,500,000 from the amount deposited into the escrow. On January 10, 2012, we received $1,500,000 from the escrow as certain conditions were not met under this certain contract as of December 31, 2011. (See Note 13 - "Subsequent Event – Homeland Capital Security Corporation ("Homeland")" for a discussion of the Company's claim for the remaining $500,000 balance in the escrow).

Pursuant to the terms of the Purchase Agreement, upon closing of the Purchase Agreement, certain security holders of Homeland ("Management Investors") purchased 813,007 restricted shares of our Common Stock for a total consideration of approximately $1,000,000, or $1.23 a share, which was the average of the closing prices of our Common Stock as quoted on the Nasdaq during the 30 trading days ending on the trading day immediately prior to the closing of the acquisition. The purchase of the Company's Common Stock was pursuant to a private placement under Section 4(2) of the Securities Act of 1933, as amended (the "Act") or Rule 506 of Regulation D promulgated under the Act.

The acquisition was accounted for using the purchase method of accounting, in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805 – "Business Combinations." The consideration for the acquisition was attributed to net assets on the basis of the fair values of assets acquired and liabilities assumed as of October 31, 2011. The excess of the cost of the acquisition over the estimated fair values of the net tangible assets and intangible assets on the acquisition date, which amounted to $10,852,000, was allocated to goodwill which is not amortized but subject to an annual impairment test. The Company has not yet finalized the allocation of the purchase price to the net assets acquired in this acquisition. As such, the estimated purchase price allocation is preliminary and subject to further revision. The following table summarizes the preliminary purchase price allocation of the fair values of the assets acquired and liabilities assumed as of June 30, 2012:

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(Amounts in thousands)

Current assets	$	21,993
Property, plant and equipment		2,135
Intangible assets		4,474
Goodwill		10,852
Total assets acquired		39,454
Current liabilities		(15,728)
Customer contracts		(3,380)
Non-current liabilities		(2,091)
Total liabilities acquired		(21,199)
Non Controlling Interest		(370)
Total consideration	$	17,885

The following table summarizes the preliminary components of tangible assets acquired:

(Amounts in thousands)		Preliminary Fair Value	Weighted Average Estimated Useful Life
Vehicles	$	583	5.0 years
Lab equipment		1,235	7.0 years
Office furniture and equipment		317	4.0 years
Total tangible assets	$	2,135	

The results of operations of SEC have been included in the Company's consolidated financial statements from the date of the closing of the acquisition, which was October 31, 2011. SEC contributed revenues of approximately $17,325,000 and net loss of $813,000 and revenues of $35,927,000 and net loss of $2,077,000 for the three and six months ended June 30, 2012, respectively. The Company has incurred $659,000 in acquisition-related costs, of which approximately $20,000 and $28,000 was incurred in the first and second quarter of 2012, respectively. These costs are included in selling, general and administrative expenses in the Company's consolidated statement of operations. The following unaudited pro forma financial information presents the combined results of operations of combining SEC and Perma-Fix as though the acquisition had occurred as of the beginning of the periods presented below, which is January 1, 2011. The pro forma financial information does not necessarily represent the results of operations that would have occurred had SEC and Perma Fix been a single company during the periods presented, nor does Perma Fix believe that the pro forma financial information presented is necessarily representative of future operating results. As the acquisition was a stock transaction, none of the goodwill related to SEC is deductible for tax purposes.

(Amounts in Thousands, Except per Share Data)

		Three Months Ended June 30, 2011 (unaudited)		Six Months Ended June 30, 2011 (unaudited)
Net revenues	$	55,853	$	104,040
Net income from continuing operations	$	974	$	1,502
Net income per share from continuing operations- basic	$	.02	$	.03
Net income per share from continuing operations- diluted	$	.02	$	.03

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4. Other Intangible Assets

The following table summarizes information relating to the Company's other intangible assets:

		June 30, 2012			December 31, 2011		
Intangibles (amount in thousands)	Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patent	8-18	$ 424	$ (91)	$ 333	$ 402	$ (77)	$ 325
Software	3	380	(91)	289	158	(66)	92
Non-compete agreement	5	265	(35)	230	265	(9)	256
Customer contracts	0.5	835	(835)	-	445	(144)	301
Customer relationships	12	3,370	(316)	3,054	3,370	(86)	3,284
Total		$ 5,274	$ (1,368)	$ 3,906	$ 4,640	$ (382)	$ 4,258

Intangible assets recorded as a result of the acquisition of SEC on October 31, 2011 included a non-compete agreement, customer relationships, customer contracts, and software ($4,000) which were recorded at fair market value of approximately $4,474,000 (see "Note 3 –Business Acquisition" for the purchase price allocation of SEC). The intangible assets acquired are amortized on a straight-line basis over their useful lives with the exception of customer relationships which are being amortized using an accelerated method.

The following table summarizes the expected amortization over the next five years for our definite-lived intangible assets noted above and includes the only one definite-lived permit, which is at our DSSI facility. This permit of approximately $545,000 was capitalized in 2009 in connection with the authorization issued by the U.S. EPA to commercially store and dispose of radioactive PCBs. This permit is being amortized over a ten year period in accordance with its estimated useful life.

Year	Amount (In thousands)
2012 (remaining)	$ 394
2013	575
2014	519
2015	471
2016	429
	$ 2,388

Amortization expense relating to intangible assets for the Company was $621,000 and $1,012,000 for the three and six months ended June 30, 2012, respectively, and $44,000 and $64,000 for the three and six months ended June 30, 2011, respectively. The increase in amortization expense in 2012 was attributed to amortization of intangible assets acquired related to the SEC acquisition.

5. Stock Based Compensation

We follow FASB ASC 718, "Compensation – Stock Compensation" ("ASC 718") to account for stock-based compensation. ASC 718 requires all stock-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values.

The Company has certain stock option plans under which it awards incentive and non-qualified stock options to employees, officers, and outside directors. Stock options granted to employees have either a ten year contractual term with one-fifth yearly vesting over a five year period or a six year contractual term with one-third yearly vesting over a three year period. Stock options granted to outside directors have a ten year contractual term with vesting period of six months.

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No stock options were granted during the first six months of 2012 or 2011.

As of June 30, 2012, we had an aggregate of 1,818,500 employee stock options outstanding (from the 1993 Non-Qualified Stock Option Plan, 2004 and 2010 Stock Option Plans, and a Non-Qualified Stock Option Agreement noted below), of which 1,268,500 are vested. The weighted average exercise price of the 1,268,500 outstanding and fully vested employee stock options is $2.13 with a remaining weighted contractual life of 1.79 years. Additionally, we had an aggregate of 796,000 outstanding director stock options (from the 1992 and 2003 Outside Directors Stock Plans), all of which are vested. The weighted average exercise price of the 796,000 outstanding and fully vested director stock options is $2.13 with a remaining weighted contractual life of 4.89 years.

The Company granted a non-qualified stock option (the "Option") which allows for the purchase of up to 250,000 shares of the Company's Common Stock at $1.35 per share by Mr. Christopher Leichtweis, who was appointed a Senior Vice President of the Company and the President of SEC upon the closing of the acquisition of SEC on October 31, 2011. The Option was granted in accordance with, and is subject to, the Non-Qualified Stock Option Agreement, dated October 31, 2011. The Option has a term of 10 years from grant date, with 25% yearly vesting over a four-year period.

The Company estimates fair value of stock options using the Black-Scholes valuation model. Assumptions used to estimate the fair value of stock options granted include the exercise price of the award, the expected term, the expected volatility of the Company's stock over the option's expected term, the risk-free interest rate over the option's expected term, and the expected annual dividend yield.

The following table summarizes stock-based compensation recognized for the three and six months ended June 30, 2012 and 2011 for our employee and director stock options.

Stock Options	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Employee Stock Options	$ 34,000	$ 76,000	$ 72,000	$ 152,000
Director Stock Options	¾	¾	26,000	40,000
Total	$ 34,000	$ 76,000	$ 98,000	$ 192,000

We recognize stock-based compensation expense using a straight-line amortization method over the requisite period, which is the vesting period of the stock option grant. ASC 718 requires that stock based compensation expense be based on options that are ultimately expected to vest. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We have generally estimated forfeiture rate based on historical trends of actual forfeitures. When actual forfeitures vary from our estimates, we recognize the difference in compensation expense in the period the actual forfeitures occur or when options vest. As of June 30, 2012, we have approximately $337,000 of total unrecognized compensation cost related to unvested options, of which $68,000 is expected to be recognized in the remainder of 2012, $135,000 in 2013, $96,000 in 2014, with the remaining $38,000 in 2015.

6. Capital Stock, Stock Plans, and Warrants

During the six months of 2012, we issued 64,937 shares of our Common Stock under our 2003 Outside Directors Stock Plan to our outside directors as compensation for serving on our Board of Directors. We paid each of our outside directors $6,500 in fees quarterly for serving as a member of our Board of Directors. The Audit Committee Chairman receives an additional quarterly fee of $5,500 due to the position's additional responsibility. In addition, our Research and Development Committee Chairman receives an additional quarterly fee of $1,000 due to the additional

time commitment to the position. Each board member is also paid $1,000 for each board meeting attendance as well as $500 for each telephonic conference call. As a member of the Board of Directors, each director elects to receive either 65% or 100% of the director's fee in shares of our Common Stock. The number of shares received is calculated based on 75% of the fair market value of our Common Stock determined on the business day immediately preceding the date that the quarterly fee is due. The balance of each director's fee, if any, is payable in cash.

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The summary of the Company's total Stock Plans as of June 30, 2012 as compared to June 30, 2011, and changes during the periods then ended, are presented below. The Company's Plans consist of the 1993 Non-Qualified Stock Option Plan, the 2004 and 2010 Stock Option Plans, and the 1992 and 2003 Outside Directors Stock Plans:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding Janury 1, 2012	2,789,833	$2.03		
Granted				
Exercised				$
Forfeited/Expired	(425,333)	1.90		
Options outstanding End of Period (1)	2,364,500	2.06	3.3	$
Options Exercisable at June 30, 2012(1)	2,064,500	$2.13	3.0	$
Options Vested and expected to be vested at June 30, 2012	2,364,500	$2.06	3.3	$

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding Janury 1, 2011	2,755,525	$2.09		
Granted				
Exercised				$
Forfeited/Expired	(288,692)	1.79		
Options outstanding End of Period (2)	2,466,833	2.12	3.2	$
Options Exercisable at June 30, 2011 (2)	2,155,000	$2.12	3.1	$
Options Vested and expected to be vested at June 30, 2011	2,450,801	$2.12	3.2	$

(1) Options with exercise prices ranging from $1.41 to $2.95
(2) Options with exercise prices ranging from $1.42 to $2.98

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7. Earnings (Loss) Per Share

Basic earnings (loss) per share excludes any dilutive effects of stock options, warrants, and convertible preferred stock. In periods where they are anti-dilutive, such amounts are excluded from the calculations of dilutive earnings per share.

The following is a reconciliation of basic net income (loss) per share to diluted net income (loss) per share for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
(Amounts in Thousands, Except for Per Share Amounts)	2012	2011	2012	2011
(Loss) income per share from continuing operations attributable to Perma-Fix Environmental Services, Inc. common stockholders				
(Loss) income from continuing operations	$ (1,231)	$ 2,552	$ (2,143)	$ 2,019
Basic (loss) income per share	$ (.02)	$ .05	$ (.04)	$ .04
Diluted (loss) income per share	$ (.02)	$ .05	$ (.04)	$ .04
(Loss) income per share from discontinued operations attributable to Perma-Fix Environemental Services, Inc. common stockholders				
(Loss) income from discontinued operations	$ (60)	$ (32)	$ (198)	$ 180
Basic (loss) income per share	$ ¾	$ ¾	$ ¾	$ ¾
Diluted (loss) income per share	$ ¾	$ ¾	$ ¾	$ ¾
Weighted average common shares outstanding – basic	56,094	55,136	56,078	55,118
Potential shares exercisable under stock option plans	¾	¾	¾	5
Potential shares upon exercise of Warrants	¾	¾	¾	¾
Weighted average shares outstanding – diluted	56,094	55,136	56,078	55,123
Potential shares excluded from above weighted average share calculations due to their anti-dilutive effect include:				
Upon exercise of options	2,614	2,467	2,124	2,317
Upon exercise of Warrants	¾	150	¾	150

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8. Long Term Debt

Long-term debt consists of the following at June 30, 2012 and December 31, 2011:

(Amounts in Thousands)	June 30, 2012	December 31, 2011
Revolving Credit facility dated October 31, 2011, borrowings based upon eligible accounts receivable, subject to monthly borrowing base calculation, variable interest paid monthly at option of prime rate (3.25% at June 30, 2012) plus 2.0% or London InterBank Offer Rate ("LIBOR") plus 3.0%, balance due October 31, 2016. Effective interest rate for first six months of 2012 was 5.3%. (1) (2)	$642	$—
Term Loan dated October 31, 2011, payable in equal monthly installments of principal of $190, balance due in October 31, 2016, variable interest paid monthly at option of prime rate plus 2.5% or LIBOR plus 3.5%.Effective interest rate for six months of 2012 was 4.0%. (1) (2)	14,667	15,810
Promissory Note dated April 18, 2011, payable in monthly installments of principal of $83 starting May 8, 2011, balance due April 8, 2012, variable interest paid monthly at LIBOR plus 4.5%, with LIBOR at least 1.5%.(3) (4) (5)	—	318
Promissory Note dated September 28, 2010, payable in 36 monthly equal installments of $40, which includes interest and principal, beginning October 15, 2010, interest accrues at annual rate of 6.0% (5)	579	798
Promissory Note dated October 31, 2011, payable in monthly installments of $76, which includes interest and principal, starting November 15, 2011, interest accrues at annual rate of 6.0%, balance due May 15, 2014. (5) (6)	1,458	1,863
Various capital lease and promissory note obligations, payable 2012 to 2015, interest at rates ranging from 5.0% to 7.8%.	205	259
	17,551	19,048
Less current portion of long-term debt	3,649	3,936
Less long-term debt related to assets held for sale	88	105
	$13,814	$15,007

(1) Our Revolving Credit facility is collateralized by our accounts receivable and our Term Loan is collateralized by our property, plant, and equipment.

(2) On October 31, 2011, the Company entered into an “Amended and Restated Revolving Credit, Term Loan and Security Agreement” with PNC Bank. Under the original credit facility with PNC dated December 22, 2000, as amended, variable interest was determined based on the options as noted; however, variable interest under the LIBOR option provided for a minimum floor base of 1.0% for both our Revolving Credit and Term Loan from January 1, 2011 to October 30, 2011.

(3) Original promissory note dated May 8, 2009 of $3,000,000 was modified on April 18, 2011, with principal balance of approximately $990,000. See “Promissory Notes and Installment Agreements” below for terms of original and amended promissory notes and the final payment made on the note.

(4) Net of debt discount of ($0) and ($117,000) for June 30, 2012 and December 31, 2011, respectively. See “Promissory Notes and Installment Agreements” below for additional information.

(5) Uncollateralized note.

(6) Promissory note entered into in connection with acquisition of SEC on October 31, 2011. See “Promissory Notes and Installment Agreements” below. Also see Note 13 – “Subsequent Event – Homeland Capital Security Corporation (“Homeland”).”

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Revolving Credit and Term Loan Agreement

On October 31, 2011, in connection with the acquisition of SEC, we entered into an Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated October 31, 2011 ("Amended Loan Agreement"), with PNC, replacing our previous Loan Agreement with PNC. The Amended Loan Agreement provides us with the following credit facilities:

- up to $25,000,000 revolving credit facility ("Revolving Credit"), subject to the amount of borrowings based on a percentage of eligible receivables. The revolving credit advances are subject to limitations of an amount up to the sum of (a) up to 85% of Commercial Receivables aged 90 days or less from invoice date, (b) up to 85% of Commercial Broker Receivables aged up to 120 days from invoice date, (c) up to 85% of acceptable Government Agency Receivables aged up to 150 days from invoice date, and (d) up to 50% of acceptable unbilled amounts aged up to 60 days, less (e) reserves the Agent reasonably deems proper and necessary;

- a term loan ("Term Loan") of $16,000,000, which requires monthly installments of approximately $190,000 (based on a seven-year amortization); and

- equipment line of credit up to $2,500,000, subject to certain limitations.

The Amended Loan Agreement terminates as of October 31, 2016, unless sooner terminated.

We have the option of paying an annual rate of interest due on the revolving credit facility at prime plus 2% or London Inter Bank Offer Rate ("LIBOR") plus 3% and the term loan and equipment credit facilities at prime plus 2.5% or LIBOR plus 3.5%.

As a condition of the Amended Loan Agreement, we paid the remaining balance due under the term loan under our previous Loan Agreement, totaling approximately $3,833,000, using our credit facilities under the Amended Loan Agreement. In connection with the Amended Loan Agreement, we paid PNC a fee of $217,500 and incurred other direct costs of approximately $298,000 (of which $24,000 and $9,000 was incurred in the first and second quarter of 2012, respectively), which are being amortized over the term of the Amended Loan Agreement as interest expense – financing fees. As a result of the termination of the original Loan Agreement with PNC, we recorded approximately $91,000 during the fourth quarter of 2011, in loss on extinguishment of debt in accordance with ASC 470-50, "Debt – Modifications and Extinguishments." As of June 30, 2012, the excess availability under our revolving credit was $10,982,000 based on our eligible receivables.

Pursuant to the Amended Loan Agreement, we may terminate the Amended Loan Agreement upon 90 days' prior written notice upon payment in full of our obligations under the Amended Loan Agreement. We agreed to pay PNC 1.0% of the total financing in the event we pay off our obligations on or before October 31, 2012 and 1/2% of the total financing if we pays off our obligations after October 31, 2012 but prior to or on October 31, 2013. No early termination fee shall apply if we pay off our obligations under the Amended Loan Agreement after October 31, 2013.

Promissory Notes and Installment Agreements

The Company had a promissory note dated May 8, 2009, with William N. Lampson and Diehl Rettig (collectively, the "Lenders") for $3,000,000. The Lenders were formerly shareholders of Nuvotec USA, Inc. ("Nuovtec") (n/k/a Perma-Fix Northwest, Inc. ("PFNW")) prior to our acquisition of PFNW and Pacific EcoSolution, Inc. ("PEcoS") (n/k/a Perma-Fix Northwest Richland, Inc. ("PFNWR")) and are also stockholders of the Company, having received shares of our Common Stock in connection with our acquisition of PFNW and PFNWR. As consideration of the Company receiving this loan, we issued a Warrant to Mr. Lampson and a Warrant to Mr. Diehl to purchase up to 135,000 and 15,000 shares, respectively, of the Company's Common Stock at an exercise price of $1.50 per share. The Warrants were exercisable six months from May 8, 2009 and were to expire on May 8, 2011. We also issued an aggregate of

200,000 shares of the Company's Common Stock, with Mr. Lampson receiving 180,000 shares and Mr. Rettig receiving 20,000 shares of the Company's Common Stock. The fair value of the Common Stock and Warrants on the date of issuance was estimated to be $476,000 and $190,000, respectively, and was recorded as a debt discount and amortized over the term of the loan as interest expense – financing fees. On April 18, 2011, we entered into an amendment to the promissory note whereby the remaining principal balance on the promissory note of approximately $990,000 was to be repaid in twelve monthly principal payments of approximately $82,500 plus accrued interest, starting May 8, 2011, with interest payable at the same rate of the original loan which was at LIBOR plus 4.5%, with LIBOR at least 1.5%. As consideration of the amended loan, the original Warrants issued to Mr. Lampson and to Mr. Rettig which were to expire on May 8, 2011, were extended to May 8, 2012 at the same exercise price (Mr. Rettig is deceased; accordingly, the amended Warrant and the remaining portion of the note payable to Mr. Rettig is held by and payable to his personal representative or estate). Also, as previously disclosed, Mr. Robert Ferguson, a member of our Board of Directors acquired one-half of Mr. Lampson's Warrant during 2011 to purchase up to 65,000 shares of the Company's Common Stock. We accounted for the amended loan as a modification in accordance with ASC 470-50, "Debt – Modifications and Extinguishments." At the date of the loan modification, unamortized debt discount and fees on the original loan and the fair value of the modified Warrants were determined to be approximately $42,000 which was amortized as a debt discount over the term of the modified loan as interest expense-financing fees in accordance to ASC 470-50. The Company made the final payment on the note in April 2012. The Warrants as discussed above were not exercised and expired on May 8, 2012.

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The promissory note included an embedded Put Option (“Put”) that could have been exercised upon default, whereby the lender had the option to receive a cash payment equal to the amount of the unpaid principal balance plus all accrued and unpaid interest, or the number of whole shares of our Common Stock equal to the outstanding principal balance. The maximum number of payoff shares was restricted to less than 19.9% of the outstanding equity. We concluded that the Put should have been bifurcated at inception. We determined that the Put had nominal value during its life; therefore, no liability had been recorded to its expiration date.

In connection with the acquisition of SEC, we entered into a $2,500,000 unsecured, non-negotiable promissory note (the “Note”) on October 31, 2011, bearing an annual rate of interest of 6%, payable in 36 monthly installments, with Homeland. The Note provides that we have the right to prepay such at any time without interest or penalty. We prepaid $500,000 of the principal amount of the Note within 10 days of closing of the acquisition. The Note is subject to offset of amounts Homeland owes us under certain terms and provisions of the Purchase Agreement and the Note. Our monthly payments consist of approximately $76,000 (which includes interest) starting November 15, 2011. As a result of the $500,000 prepayment, the final payment of approximately $15,500 will be due on March 15, 2014. See “Subsequent Event – Homeland Capital Security Corporation (“Homeland”)” regarding certain indemnification claims the Company is offsetting against this Note.

The promissory note payable to SEC includes an embedded conversion option (“Conversion Option”) that can be exercised upon default, whereby Homeland has the option to convert the unpaid portion of the Note into a number of whole shares of our restricted Common Stock. The number of shares of our restricted Common Stock to be issuable under the Conversion Option is determined by the principal amount owing under the Note at the time of default plus all accrued and unpaid interest divided by the average of the closing prices per share of our Common Stock as reported by the primary national securities exchange on which our Common Stock is traded during the 30 consecutive trading day period ending on the trading day immediately prior to receipt by us of Homeland’s written notice of its election to receive our Common Stock as a result of the event of default by us, with the number of shares of our Common Stock issuable upon such default subject to certain limitations. We concluded that the Conversion Option had and continues to have nominal value as of June 30, 2012. We will continue to monitor the fair value of the Conversion Option on a regular basis.

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On September 28, 2010, the Company entered into a promissory note in the principal amount of $1,322,000, with the former shareholders of Nuvotec in connection with an earn-out amount that we are required to pay upon meeting certain conditions for each earn-out measurement year ended June 30, 2008 to June 30, 2011, as a result of our acquisition of PFNW and PFNWR. Interest is accrued at an annual interest rate of 6%. The promissory note provides for 36 equal monthly payments of approximately $40,000, consisting of interest and principal, starting October 15, 2010. The promissory note may be prepaid at any time without penalty. See further details of the earn-out amount in "Note 9 - Commitments and Contingencies - Earn-Out Amount."

9. Commitments and Contingencies

Hazardous Waste

In connection with our waste management services, we handle both hazardous and non-hazardous waste, which we transport to our own, or other facilities for destruction or disposal. As a result of disposing of hazardous substances, in the event any cleanup is required, we could be a potentially responsible party ("PRP") for the costs of the cleanup notwithstanding any absence of fault on our part.

Legal Matters

In the normal course of conducting our business, we are involved in various litigations. We are not a party to any litigation or governmental proceeding which our management believes could result in any judgments or fines against us that would have a material adverse effect on our financial position, liquidity or results of future operations.

Earn-Out Amount

In connection with the acquisition of PFNW and PFNWR in June 2007, we were required to pay to those former shareholders of Nuvotec an earn-out amount upon meeting certain conditions for each measurement year ended June 30, 2008 to June 30, 2011, with the aggregate of the full earn-out amount not to exceed $4,552,000, pursuant to the Merger Agreement, as amended ("Agreement"). As of June 30, 2012, an aggregate earn-out amount of $3,896,000 has been paid as follows: (i) $2,574,000 in cash; and (ii) we issued a promissory note, dated September 28, 2010, in the principal amount of $1,322,000, as discussed above. The total $3,896,000 in earn-out amount paid to date or to be paid pursuant to the promissory note excludes approximately an aggregate $656,000 in Offset Amount, which represents an indemnification obligation (as defined by the Merger Agreement) which is payable or may be payable to the Company by the former shareholders of Nuvotec. Pursuant to the Merger Agreement, the aggregate amount of any Offset Amount may total up to $1,000,000, except an Offset Amount is unlimited as to indemnification relating to liabilities for taxes, misrepresentation or inaccuracies with respect to the capitalization of Nuvotec or PEcoS or for willful or reckless misrepresentation of any representation, warranty or covenant. The $656,000 Offset Amount represents approximately $93,000 relating to an excise tax issue and a refund request from a PEcoS customer in connection with services for waste treatment prior to our acquisition of PFNWR and PFNW and an anticipated Offset Amount of $563,000 in connection with the receipt of nonconforming waste at the PFNWR facility prior to our acquisition of PFNWR and PFNW. We are currently involved in litigation with the party that delivered the nonconforming waste to the facility prior to our acquisition of PFNWR and PFNW.

Insurance

The Company has a 25-year finite risk insurance policy entered into in June 2003 with Chartis, a subsidiary of American International Group, Inc. ("AIG"), which provides financial assurance to the applicable states for our permitted facilities in the event of unforeseen closure. Prior to obtaining or renewing operating permits, we are required to provide financial assurance that guarantees to the states that in the event of closure, our permitted facilities will be closed in accordance with the regulations. The policy, as amended, provides for a maximum allowable coverage of $39,000,000 and has available capacity to allow for annual inflation and other performance and surety bond requirements. We have made all of the required payments for this finite risk insurance policy, as amended, of which the last two payments ($1,073,000 and $1,054,000) were made in the first quarter of 2012. Fourteen payments

totaling $18,305,000 have been made for this policy of which $14,472,000 has been deposited into a sinking fund account which represents a restricted cash account; $2,883,000 represented full/terrorism premium; and $950,000 represented fee payable to Chartis. As of June 30, 2012, our financial assurance coverage amount under this policy totaled approximately $37,496,000. We have recorded $15,368,000 in our sinking fund related to the policy noted above on the balance sheet, which includes interest earned of $896,000 on the sinking fund as of June 30, 2012. Interest income for the three and six months ended June 30, 2012, was approximately $7,000 and $15,000, respectively. On the fourth and subsequent anniversaries of the contract inception, we may elect to terminate this contract. If we so elect, Chartis is obligated to pay us an amount equal to 100% of the sinking fund account balance in return for complete releases of liability from both us and any applicable regulatory agency using this policy as an instrument to comply with financial assurance requirements.

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In August 2007, we entered into a second finite risk insurance policy for our PFNWR facility with Chartis. The policy provided an initial $7,800,000 of financial assurance coverage with an annual growth rate of 1.5%, which at the end of the four year term policy, provides maximum coverage of $8,200,000. We have the option to renew this policy at the end of the four year term. We have made all of the required payments on this policy, totaling $7,158,000, of which $5,700,000 has been deposited into a sinking fund account and $1,458,000 represented premium. As of June 30, 2012, we have recorded $5,885,000 in our sinking fund related to this policy on the balance sheet, which includes interest earned of $185,000 on the sinking fund as of June 30, 2012. Interest income for the three and six months ended June 30, 2012 totaled approximately $0 and $4,000, respectively. On July 31, 2011, the policy was renewed for an additional year which required a $46,000 fee. We have the option to renew this policy annually going forward with a similar fee which will be determined at the time of renewal. All other terms of the policy remain substantially unchanged.

10. Discontinued Operations and Divestitures

Our discontinued operations consist of our Perma-Fix of South Georgia, Inc. ("PFSG") facility which met the held for sale criteria under ASC 360, "Property, Plant, and Equipment" on October 6, 2010. Our discontinued operations also encompass our Perma-Fix of Fort Lauderdale, Inc. ("PFFL"), Perma-Fix of Orlando, Inc. ("PFO"), Perma-Fix of Maryland, Inc. ("PFMD"), Perma-Fix of Dayton, Inc. ("PFD"), and Perma-Fix Treatment Services, Inc. ("PFTS") facilities, which were divested on August 12, 2011, October 14, 2011, January 8, 2008, March 14, 2008, and May 30, 2008, respectively. Our discontinued operations also includes two previously shut down locations, Perma-Fix of Michigan, Inc. ("PFMI") and Perma-Fix of Memphis, Inc. ("PFM"), which were approved as discontinued operations by our Board of Directors effective October 4, 2004, and March 12, 1998, respectively.

On August 12, 2011, we completed the sale of our wholly-owned subsidiary, PFFL, pursuant to the terms of a Stock Purchase Agreement, dated June 13, 2011. In consideration for the sale of 100% of the capital stock of PFFL, the buyer paid us $5,500,000 in cash at closing. The cash consideration is subject to certain working capital adjustments after closing. As of June 30, 2012, expenses related to the sale of PFFL totaled approximately $160,000, of which all have been paid ($3,000 was paid during the first quarter of 2012). As of June 30, 2012, the gain on the sale of PFFL totaled approximately $1,707,000 (net of taxes of $1,067,000), which included a working capital adjustment of $185,000 to be received from the buyer. The gain was recorded during the twelve months ended December 31, 2011.

On October 14, 2011, we completed the sale of our wholly-owned subsidiary, PFO, pursuant to the terms of an Asset Purchase Agreement, dated August 12, 2011. In consideration for such assets, the buyer paid us $2,000,000 in cash at the closing and assumed certain liabilities of PFO. The cash consideration is subject to certain working capital adjustments after closing. As of June 30, 2012, expenses related to the sale of PFO totaled approximately $37,000, of which all have been paid ($17,000 was paid during the first quarter of 2012). As of June 30, 2012, loss on the sale of PFO totaled approximately $198,000 (net of taxes of $209,000), which was recorded during the fourth quarter of 2011. No working capital adjustment has been made on the sale of PFO.

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We continue to market our PFSG facility for sale. As required by ASC 360, based on our internal financial valuations, we concluded that no tangible asset impairments existed for PFSG as of June 30, 2012. No intangible asset exists at PFSG.

The following table summarizes the results of discontinued operations for the three and six months ended June 30, 2012 and 2011. The operating results of discontinued operations are included in our Consolidated Statements of Operations as part of our "(Loss) income from discontinued operations, net of taxes."

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in Thousands)	2012	2011	2012	2011
Net revenues	$ 599	$ 2,538	$ 1,215	$ 5,167
Interest expense	$ (9)	$ (18)	$ (17)	$ (37)
Operating (loss) income from discontinued operations	$ (86)	$ (45)	$ (294)	$ 278
Income tax (benefit) expense	$ (26)	$ (13)	$ (96)	$ 98
(Loss) ncome from discontinued operations	$ (60)	$ (32)	$ (198)	$ 180

Assets related to discontinued operations total $2,381,000 and $2,343,000 as of June 30, 2012 and December 31, 2011, respectively, and liabilities related to discontinued operations total $3,913,000 and $3,972,000 as of June 30, 2012 and December 31, 2011, respectively.

The following table presents the major classes of asset and liabilities of discontinued operations that are classified as held for sale as of June 30, 2012 and December 31, 2011. The held for sale assets and liabilities may differ at the closing of a sale transaction from the reported balances as of June 30, 2012:

(Amounts in Thousands)	June 30, 2012	December 31, 2011
Accounts receivable, net (1)	$ 466	$ 385
Inventories	31	25
Other assets	15	22
Property, plant and equipment, net (2)	1,614	1,650
Total assets held for sale	$ 2,126	$ 2,082
Accounts payable	$ 303	$ 190
Accrued expenses and other liabilities	523	577
Note payable	88	105
Environmental liabilities	1,496	1,497
Total liabilities held for sale	$ 2,410	$ 2,369

(1) net of allowance for doubtful accounts of $41,000 and $48,000 as of June 30, 2012 and December 31, 2011, respectively.

(2) net of accumulated depreciation of $62,000 for each period noted.

The following table presents the major classes of assets and liabilities of discontinued operations that are not held for sale as of June 30, 2012 and December 31, 2011:

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(Amounts in Thousands)		June 30, 2012		December 31, 2011
Other assets	$	255	$	261
Total assets of discontinued operations	$	255	$	261
Accrued expenses and other liabilities	$	1,059	$	1,083
Accounts payable		14		15
Environmental liabilities		430		505
Total liabilities of discontinued operations	$	1,503	$	1,603

The environmental liabilities for our discontinued operations consist of remediation projects currently in progress at PFMI, PFM, PFD, and PFSG. These remediation projects principally entail the removal/remediation of contaminated soil, and in some cases, the remediation of surrounding ground water. All of the remedial clean-up projects were an issue for years prior to our acquisition of the facility and were recognized pursuant to a business combination and recorded as part of the purchase price allocation to assets acquired and liabilities assumed. The environmental liability for PFD was retained by the Company upon the sale of PFD in March 2008 and pertains to the remediation of a leased property which was separate and apart from the property on which PFD's facility was located. The reduction of approximately $76,000 in environmental liabilities from the December 31, 2011 balance of $2,002,000 reflects payment on remediation projects.

"Accrued expenses and other liabilities" (not held for sale) for our discontinued operations include a pension payable at PFMI of $402,000 as of June 30, 2012. The pension plan withdrawal liability is a result of the termination of the union employees of PFMI. The PFMI union employees participated in the Central States Teamsters Pension Fund ("CST"), which provides that a partial or full termination of union employees may result in a withdrawal liability, due from PFMI to CST. The recorded liability is based upon a demand letter received from CST in August 2005 that provided for the payment of $22,000 per month over an eight year period. This obligation is recorded as a long-term liability, with a current portion of $232,000 that we expect to pay over the next year.

11. Operating Segments

In accordance with ASC 280, "Segment Reporting", we define an operating segment as a business activity:

- from which we may earn revenue and incur expenses;
- whose operating results are regularly reviewed by the Chief Operating Officer to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

We currently have two reporting segments, which are based on a service offering approach. This however, excludes corporate headquarters, which does not generate revenue, and our discontinued operations, which includes all facilities as discussed in "Note 10 – Discontinued Operations and Divestitures."

Our reporting segments are defined as follows:

TREATMENT SEGMENT which includes:
- nuclear, low-level radioactive, mixed (waste containing both hazardous and low-level radioactive constituents), hazardous and non-hazardous waste treatment, processing and disposal services primarily through four uniquely

licensed and permitted treatment and storage facilities; and

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- research and development activities to identify, develop and implement innovative waste processing techniques for problematic waste streams.

SERVICES SEGMENT which includes:

- On-site waste management services to commercial and government customers;
- Technical services which includes:
  - o professional radiological measurement and site survey of large government and commercial installations using advance methods, technology and engineering;
  - o integrated Occupational Safety and Health services including industrial hygiene ("IH") assessments; hazardous materials surveys, e.g., exposure monitoring; lead and asbestos management/abatement oversight; indoor air quality evaluations; health risk and exposure assessments; health & safety plan/program development, compliance auditing and training services; and Occupational Safety and Health Administration ("OSHA") citation assistance;
  - o global technical services providing consulting, engineering, project management, waste management, environmental, and decontamination and decommissioning field, technical, and management personnel and services to commercial and government customers; and
  - o augmented engineering services (through our Schreiber, Yonley & Associates subsidiary – "SYA") providing consulting environmental services to industrial and government customers:
    - § including air, water, and hazardous waste permitting, air, soil and water sampling, compliance reporting, emission reduction strategies, compliance auditing, and various compliance and training activities; and
    - § engineering and compliance support to other segments.
- A company owned equipment calibration and maintenance laboratory that services, maintains, calibrates, and sources (i.e.rental) of health physics, IH and customized nuclear, environmental, and occupational safety and health ("NEOSH") instrumentation.

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The table below presents certain financial information of our operating segments as of and for the three and six months ended June 30, 2012 and 2011 (in thousands).

Segment Reporting for the Quarter Ended June 30, 2012

	Treatment	Services	Segments Total		Corporate (2)		Consolidated Total	
Revenue from external customers	$10,037	$23,941	$33,978	(3)	$¾		$ 33,978	
Intercompany revenues	549	49	598		¾		¾	
Gross profit	1,088	2,686	3,774		¾		3,774	
Interest income	¾	¾	¾		7		7	
Interest expense	3	¾	3		196		199	
Interest expense-financing fees	¾	¾	¾		26		26	
Depreciation and amortization	1,125	692	1,817		18		1,835	
Segment profit (loss)	72	869	941		(2,070	)	(1,129	)
Segment assets(1)	78,982	41,988	120,970		31,231	(4)	152,201	
Expenditures for segment assets	74	103	177		2		179	
Total long-term debt	108	9	117		17,346		17,463	

Segment Reporting for the Quarter Ended June 30, 2011

	Treatment	Services	Segments Total		Corporate (2)		Consolidated Total	
Revenue from external customers	$17,631	$11,282	$28,913	(3)	$¾		$ 28,913	
Intercompany revenues	376	87	463		¾		¾	
Gross profit	5,972	2,077	8,049		¾		8,049	
Interest income	¾	¾	¾		13		13	
Interest expense	31	1	32		151		183	
Interest expense-financing fees	¾	¾	¾		54		54	
Depreciation and amortization	1,137	10	1,147		29		1,176	
Segment profit (loss)	3,261	1,177	4,438		(1,886	)	2,552	
Segment assets(1)	98,239	2,974	101,213		31,069	(4)	132,282	
Expenditures for segment assets	947	5	952		20		972	
Total long-term debt	205	15	220		9,037	(5)	9,257	

Segment Reporting for the Six Months Ended June 30, 2012

	Treatment	Services	Segments Total		Corporate (2)		Consolidated Total	
Revenue from external customers	$22,879	$49,172	$72,051	(3)	$¾		$ 72,051	
Intercompany revenues	1,158	117	1,275		¾		¾	
Gross profit	3,809	4,266	8,075		¾		8,075	
Interest income	¾	¾	¾		21		21	
Interest expense	5	6	11		409		420	
Interest expense-financing fees	¾	¾	¾		60		60	
Depreciation and amortization	2,255	1,152	3,407		36		3,443	
Segment profit (loss)	1,164	925	2,089		(4,074	)	(1,985	)
Segment assets(1)	78,982	41,988	120,970		31,231	(4)	152,201	
Expenditures for segment assets	242	141	383		4		387	
Total long-term debt	108	9	117		17,346		17,463	

Segment Reporting for the Six Months Ended June 30, 2011

	Treatment	Services	Segments Total	Corporate (2)	Consolidated Total
Revenue from external customers	$ 29,966	$ 22,562	$ 52,528 (3)	$¾	$ 52,528
Intercompany revenues	794	156	950	¾	¾
Gross profit	6,932	4,147	11,079	¾	11,079
Interest income	¾	¾	¾	26	26
Interest expense	64	1	65	294	359
Interest expense-financing fees	¾	¾	¾	156	156
Depreciation and amortization	2,278	20	2,298	34	2,332
Segment profit (loss)	3,379	2,305	5,684	(3,665)	2,019
Segment assets(1)	98,239	2,974	101,213	31,069 (4)	132,282
Expenditures for segment assets	1,659	6	1,665	24	1,689
Total long-term debt	205	15	220	9,037 (5)	9,257

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(1) Segment assets have been adjusted for intercompany accounts to reflect actual assets for each segment.

(2) Amounts reflect the activity for corporate headquarters not included in the segment information.

(3) The following customers accounted for 10% or more of the total revenues generated from continuing operations for the three and six months ended June 30, 2012 and the corresponding period of 2011: (1) Revenues from CH Plateau Remediation Company ("CHPRC") totaled $6,323,000 or 18.5% and $12,633,000 or 17.5% for the three and six months ended June 30, 2012, respectively and $17,171,000 or 59.4% and $30,833,000 or 58.7% for the corresponding period of 2011, respectively (2) Revenues generated directly from the U.S. Department of Energy ("DOE") accounted for $9,709,000 or 28.6% and $19,408,000 or 26.9% for the three and six months ended June 30, 2012, respectively and $0 or 0% and $0 or 0% for the corresponding period of 2011, respectively. The increase in revenue generated directly from the DOE was attributable to the acquisition of SEC in October 31, 2011.

(4) Amount includes assets from discontinued operations of $2,381,000 and $7,590,000 as of June 30, 2012 and 2011, respectively.

(5) Net of debt discount of ($32,000) in connection with Warrants and Common Stock issued on May 8, 2009 in connection with a $3,000,000 promissory note entered into by the Company and Mr. William Lampson and Mr. Diehl Rettig on May 8, 2009. The promissory note and the Warrants were modified on April 18, 2011. The promissory note was paid off and the debt discount became fully amortized in April 2012. See Note 8 - "Promissory Note and Installment Agreement" for additional information.

12. Income Taxes

The Company uses an estimated annual effective tax rate, which is based on expected annual income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which the Company operates, to determine its quarterly provision for income taxes.

We had an income tax benefit of $474,000 and income tax expense of $1,445,000 for continuing operations for the three months ended June 30, 2012 and the corresponding period of 2011, respectively, and income tax benefit of $959,000 and income tax expense of $1,105,000 for the for the six months ended June 30, 2012 and the corresponding period of 2011, respectively. The Company's effective tax rates was approximately 27.8% and 36.2% for the three months ended June 30, 2012 and 2011, respectively, and 30.9% and 35.4% for the six months ended June 30, 2012 and 2011, respectively.

The provision for income taxes is determined in accordance with ASC 740, "Income Taxes". Deferred income tax assets and liabilities are recognized for future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Any effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company regularly assesses the likelihood that the deferred tax asset will be recovered from future taxable income. The Company considers projected future taxable income and ongoing tax planning strategies, then records a valuation allowance to reduce the carrying value of the net deferred income tax assets to an amount that is more likely than not to be realized.

13. Subsequent Event

Homeland Capital Security Corporation (“Homeland”)

As previously reported, in connection with the closing of the Company’s acquisition of Safety & Ecology Holdings Corporation (“SEHC”) and its subsidiaries (collectively “SEC”) from Homeland, Homeland and SEHC agreed that they were in material breach of certain representations and warranties contained in the Stock Purchase Agreement, dated July 15, 2011 (“Agreement”), relating to a fixed cost contract to which a subsidiary of SEHC was a party (“Subcontract”). At the closing, the Company deposited $2,000,000, which represented a portion of the purchase price, in an escrow account to satisfy certain claims that the Company has or may have against Homeland for indemnification pursuant to the Agreement. Homeland and SEHC further agreed that if certain conditions were not met by December 31, 2011, relating to another contract, then the Company could withdraw $1,500,000 from the amount deposited by the Company in escrow. As previously reported, on January 10, 2012, the Company received from the escrow the $1,500,000, leaving a balance of $500,000 in the escrow account.

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As a portion of the purchase price under the Agreement, the Company issued to Homeland an unsecured Promissory Note, dated October 31, 2012, in the principal amount of $2,500,000 (the “Note”). The outstanding principal balance of the Note as of June 30, 2012, was $1,458,000. The Agreement further provides that the Company may offset certain indemnification claims (including those arising from a breach of representations, warranties or covenants) that exceed the amount in the escrow account, against any amounts the Company owes to Homeland under the Note.

The Company currently estimates that the cost to complete the Subcontract will be $5,000,000 to $7,000,000 more than represented by Homeland in the Agreement. As a result, on July 13, 2012, the Company notified Homeland that the Company will offset its losses resulting from such breach against the payments otherwise due under the Note, pursuant to the terms of the Note and the Agreement, including, but not limited to, the July 15, 2012 regular $76,054 monthly Note payment. The Company has asserted a claim for the remaining balance in the escrow account as a result of this breach. Homeland has notified the escrow agent that it does not believe that the Company is entitled to assert a claim against the escrow and has notified the Company that it does not believe the Company is entitled to offset the amounts payable under the Note. Also, Homeland has notified the Company that it intends to assert that the Company will be in default under the terms of the Note if the regular July payment is not paid within 30 days of the due date.

If it is determined by a court of competent jurisdiction that we were not entitled to offset against the Note and, as a result, our actions resulted in an event of default under the Note, Homeland would have the right to receive in full and complete satisfaction of our obligations under the Note:

- the cash amount of the unpaid balance of the Note, accrued and unpaid interest thereon and certain expenses (the “Payoff Amount”); or

- number of shares of our common stock equal to the quotient determined by dividing the Payoff Amount by the average of the closing price per share of our common stock as reported on the national securities exchange on which the shares are traded during the 30 consecutive trading day period ending on the trading day immediately prior to our receipt of a demand notice pursuant to the Agreement, subject to certain limitations; or

- a combination thereof, subject to certain limitations.

The Agreement limits the aggregate amount of Homeland’s liability to the Company to (a) $3,000,000 for indemnification claims relating to breaches of Homeland’s representations and warranties, except claims relating to any fundamental warranty (as defined in the Agreement) are limited to the $24,500,000 purchase price; and (b) $4,900,000 for indemnification claims relating to breaches of Homeland’s covenants or agreements under the Agreement.

In connection with the Subcontract discussed above and another subcontract (“second Subcontract”) that SEHC was working on prior to our acquisition, our SEC subsidiary entered into two surety bonds in the amounts of approximately $5,137,000 and $5,718,000, respectively, prior to our acquisition. We have been informed that one of the sureties who issued the bonds is the subject of a bankruptcy proceeding. The second Subcontract has been completed. The Company has not been informed by the obligee that either of the subcontracts is in default as a result of the bankruptcy proceeding. The Company has discussed this matter with its bonding agent in the event we are required to replace the bond for the Subcontract.

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

Forward-looking Statements

Certain statements contained within this report may be deemed "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (collectively, the "Private Securities Litigation Reform Act of 1995"). All statements in this report other than a statement of historical fact are forward-looking statements that are subject to known and unknown risks, uncertainties and other factors, which could cause actual results and performance of the Company to differ materially from such statements. The words "believe," "expect," "anticipate," "intend," "will," and similar expressions identify forward-looking statements. Forward-looking statements contained herein relate to, among other things,

- demand for our services subject to fluctuations;
- funding by the federal government;
- goals;
- ability to improve operations;
- economic conditions;
- receivables are normally considered collectible within twelve month;
- we anticipate meeting our financial covenants in remaining 2012;
- ability to close and remediate certain contaminated sites for projected amounts over the projected periods;
- fluctuation of cash balances;
- ability to fund expenses to remediate sites from funds generated internally;
- ability to replace surety bond for Subcontract;
- collectability of our receivables;
- adoption of programs by federal or state government mandating a substantial reduction in greenhouse gas emissions;
- ability to fund budgeted capital expenditures during 2012 through our operations and lease financing;
- our cash flows from operations and our available liquidity from our line of credit are sufficient to service the Company's current obligations and current obligations resulting from the acquisition of SEC;
- continue to take steps to improve our operations and liquidity and to invest working capital into our facilities to fund capital additions to our segments;
- due to the continued uncertainty in the economy and changes within the environmental insurance market, we have no guarantee that we will be able to obtain similar insurance in future years, or that the cost of such insurance will not increase materially;
- we could be subject to fines, penalties or other liabilities or could be adversely affected by existing or subsequently enacted laws or regulations;
- as our operations and activities expand, there could be an increase in potential litigation;
- our inability to continue under existing contracts that we have with the federal government (directly or indirectly as a subcontractor) could have a material adverse effect on our operations and financial condition;
- investment of working capital;
- seasonality and the government's budget process;
- process backlog;
- funding of any repurchases of our common stock;
- contracts with the federal government;
- treatment processes we utilize offer a cost saving alternative to more traditional remediation and disposal methods offered by certain of our competitors;
- despite our aggressive compliance and auditing procedure for disposal of wastes, we could further be notified, in the future, that we are a PRP at a remedial action site, which could have a material adverse effect; and
- we could be deemed responsible for part for the cleanup of certain properties and be subject to fines and civil penalties in connection with violations of regulatory requirements.

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While the Company believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance such expectations will prove to have been correct. There are a variety of factors, which could cause future outcomes to differ materially from those described in this report, including, but not limited to:

- general economic conditions;
- material reduction in revenues;
- ability to meet PNC covenant requirements;
- inability to collect in a timely manner a material amount of receivables;
- increased competitive pressures;
- the ability to maintain and obtain required permits and approvals to conduct operations;
- the ability to develop new and existing technologies in the conduct of operations;
- the ability to maintain and obtain closure and operating insurance requirements;
- ability to retain or renew certain required permits;
- discovery of additional contamination or expanded contamination at any of the sites or facilities leased or owned by us or our subsidiaries which would result in a material increase in remediation expenditures;
- delays at our third party disposal site can extend collection of our receivables greater than twelve months;
- changes in federal, state and local laws and regulations, especially environmental laws and regulations, or in interpretation of such;
- potential increases in equipment, maintenance, operating or labor costs;
- management retention and development;
- financial valuation of intangible assets is substantially more/less than expected;
- the requirement to use internally generated funds for purposes not presently anticipated;
- inability to continue to be profitable on an annualized basis;
- the inability of the Company to maintain the listing of its Common Stock on the NASDAQ;
- terminations of contracts with federal agencies or subcontracts involving federal agencies, or reduction in amount of waste delivered to the Company under the contracts or subcontracts;
- renegotiation of contracts involving the federal government;
- disposal expense accrual could prove to be inadequate in the event the waste requires re-treatment; and
- factors set forth in “Special Note Regarding Forward-Looking Statements” contained in our 2011 Form 10-K.

Overview

As previously reported, as a result of the acquisition on October 31, 2011, of all of the issued and outstanding shares of capital stock of Safety and Ecology Holdings Corporation (“SEHC”) and its subsidiaries, Safety & Ecology Corporation (“Safety & Ecology”), SEC Federal Services Corporation, Safety and Ecology Corporation Limited (“SECL” – a United Kingdom operation) and SEC Radcon Alliance, LLC (“SECRA”, which we own 75%), (collectively, “SEC”), pursuant to that certain Stock Purchase Agreement, dated July 15, 2011 (“Purchase Agreement”), between the Company, Homeland Capital Security Corporation (“Homeland”) and SEHC, we made structural and reporting changes to our internal organization and changes to our operating segments to create better consistency, greater coordination and enhanced communication. This restructuring aligns the internal management and functional support assets based on company service offerings. Such restructuring also provides a functionally supported matrix management approach which better supports resource allocation by our chief operating decision maker and optimizes performance assessment. These changes resulted in our new reporting segments: Treatment Segment (“Treatment”) and the Services Segment (“Services”). The Treatment Segment is comprised of treatment, processing, and disposal services of nuclear, low-level radioactive, mixed (waste containing both hazardous and low-level radioactive constituents), hazardous and non-hazardous waste. The Services Segment is comprised of on-site waste management, technical, and consulting services. As such, the reporting of financial results and pertinent discussions below are tailored to the two newly re-aligned reportable segments. All of the historical segment numbers presented in the Form 10-Q have been recast to conform to this change in reportable segments.

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Revenue increased $5,065,000 or 17.5% to $33,978,000 for the three months ended June 30, 2012 from $28,913,000 for the corresponding period of 2011. The revenue increase included revenue of $17,325,000 from the acquisition of SEC on October 31, 2011. Excluding revenue from this acquisition, revenue decreased $12,260,000 or 42.4% from the three months ended June 30, 2011 to June 30, 2012. Treatment Segment revenue decreased $7,594,000 or 43.1% primarily due to lower priced waste. Services Segment revenue decreased $4,666,000 or 41.4% primarily due to reduced revenue from the CH Plateau Remediation Company ("CHPRC") subcontract ("CHPRC subcontract"), a cost plus award fee subcontract. We were awarded the CHPRC subcontract in the second quarter of 2008 by CHPRC, a general contractor to the U.S. Department of Energy ("DOE"). This subcontract entails performing a portion of facility operations and waste management activities for the DOE Hanford, Washington Site. The revenue reduction was the result of a reduction in workforce which occurred during September 30, 2011 under the CHPRC subcontract.

Gross profit decreased $4,275,000 or 53.1%, which included gross profit of $1,048,000 from the SEC acquisition. Excluding gross profit from SEC, remaining gross profit decreased approximately $5,323,000 or 66.1% primarily due to decreased gross profit from our Treatment Segment. Selling, General, and Administrative (SG&A) expenses increased $1,153,000 which included SG&A expenses of $1,238,000 of SEC. Excluding SG&A expense of SEC, remaining SG&A decreased $85,000 or 2.5%.

Our working capital position at June 30, 2012 was at $8,958,000, a decrease of $2,591,000 from a working position of $11,549,000 at December 31, 2011.

Outlook

We believe demand for our services will be subject to fluctuations due to a variety of factors beyond our control, including the current economic conditions that drive both commercial and government clients to reduce spending. Our operations depend, in large part, upon governmental funding, particularly funding levels at the DOE. In addition, our governmental contracts and subcontracts relating to activities at governmental sites are generally subject to termination or renegotiation on 30 days notice at the government's option. Significant reductions in the level of governmental funding due to the completion of most stimulus funded projects and federal spending reductions from uncertain budgets resulting from temporary continuing resolutions could have a material adverse impact on our business, financial position, results of operations and cash flows.

Results of Operations

The reporting of financial results and pertinent discussions are tailored to two reportable segments: The Treatment and Services Segments.

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Consolidated (amounts in thousands)	Three Months Ended June 30, 2012	%	2011	%	Six Months Ended June 30, 2012	%	2011	%
Net revenues	$33,978	100.0	$28,913	100.0	$72,051	100.0	$52,528	100.0
Cost of goods sold	30,204	88.9	20,864	72.2	63,976	88.8	41,449	78.9
Gross profit	3,774	11.1	8,049	27.8	8,075	11.2	11,079	21.1
Selling, general and administrative	4,589	13.5	3,436	11.9	9,627	13.4	6,808	13.0
Research and development	574	1.7	395	1.4	937	1.3	661	1.3
Gain on disposal of property and equipment	(3)				(3)			
(Loss) income from operations	(1,386)	(4.1)	4,218	14.5	(2,486)	(3.5)	3,610	6.8
Interest income	7		13		21		26	
Interest expense	(199)	(.6)	(183)	(.6)	(420)	(.5)	(359)	(.7)
Interest expense-financing fees	(26)		(54)	(.1)	(60)	(.1)	(156)	(.2)
other	1		3		1		3	
(Loss) income from continuing operations before taxes	(1,603)	(4.7)	3,997	13.8	(2,944)	(4.1)	3,124	5.9
Income tax (benefit) expense	(474)	(1.4)	1,445	5.0	(959)	(1.3)	1,105	2.1
(Loss) income from continuing operations	$(1,129)	(3.3)	$2,552	8.8	$(1,985)	(2.8)	$2,019	3.8

Summary – Three and Six Months Ended June 30, 2012 and 2011

Consolidated revenues increased $5,065,000 for the three months ended June 30, 2012, compared to the three months ended June 30, 2011, as follows:

(In thousands)	2012	% Revenue	2011	% Revenue	Change	% Change
Treatment						
Government waste	$ 6,885	20.3	$ 13,379	46.3	$ (6,494)	(48.5)
Hazardous/non-hazardous	729	2.1	721	2.5	8	1.1
Other nuclear waste	2,423	7.1	3,531	12.2	(1,108)	(31.4)
Total	10,037	29.5	17,631	61.0	(7,594)	(43.1)
Services						
Nuclear services	6,062	17.9	10,645	36.8	(4,583)	(43.1)
Technical services	554	1.6	637	2.2	(83)	(13.0)
Acquisition 10/31/11 (SEC) (1)	17,325	51.0	¾	¾	17,325	100.0
Total	23,941	70.5	11,282	39.0	12,659	112.2
Total	$ 33,978	100.0	$ 28,913	100.0	$ 5,065	17.5

(1) Includes approximately $16,038,000 relating to services generated by the federal government, either directly (as prime contractor) or indirectly as a subcontractor to the federal government.

Net Revenue

The Treatment Segment revenue decreased $7,594,000 or 43.1% for the three months ended June 30, 2012 over the same period in 2011. Revenue from government generators decreased $6,494,000 or 48.5% primarily due to lower

averaged priced waste which was partially reduced by higher waste volume. Revenue from hazardous and non-hazardous waste remained relatively flat as higher averaged priced waste was offset by lower waste volumes. Other nuclear waste revenue decreased approximately $1,108,000 or 31.4% primarily due to a large commercial contract which completed in 2011 and did not reoccur in 2012. Services Segment revenue increased $12,659,000 or 112.2% in the three months ended June 30, 2012 from the corresponding period of 2011 primarily due to the revenue of $17,325,000 generated by SEC which was acquired on October 31, 2011. Excluding the revenue of SEC, Services Segment revenue decreased $4,666,000 or 41.4% primarily due to reduced revenue in the nuclear services area. This decrease was primarily from the CHPRC subcontract which is a cost plus award fee subcontract. The reduction in revenue of $4,583,000 or 43.1% under this subcontract from $10,645,000 for the three month ended June 30, 2011 to $6,062,000 for the three months ended June 30, 2012, was primarily the result of reduced headcount resulting from a reduction in workforce which occurred in September 2011 under this subcontract. The remaining revenue decrease of $83,000 within the Services Segment resulted primarily from decreased external billed labor hours in our technical services area.

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Consolidated revenues increased $19,523,000 for the six months ended June 30, 2012, as compared to the six months ended June 30, 2011, as follows:

(In thousands)	2012	% Revenue	2011	% Revenue	Change	% Change
Treatment						
Government waste	$ 16,595	23.0	$ 22,236	42.3	$ (5,641)	(25.4)
Hazardous/non-hazardous	1,585	2.2	1,848	3.5	(263)	(14.2)
Other nuclear waste	4,699	6.5	5,882	11.2	(1,183)	(20.1)
Total	22,879	31.7	29,966	57.0	(7,087)	(23.7)
Services						
Nuclear services	12,011	16.7	21,339	40.7	(9,328)	(43.7)
Technical services	1,234	1.7	1,223	2.3	11	0.9
Acquisition 10/31/11 (SEC) (1)	35,927	49.9	¾	¾	35,927	100.0
Total	49,172	68.3	22,562	43.0	26,610	117.9
Total	$ 72,051	100.0	$ 52,528	100.0	$ 19,523	37.2

(1) Includes approximately $33,221,000 relating to services generated by the federal government, either directly (as prime contractor) or indirectly as a subcontractor to the federal government.

Net Revenue

The Treatment Segment realized revenue decrease of $7,087,000 or 23.7% for the six months ended June 30, 2012 over the same period in 2011. Revenue from government generators decreased $5,641,000 or 25.4% primarily due to lower averaged priced waste. Revenue from hazardous and non-hazardous waste was down $263,000 or 14.2% primarily due to lower waste volume. Other nuclear waste revenue decreased approximately $1,183,000 or 20.1% primarily due to a large commercial contract which completed in 2011 and did not reoccur in 2012. Services Segment revenue increased $26,610,000 or 117.9% in the six months ended June 30, 2012 from the corresponding period of 2011 primarily due to the revenue of $35,927,000 generated by SEC which was acquired on October 31, 2011. Excluding the revenue of SEC, Services Segment revenue decreased $9,317,000 or 41.3% primarily due to reduced revenue in the nuclear services area. This decrease was primarily from the CHPRC subcontract which is a cost plus award fee subcontract. The reduction in revenue of $9,328,000 or 43.7% under this subcontract from $21,339,000 for the six month ended June 30, 2011 to $12,011,000 for the six months ended June 30, 2012, was primarily the result of reduced headcount resulting from a reduction in workforce which occurred in September 2011 under this subcontract. The remaining revenue increase of $11,000 within the Services Segment resulted from higher vendor pass-through.

Cost of Goods Sold

Cost of goods sold increased $9,340,000 for the quarter ended June 30, 2012, as compared to the quarter ended June 30, 2011, as follows:

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(In thousands)	2012	% Revenue	2011	% Revenue	Change
Treatment	$8,949	89.2	$11,659	66.1	$(2,710)
Services	4,978	75.2	9,205	81.6	(4,227)
Acquisition 10/31/11 (SEC)	16,277	94.0	¾	¾	16,277
Total	$30,204	88.9	$20,864	72.2	$9,340

Cost of goods sold for the Treatment Segment decreased $2,710,000 or 23.2% primarily due to reduced revenue, revenue mix, and reduction in certain fixed costs. We saw reduction in costs throughout all categories within the costs of goods sold. We continue to see reduction in salaries and payroll related expenses as we continue to manage headcount to streamline our operations. We saw significant reductions in incentive/bonus due to reduced profitability. Excluding the cost of goods sold of SEC (which is under our Services Segment), the Services Segment cost of goods sold decreased $4,227,000 or 45.9%, which included the cost of goods sold of approximately $4,540,000 related to the CHPRC subcontract. Cost of goods sold for the CHPRC subcontract was approximately $8,730,000 for the three months ended June 30, 2011. The decrease in cost of goods sold for the CHPRC subcontract of $4,190,000 or 48.0% was consistent with the decrease in revenue for the CHPRC subcontract. The remaining decrease in Services Segment cost of goods sold of $37,000 or 7.8% was primarily due to lower salaries and payroll related expenses resulting from reduced headcount. Included within cost of goods sold is depreciation and amortization expense of $1,783,000 and $1,129,000 for the three months ended June 30, 2012, and 2011, respectively. The increase in depreciation and amortization expense in 2012 was attributed primarily to amortization of intangible assets acquired related to the SEC acquisition.

Cost of goods sold increased $22,527,000 for the six months ended June 30, 2012, as compared to the six months ended June 30, 2011, as follows:

(In thousands)	2012	% Revenue	2011	% Revenue	Change
Treatment	$19,070	83.4	$23,034	76.9	$(3,964)
Services	10,313	77.9	18,415	81.6	(8,102)
Acquisition 10/31/11 (SEC)	34,593	96.3	¾	¾	34,593
Total	$63,976	88.8	$41,449	78.9	$22,527

Cost of goods sold for the Treatment Segment decreased $3,964,000 or 17.2% primarily due to revenue mix and reduced revenue. Costs were lower throughout most categories within costs of goods sold. Salaries and payroll related expenses continue to decrease as we continue to manage headcount to streamline our operations. We also saw significant reduction in incentive/bonus due to reduced profitability. Excluding the cost of goods sold of SEC (which is under our Services Segment), the Services Segment cost of goods sold decreased $8,102,000 or 44.0%, which included the cost of goods sold of approximately $9,369,000 related to the CHPRC subcontract. Cost of goods sold for the CHPRC subcontract was approximately $17,320,000 for the six months ended June 30, 2011. The decrease in cost of goods sold for the CHPRC subcontract of $7,951,000 or 45.9% was consistent with the decrease in revenue for the CHPRC subcontract. The remaining decrease in Services Segment cost of goods sold of $151,000 or 13.8% was primarily due to lower salaries and payroll related expenses resulting from the reduction in workforce which occurred during March 2011 in our engineering group within the Segment. Included within cost of goods sold is depreciation and amortization expense of $3,322,000 and $2,261,000 for the six months ended June 30, 2012, and 2011, respectively. The increase in depreciation and amortization expense in 2012 was attributed primarily to amortization of intangible assets acquired related to the SEC acquisition.

Gross Profit

Gross profit for the quarter ended June 30, 2012, decreased $4,275,000 over 2011, as follows:

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(In thousands)	2012	% Revenue	2011	% Revenue	Change
Treatment	$1,088	10.8	$5,972	33.9	$(4,884)
Services	1,638	24.8	2,077	18.4	(439)
Acquisition 10/31/11 (SEC)	1,048	6.0	¾	¾	1,048
Total	$3,774	11.1	$8,049	27.8	$(4,275)

The Treatment Segment gross profit decreased $4,884,000 or 81.8% due to a decrease in revenue. Gross margin decreased to 10.8% from 33.9% due to lower revenue, revenue mix and the impact of fixed costs. Excluding the gross profit of SEC (which is under our Services Segment), the Services Segment gross profit decreased $439,000 or 21.1% primarily due to gross profit decrease of $393,000 or 20.5% for the CHPRC subcontract. Gross profit for the CHPRC was $1,522,000 and $1,915,000 for the three months ended June 30, 2012 and the corresponding period of 2011, respectively. The decrease in gross profit for the CHPRC subcontract was reflective of the revenue decrease under this subcontract. The increase in gross margin to 25.1% from 18.0% under this CHPRC subcontract was in accordance with the cost plus contract fee provisions. The remaining Services Segment gross profit decrease of $46,000 or 28.4% was primarily due to lower revenue from reduced external labor hours.

Gross profit for the six months ended June 30, 2012, decreased $3,004,000 over 2011, as follows:

(In thousands)	2012	% Revenue	2011	% Revenue	Change
Treatment	$3,809	16.6	$6,932	23.1	$(3,123)
Services	2,932	22.1	4,147	18.4	(1,215)
Acquisition 10/31/11 (SEC)	1,334	3.7	¾	¾	1,334
Total	$8,075	11.2	$11,079	21.1	$(3,004)

The Treatment Segment gross profit decreased $3,123,000 or 45.1% due to decreased revenue and gross margin decreased to 16.6% from 23.1% due to low revenue, revenue mix, and the impact of fixed costs. Excluding the gross profit of SEC (which is under our Services Segment), the Services Segment gross profit decreased $1,215,000 or 29.3% primarily due to gross profit decrease of $1,377,000 or 34.3% under the CHPRC subcontract. Gross profit for the CHPRC subcontract decreased $1,377,000 to $2,642,000 for the six months ended June 30, 2012 from $4,019,000 for the corresponding period of 2011, which was reflective of the revenue decrease under this subcontract. The gross margin of 22.0% and 18.8% for the same period, respectively, was in accordance with the contract fee provisions. The remaining Services Segment gross profit increase of $162,000 or 126.6% was primarily due to lower salaries and payroll related expenses from lower headcount resulting from the reduction in workforce which occurred during March 2011 in our engineering group within the Segment.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expenses increased $1,153,000 for the three months ended June 30, 2012, as compared to the corresponding period for 2011, as follows:

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(In thousands)	2012	% Revenue	2011	% Revenue	Change
Administrative	$1,785	¾	$1,663	¾	$122
Treatment	886	8.8	1,117	6.3	(231)
Services	680	10.3	656	5.8	24
Acquisition 10/31/11 (SEC)	1,238	7.1	¾	¾	1,238
Total	$4,589	13.5	$3,436	11.9	$1,153

The increase in administrative SG&A was primarily the result of higher salaries and payroll related expenses due to additional headcount resulting from centralization of accounting functions from the SEC operations to the corporate office as part of the Company's consolidation process related to the acquisition. The increase in headcount at the corporate office was reduced by headcount under our SEC operations. In addition, we wrote off approximately $117,000 in costs related to our shelf registration statement on Form S-3 which expired on June 26, 2012. The Company did not sell any shares of our Common Stock from the registration statement. The increase in costs mentioned above was partially offset by lower incentive/bonus expense. In addition, we incurred lower legal and consulting expenses as higher costs were incurred in 2011 in connection with the acquisition of SEC. Treatment SG&A was lower primarily due to lower commission/incentive expense and lower outside service expense. In addition, general expenses were lower throughout all categories resulting from the Company's effort to streamline costs. The slight increase in Services SG&A (excluding SEC acquisition) was primarily due to higher salaries and payroll related expenses which were offset by lower bad debt expense. Included in SG&A expenses is depreciation and amortization expense of $52,000 and $47,000 for the three months ended June 30, 2012, and 2011, respectively.

SG&A expenses increased $2,819,000 for the six months ended June 30, 2012, as compared to the corresponding period for 2011, as follows:

(In thousands)	2012	% Revenue	2011	% Revenue	Change
Administrative	$3,525	¾	$3,175	¾	$350
Treatment	2,150	9.4	2,290	7.6	(140)
Services	1,388	10.5	1,343	6.0	45
Acquisition 10/31/11 (SEC)	2,564	7.1	¾	¾	2,564
Total	$9,627	13.4	$6,808	13.0	$2,819

Excluding the SG&A of SEC of $2,564,000, the increase in administrative SG&A was primarily the same reasons noted above for the three months ended June 30, 2012 as discussed above. Treatment SG&A was lower primarily due to lower salaries and payroll related expenses and lower commission/incentive expense. In addition, general expenses were lower throughout all categories resulting from the Company's effort to streamline costs. The decrease in Treatment Segment expense was partially reduced by higher bad debt expense. The increase in Services SG&A (excluding SEC acquisition) was primarily due to higher salaries and payroll related expenses which were offset by lower bad debt expense. Included in SG&A expenses is depreciation and amortization expense of $121,000 and $71,000 for the six months ended June 30, 2012 and 2011, respectively.

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Research and Development

Research and development costs increased $179,000 for the three months ended June 30, 2012, as compared to the corresponding period of 2011.

(In thousands)	2012	% Revenue	2011	% Revenue	Change
Research and Development	$574	1.7	$395	1.4	$179

The increase was primarily due to increased lab and payroll costs from more research and development projects.

Research and Development

Research and development costs increased $276,000 for the six months ended June 30, 2012, as compared to the corresponding period of 2011.

(In thousands)	2012	% Revenue	2011	% Revenue	Change
Research and Development	$937	1.3	$661	1.3	$276

The increase was primarily due to increased payroll and lab costs from more research and development projects.

Interest Expense

Interest expense increased $16,000 and $61,000 for the three and six months ended June 30, 2012, respectively, as compared to the corresponding period of 2011.

	Three Months			Six Months	
(In thousands)	2012	2011	Change	2012	—
Other acquisitions, net of cash received	(298,423)	(15,470)	(13,346)		
Additions to property, plant and equipment and capitalized software	(144,211)	(82,784)	(54,786)		
Insurance proceeds	2,417	8,900	—		
Proceeds from sale of assets	5,467	1,704	5,631		
Net cash used in investing activities	(1,430,065)	(87,650)	(62,501)		
Cash flows from financing activities:					
Proceeds from exercise of stock options and issuance of ordinary shares	24,909	20,999	16,520		
Proceeds from issuance of debt	1,190,500	600,000	—		
Payments on debt	(76,375)	(711,665)	(13,349)		
Repurchase of ordinary shares from SCA	(169,680)	(172,125)	—		
Payments to repurchase ordinary shares	(12,094)	(132,971)	(15,190)		
Payments of debt issuance cost	(16,330)	(8,069)	(1,381)		
Net cash provided by/(used in) financing activities	940,930	(403,831)	(13,400)		
Net change in cash and cash equivalents	(106,567)	(95,643)	321,412		
Cash and cash equivalents, beginning of year	317,896	413,539	92,127		
Cash and cash equivalents, end of year	$211,329	$317,896	$413,539		
Supplemental cash flow items:					
Cash paid for interest	$87,774	$84,714	$91,733		
Cash paid for income taxes	$41,126	$33,557	$14,153		

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

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SENSATA TECHNOLOGIES HOLDING N.V.
Consolidated Statements of Changes in Shareholders' Equity
(In thousands)

	Ordinary Shares		Treasury Shares		Additional Paid-In Capital	Retained Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Share-holders' Equity
	Number	Amount	Number	Amount				
Balance as of December 31, 2011	176,467	$2,264	(12)	$(136)	$1,557,211	$ (491,164)	$ (23,224)	$1,044,951
Issuance of ordinary shares for employee stock plans	8	—	—	—	276	—	—	276
Repurchase of ordinary shares	—	—	(511)	(15,190)	—	—	—	(15,190)
Stock options exercised	1,807	24	142	3,903	15,002	(2,685)	—	16,244
Vesting of restricted securities	110	1	—	—	(1)	—	—	—
Share-based compensation	—	—	—	—	14,714	—	—	14,714
Net income	—	—	—	—	—	177,481	—	177,481
Other comprehensive loss	—	—	—	—	—	—	(16,182)	(16,182)
Balance as of December 31, 2012	178,392	$2,289	(381)	$(11,423)	$1,587,202	$ (316,368)	$ (39,406)	$1,222,294
Issuance of ordinary shares for employee stock plans	—	—	7	233	—	(1)	—	232
Repurchase of ordinary shares	—	—	(8,582)	(305,096)	—	—	—	(305,096)
Stock options exercised	43	—	2,432	77,911	375	(57,519)	—	20,767
Vesting of restricted securities	2	—	62	2,029	—	(2,029)	—	—
Share-based compensation	—	—	—	—	8,967	—	—	8,967
Net income	—	—	—	—	—	188,125	—	188,125
Other comprehensive income	—	—	—	—	—	—	6,299	6,299
Balance as of December 31, 2013	178,437	$2,289	(6,462)	$(236,346)	$1,596,544	$ (187,792)	$ (33,107)	$1,141,588
Issuance of ordinary shares for employee stock plans	—	—	9	264	128	—	—	392
Repurchase of ordinary shares	—	—	(4,305)	(181,774)	—	—	—	(181,774)
Stock options exercised	—	—	1,589	50,995	657	(27,135)	—	24,517
	—	—	49	1,589	—	(1,589)	—	—

Vesting of restricted securities								
Share-based compensation	—	—	—	—	13,061	—	—	13,061
Net income	—	—	—	—	—	283,749	—	283,749
Other comprehensive income	—	—	—	—	—	—	21,359	21,359
Balance as of December 31, 2014	178,437	$2,289	(9,120)	$(365,272)	$1,610,390	$ 67,233	$ (11,748)	$1,302,892

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

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SENSATA TECHNOLOGIES HOLDING N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts, or unless otherwise noted)

1. Business Description and Basis of Presentation

Description of Business

The accompanying consolidated financial statements reflect the financial position, results of operations, comprehensive income, cash flows, and changes in shareholders' equity 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 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 in China, Malaysia, Mexico, the Dominican Republic, Bulgaria, Poland, France, Brazil, the U.K., and the U.S. We organize our operations into the Sensors and Controls businesses.

In the fourth quarter of 2014, we realigned our segments as a result of organizational changes to better allocate our resources to support our ongoing business strategy. Refer to Note 18, "Segment Reporting," for further discussion of this realignment. The discussion below, relating to our Sensors and Controls businesses, reflects this realignment.

Our Sensors business is a manufacturer of pressure, temperature, speed, position, and force sensors, and electromechanical products used in subsystems of automobiles (e.g., engine, air conditioning, and ride stabilization) and heavy on- and off-road vehicles ("HVOR"). These products help improve performance, for example, by making an automobile's heating and air conditioning systems work more efficiently, thereby improving gas mileage. These products are also used in systems that address safety and environmental concerns, for example, by improving the stability control of the vehicle and reducing vehicle emissions.

Our Controls business is a manufacturer of a variety of control products used in industrial, aerospace, military, commercial, and residential markets, and sensor products used in industrial applications such as heating, ventilation, and air conditioning ("HVAC") systems. These products include motor and compressor protectors, circuit breakers, semiconductor burn-in test sockets, electronic HVAC sensors and controls, power inverters, precision switches, and thermostats. These products help prevent damage from overheating and fires in a wide variety of applications, including commercial HVAC systems, refrigerators, aircraft, automobiles, lighting, and other industrial applications, and help optimize performance by using sensors which provide feedback to control systems. The Controls business also manufactures direct current ("DC") to alternating current ("AC") power inverters, which enable the operation of electronic equipment when grid power is not available.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). The accompanying consolidated financial statements present separately our financial position, results of operations, comprehensive income, cash flows, and changes in shareholders’ equity. 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. Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires us to exercise our judgment in the process of applying our accounting policies. It also requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenue and expense during the reporting periods.

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Estimates are used when accounting for certain items such as allowances for doubtful accounts and sales returns, depreciation and amortization, inventory obsolescence, asset impairments (including goodwill and other intangible assets), contingencies, the value of share-based compensation, the determination of accrued expenses, certain asset valuations including deferred tax asset valuations, the useful lives of property and equipment, post-retirement obligations, and the accounting for business combinations. The accounting estimates used in the preparation of the consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained, and/or as the operating environment changes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash comprises cash on hand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of change in value, and have original maturities of three months or less.

Revenue Recognition

We recognize revenue in accordance with Accounting Standards Codification ("ASC") Topic 605, Revenue Recognition. Revenue and related cost of revenue from product sales are recognized when the significant risks and rewards of ownership have been transferred, title to the product and risk of loss transfers to our customers, and collection of sales proceeds is reasonably assured. Based on the above criteria, revenue is generally recognized when the product is shipped from our warehouse or, in limited instances, when it is received by the customer, depending on the specific terms of the arrangement. Product sales are recorded net of trade discounts (including volume and early payment incentives), sales returns, value-added tax, and similar taxes. Amounts billed to our customers for shipping and handling are recorded in revenue. Shipping and handling costs are included in cost of revenue. Sales to customers generally include a right of return for defective or non-conforming product. Sales returns have not historically been significant in relation to our revenue and have been within our estimates.

Many of our products are designed and engineered to meet customer specifications. These activities, and the testing of our products to determine compliance with those specifications, occur prior to any revenue being recognized. Products are then manufactured and sold to customers. Customer arrangements do not involve post-installation or post-sale testing and acceptance.

Share-Based Compensation

ASC Topic 718, Compensation—Stock Compensation (“ASC 718”), requires that a company measure at fair value any new or modified share-based compensation arrangements with employees, such as stock options and restricted stock units, and recognize as compensation expense that fair value over the requisite service period.

We estimate the fair value of options on the date of grant using the Black-Scholes-Merton option-pricing model. Key assumptions used in estimating the grant-date fair value of these options are as follows: the fair value of the ordinary shares, expected term, expected volatility, risk-free interest rate, and expected dividend yield.

We use the closing price of our ordinary shares on the New York Stock Exchange on the date of the grant as the fair value of ordinary shares in the Black-Scholes-Merton option-pricing model.

The expected term, which is a key factor in measuring the fair value and related compensation cost of share-based payments, has historically been based on the “simplified” methodology originally prescribed by Staff Accounting Bulletin (“SAB”) No. 107, in which the expected term is determined by computing the mathematical mean of the average vesting period and the contractual life of the options. While the widespread use of the simplified method under SAB No. 107 expired on December 31, 2007, the U.S. Securities and Exchange Commission (the "SEC") issued SAB No. 110 in December 2007, which allowed the simplified method to continue to be used in certain circumstances. These circumstances include when a company does not have sufficient historical data surrounding option exercises to provide a reasonable basis upon which to estimate expected term and during periods prior to its equity shares being publicly traded.

We utilized the simplified method for options granted during 2013 and 2012 due to the lack of historical exercise data necessary to provide a reasonable basis upon which to estimate the expected term. During 2014, rather than using the simplified method, we benchmarked the terms of our options granted against those of publicly-traded companies within our industry in order to estimate our expected term.

Also, because of our lack of history as a public company during 2013 and 2012, we considered the historical and implied volatilities of publicly-traded companies within our industry when selecting the appropriate volatility to apply to the options

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granted in those years. Implied volatility provides a forward-looking indication and may offer insight into expected industry volatility. During 2014, with additional historical data available, we considered our own historical volatility, as well as the historical and implied volatilities of publicly-traded companies within our industry, in estimating expected volatility for options granted in 2014.
The risk-free interest rate is based on the yield for a U.S. Treasury security having a maturity similar to the expected term of the related option grant.
The dividend yield is based on our judgment with input from our Board of Directors.
Restricted securities are valued using the closing price of our ordinary shares on the New York Stock Exchange on the date of the grant. Certain of our restricted securities include performance conditions that require us to estimate the probable outcome of the performance condition. This assessment is based on management's judgment using internally developed forecasts and is assessed at each reporting period. Compensation cost is recorded if it is probable that the performance condition will be achieved.
Under the fair value recognition provisions of ASC 718, we recognize share-based compensation net of estimated forfeitures and, therefore, only recognize compensation cost for those awards expected to vest over the requisite service period. The forfeiture rate is based on our estimate of forfeitures by plan participants based on historical forfeiture rates. Compensation expense recognized for each award ultimately reflects the number of awards that actually vest.
Share-based compensation expense is generally recognized as a component of Selling, general and administrative (“SG&A”) expense, which is consistent with where the related employee costs are recorded. Refer to further discussion of share-based payments in Note 11, "Share-Based Payment Plans."
Financial Instruments
Derivative financial instruments: We maintain derivative financial instruments with major financial institutions of investment grade credit rating and monitor the amount of credit exposure to any one issuer.
We account for our derivative financial instruments in accordance with ASC Topic 820, Fair Value Measurements and Disclosures (“ASC 820”) and with ASC Topic 815, Derivatives and Hedging (“ASC 815”). In accordance with ASC 815, we record all derivatives on the balance sheet at fair value. The accounting for the change in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative as a hedging instrument for accounting purposes, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. In addition, ASC 815 provides that, for derivative instruments that qualify for hedge accounting, changes in the fair value are either (a) offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or (b) recognized in equity until the hedged item is recognized in earnings, depending on whether the derivative is being used to hedge changes in fair value or cash flows. The ineffective portion of a derivative’s change in fair value is immediately recognized in earnings. We do not use derivative financial instruments for trading or speculation purposes.
We are exposed to fluctuations in various foreign currencies against our functional currency, the U.S. dollar. We enter into forward contracts for certain foreign currencies, including the Euro, Japanese yen, Mexican peso, Chinese renminbi, Korean won, Malaysian ringgit, and British pound sterling. The fair value of foreign currency forward contracts is 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 exchange rates, 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 16, “Derivative Instruments and Hedging Activities,” under the caption “Hedges of Foreign Currency Risk.”
We enter into forward contracts for certain commodities, including silver, gold, platinum, palladium, copper, aluminum, nickel, and zinc used in the manufacturing of our products. The terms of these forward contracts fix the price at a future date for various notional amounts associated with these commodities. The fair value of our commodity forward contracts is 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 commodity forward curves, and reflects the contractual terms of these instruments, including the period to

maturity. These contracts have not been designated as accounting hedges. We recognize changes in the fair value of these contracts in the consolidated statements of operations, in accordance with ASC 815. 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 16, “Derivative Instruments and Hedging Activities,” under the caption “Hedges of Commodity Risk.”

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We incorporate credit valuation adjustments to appropriately reflect both our own non-performance risk and the respective counterparty's non-performance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of non-performance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.
We report cash flows arising from our derivative financial instruments consistent with the classification of cash flows from the underlying hedged items.
Refer to further discussion on derivative instruments in Note 16, "Derivative Instruments and Hedging Activities."
Trade accounts receivable: Concentrations of risk with respect to trade accounts receivable are generally limited due to the large number of customers in various industries and their dispersion across several geographic areas. Although we do not foresee that credit risk associated with these receivables will deviate from historical experience, repayment is dependent upon the financial stability of these individual customers. Our largest customer accounted for approximately 7% of our Net revenue for the year ended December 31, 2014.
Goodwill and Other Intangible Assets
Businesses acquired in purchase transactions are recorded at their fair value on the date of acquisition, with the excess of the purchase price over the fair value of assets acquired and liabilities assumed recognized as goodwill. In accordance with ASC Topic 350, Intangibles—Goodwill and Other ("ASC 350"), goodwill and intangible assets determined to have an indefinite useful life are not amortized. Instead these assets are evaluated for impairment on an annual basis, and whenever events or business conditions change that could more likely than not reduce the fair value of a reporting unit below its net book value. We evaluate goodwill and indefinite-lived intangible assets for impairment in the fourth quarter of each fiscal year, unless events occur which trigger the need for earlier impairment review.
On October 1, 2014, we had four reporting units: Sensors, Electrical Protection, Power Management, and Interconnection. As discussed in Note 18, “Segment Reporting,” in the fourth quarter of 2014 we realigned our operating segments to move the portion of the Sensors segment that has historically served the HVAC and industrial end-markets (the industrial sensing product line) to the Controls segment. As a result, a new reporting unit, Industrial Sensing, was created subsequent to October 1, 2014.
We establish our reporting units based on the definitions and guidance provided in ASC 350, which includes an analysis of the components that comprise each of our operating segments. Components of an operating segment are aggregated to form one reporting unit if the components have similar economic characteristics. We periodically review these reporting units to ensure that they continue to reflect the manner in which the business is operated. As businesses are acquired, we assign them to an existing reporting unit or create a new reporting unit. Goodwill is assigned to reporting units as of the date of the related acquisition. All acquisitions in fiscal year 2014 were assigned to existing reporting units. If goodwill is assigned to more than one reporting unit, we utilize an allocation methodology that is consistent with the manner in which the amount of goodwill in a business combination is determined.
Goodwill: Our judgments regarding the existence of impairment indicators are based on several factors, including the performance of the end-markets served by our customers, as well as the actual financial performance of our reporting units and their respective financial forecasts over the long-term. We have the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its net book value. If we elect to not use this option or we determine, using the qualitative method, that it is more likely than not that the fair value of a reporting unit is less than its net book value, then we perform the two-step impairment test. In the first step of the goodwill impairment test, we estimate the fair value of reporting units using discounted cash flow models based on our most recent long-range plans and an estimated weighted-average cost of capital appropriate for each reporting unit, giving consideration to valuation multiples (e.g., Invested Capital/EBITDA) for peer companies. We then compare the estimated fair value of each reporting unit to its net book value, including goodwill.
If the net book value of a reporting unit exceeds its estimated fair value, we conduct a second step in which we calculate the implied fair value of goodwill. If the carrying value of the reporting unit's goodwill exceeds the calculated implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business

combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that reporting unit (including any unrecognized intangible assets) based on their fair values as if the reporting unit had been acquired in a business combination at the date of assessment, and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the sum of the fair values of each component of the reporting unit is the implied fair value of goodwill.

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Intangible assets: Identified definite-lived intangible assets are amortized over the useful life of the asset, using a method of amortization that reflects the pattern in which the economic benefits of the intangible asset are consumed over its estimated useful life. If that pattern cannot be reliably determined, then we amortize the intangible asset using the straight-line method. Capitalized software is amortized on a straight-line basis over its estimated useful life. Capitalized software licenses are amortized on a straight-line basis over the lesser of the term of the license, or the useful life of the software.

Impairment of definite-lived intangible assets: Reviews are regularly performed to determine whether facts or circumstances exist that indicate that the carrying values of our definite-lived intangible assets to be held and used are impaired. The recoverability of these assets is assessed by comparing the projected undiscounted net cash flows associated with these assets to their respective carrying values. If the sum of the projected undiscounted net cash flows falls below the carrying value of the assets, the impairment charge is based on the excess of the carrying value over the fair value of those assets. We determine fair value by using the appropriate income approach valuation methodology, depending on the nature of the intangible asset.

Impairment of indefinite-lived intangible assets: We perform an annual impairment review of our indefinite-lived intangible assets in the fourth quarter of each fiscal year, unless events occur that trigger the need for an earlier impairment review. We have the option to first assess qualitative factors in determining whether it is more likely than not that an indefinite-lived intangible asset is impaired. If we elect to not use this option, or we determine that it is more likely than not that the asset is impaired, we perform a quantitative impairment review that requires us to make assumptions about future conditions impacting the value of the indefinite-lived intangible assets, including projected growth rates, cost of capital, effective tax rates, royalty rates, market share, and other items. Impairment, if any, is based on the excess of the carrying value over the fair value of these assets. We determine fair value by using the appropriate income approach valuation methodology.

Deferred Financing Costs and Original Issue Discounts

Expenses associated with the issuance of debt instruments are capitalized and amortized over the term of the respective financing arrangement using the effective interest method (periods ranging from 2 to 10 years). Amortization of these costs is included as a component of Interest expense in the consolidated statements of operations.

In accordance with ASC Subtopic 470-50, Modifications and Extinguishments ("ASC 470-50"), we analyze refinancing transactions to assess whether terms are substantially different in order to determine whether to account for the refinancing as an extinguishment or a modification. Our evaluation of the accounting under ASC 470-50 is done on a creditor by creditor basis. Our accounting for refinancing transactions is described in more detail in Note 8, "Debt."

Income Taxes

We provide for income taxes utilizing the asset and liability method. Under this method, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each balance sheet date, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to reverse or settle. If it is determined that it is more likely than not that future tax benefits associated with a deferred tax asset will not be realized, a valuation allowance is provided. The effect on deferred tax assets and liabilities of a change in statutory tax rates is recognized in the consolidated statements of operations as an adjustment to income tax expense in the period that includes the enactment date.

In accordance with ASC Topic 740, Income Taxes ("ASC 740"), penalties and interest related to unrecognized tax benefits may be classified as either income taxes or another expense line item in the consolidated statements of operations. We classify interest and penalties related to unrecognized tax benefits within our Provision for/(benefit from) income taxes line of our consolidated statements of operations.

Pension and Other Post-Retirement Benefit Plans

We sponsor various pension and other post-retirement benefit plans covering our current and former employees in several countries. The estimates of the obligations and related expense of these plans recorded in the financial statements are based on certain assumptions. The most significant assumptions relate to discount rate, expected return

on plan assets, and rate of increase in healthcare costs. Other assumptions used include employee demographic factors such as compensation rate increases, retirement patterns, employee turnover rates, and mortality rates. We review these assumptions annually. Our review of demographic assumptions includes analyzing historical patterns and/or referencing industry standard tables, combined with our expectations around future compensation and staffing strategies. The difference between these assumptions and our actual experience results in the recognition of an actuarial gain or loss. Actuarial gains and losses are recorded directly to Accumulated other comprehensive loss. If the total net actuarial gain or loss included in Accumulated other comprehensive loss exceeds a

threshold of 10% of the greater of the projected benefit obligation or the market related value of plan assets, it is subject to amortization and recorded as a component of net periodic pension cost over the average remaining service lives of the employees participating in the pension or post-retirement benefit plan.

The discount rate reflects the current rate at which the pension and other post-retirement liabilities could be effectively settled, considering the timing of expected payments for plan participants. It is used to discount the estimated future obligations of the plans to the present value of the liability reflected in the financial statements. In estimating this rate in countries that have a market of high-quality, fixed-income investments, we consider rates of return on these investments included in various bond indices, adjusted to eliminate the effect of call provisions and differences in the timing and amounts of cash outflows related to the bonds. In other countries where a market of high-quality, fixed-income investments does not exist, we estimate the discount rate using government bond yields or long-term inflation rates.

To determine the expected return on plan assets, we consider the historical returns earned by similarly invested assets, the rates of return expected on plan assets in the future, and our investment strategy and asset mix with respect to the plans' funds.

The rate of increase of healthcare costs directly impacts the estimate of our future obligations in connection with our post-retirement medical benefits. Our estimate of healthcare cost trends is based on historical increases in healthcare costs under similarly designed plans, the level of increase in healthcare costs expected in the future, and the design features of the underlying plan.

We have adopted use of the Retirement Plan ("RP") 2014 mortality tables with the Mortality Projection ("MP") scale as issued by the Society of Actuaries in 2014 for our U.S. defined benefit plans. The RP 2014 mortality tables represent the new standard for defined benefit mortality assumptions due to longer life expectancies. The MP projection scale is used to factor in projected mortality improvements over time, based on age and date of birth (i.e., two-dimension generational).

Allowance for Losses on Receivables

The allowance for losses on receivables is used to provide for potential impairment of receivables. The allowance represents an estimate of probable but unconfirmed losses in the receivable portfolio. We estimate the allowance on the basis of specifically identified receivables that are evaluated individually for impairment and a statistical analysis of the remaining receivables determined by reference to past default experience. Customers are generally not required to provide collateral for purchases. The allowance for losses on receivables also includes an allowance for sales returns.

Management judgments are used to determine when to charge off uncollectible trade accounts receivable. We base these judgments on the age of the receivable, credit quality of the customer, current economic conditions, and other factors that may affect a customer's ability to pay.

Losses on receivables have not historically been significant.

Inventories

Inventories are stated at the lower of cost or estimated net realizable value. Cost for raw materials, work-in-process, and finished goods is determined based on a first-in, first-out basis ("FIFO") and includes material, labor, and applicable manufacturing overhead, as well as transportation and handling costs. We conduct quarterly inventory reviews for salability and obsolescence, and inventory considered unlikely to be sold is adjusted to net realizable value.

Property, Plant and Equipment and Other Capitalized Costs

Property, plant and equipment ("PP&E") are stated at cost, and in the case of plant and equipment, are depreciated on a straight-line basis over their estimated economic useful lives. In general, depreciable lives of plant and equipment are as follows:

Buildings and improvements	2 – 40 years
Machinery and equipment	2 – 10 years

Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term or the estimated economic useful lives of the improvements. Assets held under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease.

Amortization expense associated with capital leases is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease, unless ownership is transferred by the end of the lease or there is a bargain purchase option, in which case the asset is amortized, normally on a straight-line basis, over the useful life that would be assigned if the

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asset were owned. Amortization expense associated with capital leases is included within depreciation expense. Expenditures for maintenance and repairs are charged to expense as incurred, whereas major improvements that increase asset values and extend useful lives are capitalized.

Foreign Currency

For financial reporting purposes, the functional currency of all of our subsidiaries is the U.S. dollar because of the significant influence of the U.S. dollar on our operations. In certain instances, we enter into transactions that are denominated in a currency other than the U.S. dollar. At the date the transaction is recognized, each asset, liability, revenue, expense, gain, or loss arising from the transaction is measured and recorded in U.S. dollars using the exchange rate in effect at that date. At each balance sheet date, recorded monetary balances denominated in a currency other than the U.S. dollar are adjusted to the U.S. dollar using the current exchange rate, with gains or losses recorded in Other, net in the consolidated statements of operations.

Other, net

Other, net for the years ended December 31, 2014, 2013, and 2012 consisted of the following:

	For the year ended December 31,		
	2014	2013	2012
Currency remeasurement gain/(loss) on debt	$771	$457	$(433)
Currency remeasurement (loss)/gain on net monetary assets	(7,683)	402	(2,036)
Loss on debt financing	(1,875)	(9,010)	(2,216)
Loss on commodity forward contracts	(9,017)	(23,218)	(436)
Gain/(loss) on foreign currency forward contracts	5,469	(3,290)	(607)
Loss on interest rate cap	—	(1,097)	—
Other	276	127	147
Total Other, net	$(12,059)	$(35,629)	$(5,581)

Recently issued accounting standards to be adopted in a future period:

In May 2014, the Financial Accounting Standards Board 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, Revenue Recognition, and various other revenue accounting standards for specialized transactions and industries. The core principle of the guidance is 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.” In achieving this objective, an entity must perform five steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations of the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 also clarifies how an entity should account for costs of obtaining or fulfilling a contract in a new ASC Subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers.

ASU 2014-09 is effective for public companies for annual periods beginning after December 15, 2016 and interim periods within those annual periods, and early adoption is not permitted. ASU 2014-09 may be applied using either a full retrospective approach, in which all years included in the financial statements are presented under the revised guidance, or a modified retrospective approach. Under the modified retrospective approach, financial statements will be prepared using the new standard for the year of adoption, but not for prior years. Under this 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 company and disclose all line items in the year of adoption as if they were prepared under the old revenue guidance. We will adopt ASU 2014-09 on January 1, 2017 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.

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3. Property, Plant and Equipment

PP&E as of December 31, 2014 and 2013 consisted of the following:

	December 31, 2014	December 31, 2013
Land	$22,405	$10,969
Buildings and improvements	190,646	152,304
Machinery and equipment	762,492	512,417
	975,543	675,690
Accumulated depreciation	(386,059)	(331,033)
Total	$589,484	$344,657

Depreciation expense for PP&E, including amortization of assets under capital leases, totaled $65.8 million, $50.9 million, and $54.7 million for the years ended December 31, 2014, 2013, and 2012, respectively.

PP&E is identified as held for sale when it meets the held for sale criteria of ASC Topic 360, Property, Plant, and Equipment ("ASC 360"). We cease recording depreciation on assets that are classified as held for sale. When an asset meets the held for sale criteria, its carrying value is reclassified out of PP&E and into Prepaid expenses and other current assets, where it remains until either it is sold or it no longer meets the held for sale criteria. In the year that an asset meets the held for sale criteria, its carrying value as of the end of the prior year is reclassified from PP&E to Other assets. As of December 31, 2014, we did not have any PP&E held for sale.

The fair value of assets held for sale is considered to be a Level 3 fair value measurement, and is determined based on the use of appraisals, input from market participants, our experience selling similar assets, and/or internally developed cash flow models.

In 2013, in an effort to move to space more suited for our business needs, we decided to pursue the sale of our facility in Oyama, Japan, which was utilized in both our Sensors and Controls segments. We determined that this facility met the held for sale criteria as specified in ASC 360. No write-down was recorded upon this designation, as we determined that the fair value of the facility, less costs to sell, was greater than its then carrying value of $4.8 million. This carrying value was reclassified from PP&E to Prepaid expenses and other current assets as of December 31, 2013. In the second quarter of 2014, we completed the sale of our Oyama, facility for $5.6 million. The gain on this sale was recorded within the Cost of revenue line of our consolidated statement of operations.

In 2012, in an effort to move to space more suited for our business needs, we decided to pursue the sale of our facility in Almelo, the Netherlands, which is utilized in both our Sensors and Controls segments. We determined that this facility met the held for sale criteria as specified in ASC 360, and, accordingly, we measured the facility at the lower of its then carrying value or fair value less costs to sell, which was determined to be approximately $3.5 million as of December 31, 2012. This resulted in the recognition of a write-down of approximately $3.8 million during the three months ended December 31, 2012. This charge was recorded within the Cost of revenue line of our consolidated statements of operations. In 2014, we decided to construct a new building to replace this facility. We intend to use our existing facility in Almelo, the Netherlands until construction of the new facility is completed. Therefore, we determined that the facility did not meet all the held for sale criteria in ASC 360, and as of December 31, 2014, the carrying value of the asset was classified as PP&E.

PP&E as of December 31, 2014 and 2013 included the following assets under capital leases:

	December 31, 2014	December 31, 2013
PP&E recognized under capital leases	$39,397	$39,397
Accumulated amortization	(14,263)	(13,237)
Net PP&E recognized under capital leases	$25,134	$26,160

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4. Inventories

The components of inventories as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Finished goods	$127,407	$82,350
Work-in-process	69,218	32,790
Raw materials	159,739	68,255
Total	$356,364	$183,395

As of December 31, 2014 and 2013, inventories totaling $11.1 million and $8.1 million, respectively, had been consigned to customers.

5. Goodwill and Other Intangible Assets

The following table outlines the changes in goodwill, by segment:

	Sensors			Controls			Total		
	Gross Goodwill	Accumulated Impairment	Net Goodwill	Gross Goodwill	Accumulated Impairment	Net Goodwill	Gross Goodwill	Accumulated Impairment	Net Goodwill
Balance at December 31, 2012	$1,336,981	$—	$1,336,981	$435,592	$(18,466)	$417,126	$1,772,573	$(18,466)	$1,754,107
Other acquisitions - purchase accounting adjustment	—	—	—	278	—	278	278	—	278
Other acquisitions	1,664	—	1,664	—	—	—	1,664	—	1,664
Balance at December 31, 2013	1,338,645	—	1,338,645	435,870	(18,466)	417,404	1,774,515	(18,466)	1,756,049
Wabash acquisition	18,807	—	18,807	—	—	—	18,807	—	18,807
Magnum acquisition	—	—	—	12,768	—	12,768	12,768	—	12,768
DeltaTech acquisition	99,254	—	99,254	—	—	—	99,254	—	99,254
Schrader acquisition	538,019	—	538,019	—	—	—	538,019	—	538,019
Other acquisitions - purchase accounting adjustment	(102)	—	(102)	—	—	—	(102)	—	(102)
Balance at December 31, 2014	$1,994,623	$—	$1,994,623	$448,638	$(18,466)	$430,172	$2,443,261	$(18,466)	$2,424,795

Goodwill attributed to acquisitions reflects our allocation of purchase price to the estimated fair value of certain assets acquired and liabilities assumed. The purchase accounting adjustments above generally reflect revisions in fair value estimates of acquired tangible and intangible assets.

In the fourth quarter of 2014, we realigned our segments as a result of organizational changes to better allocate our resources to support our ongoing business strategy. Refer to Note 18, "Segment Reporting," for further discussion of

this realignment. The table above has been recast to reflect this realignment.
We have evaluated our goodwill for impairment as of October 1, 2014 using the qualitative method, and have determined that it was more likely than not that the fair values of our reporting units exceeded their carrying values on that date. We have evaluated our indefinite-lived intangible assets (i.e. other than goodwill) for impairment as of October 1, 2014 using the quantitative method, and have determined that the fair values of these indefinite-lived intangible assets exceeded their carrying values on that date. Should certain assumptions change that were used in the qualitative analysis of goodwill, or in the development of the fair value of our indefinite-lived intangible assets, we may be required to recognize goodwill or intangible asset impairments.

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The following table outlines the components of definite-lived intangible assets, excluding goodwill, as of December 31, 2014 and 2013:

	Weighted-Average Life (Years)	December 31, 2014				December 31, 2013			
		Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment	Net Carrying Value
Completed technologies	14	$541,708	$(242,506)	$(2,430)	$296,772	$373,159	$(203,320)	$(2,430)	$167,409
Customer relationships	11	1,460,088	(943,375)	(12,144)	504,569	1,098,098	(840,143)	(12,144)	245,811
Non-compete agreements	8	23,400	(23,400)	—	—	23,400	(23,400)	—	—
Tradenames	9	8,854	(4,259)	—	4,595	5,184	(3,073)	—	2,111
Capitalized software	7	49,127	(12,759)	—	36,368	28,246	(9,659)	—	18,587
Total	11	$2,083,177	$(1,226,299)	$(14,574)	$842,304	$1,528,087	$(1,079,595)	$(14,574)	$433,918

The following table outlines Amortization of intangible assets for the years ended December 31, 2014, 2013, and 2012:

	December 31, 2014	December 31, 2013	December 31, 2012
Acquisition-related definite-lived intangible assets	$143,604	$132,984	$142,983
Capitalized software	3,100	1,403	1,794
Total Amortization of intangible assets	$146,704	$134,387	$144,777

The table below presents estimated Amortization of intangible assets for the following future periods:

2015	$177,458
2016	$149,433
2017	$111,474
2018	$90,382
2019	$83,301

In addition to the above, we own the Klixon® and Airpax® tradenames, which are indefinite-lived intangible assets, as they have each been in continuous use for over 65 years, and we have no plans to discontinue using them. We have recorded on the consolidated balance sheets $59.1 million and $9.4 million, respectively, related to these tradenames.

6. Acquisitions

The following discussion relates to our acquisitions during the year ended December 31, 2014. Refer to Note 5, "Goodwill and Other Intangible Assets," for further discussion of our consolidated Goodwill and Other intangible assets, net balances.

Schrader

On October 14, 2014, we completed the acquisition of all of the outstanding shares of August Cayman Company, Inc., an exempted company incorporated with limited liability under the laws of the Cayman Islands ("Schrader"), for an aggregate purchase price of $1,004.7 million. Schrader is a global manufacturer of sensing and valve solutions for automotive manufacturers, including tire pressure monitoring sensors ("TPMS"), and is being integrated into our Sensors segment. We acquired Schrader to add TPMS and additional low pressure sensing capabilities to our current product portfolio.

Net revenue and Income/(loss) before taxes of Schrader included in our consolidated statement of operations for the year ended December 31, 2014 were $133.3 million and $(3.6) million, respectively. The Income/(loss) before taxes does not include interest expense recorded related to the indebtedness incurred in order to finance the acquisition of Schrader, and also does not include approximately $12.5 million in transaction costs recorded in connection with this

acquisition, which are included within SG&A expense in our consolidated statement of operations.

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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	$96,811
Inventories	72,153
Prepaid expenses and other current assets	17,545
Property, plant and equipment	149,646
Other intangible assets	363,000
Goodwill	538,019
Other assets	5,489
Accounts payable	(66,461)
Accrued expenses and other current liabilities	(69,504)
Deferred income tax liabilities	(95,138)
Other long term liabilities	(15,287)
Fair value of net assets acquired, excluding cash and cash equivalents	996,273
Cash and cash equivalents	8,420
Fair value of net assets acquired	$1,004,693

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 valuations are completed and estimates of the fair value of liabilities assumed are finalized. The preliminary goodwill of $538.0 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.

In connection with the 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 estimated fair values, and weighted-average lives:

	Acquisition Date Fair Value	Weighted Average Lives (years)
Acquired definite-lived intangible assets:		
Completed technologies	$100,000	10
Customer relationships	260,000	10
Computer software	3,000	3
	$363,000	10

The definite-lived intangible assets were valued using the income approach. We used the relief-from-royalty method to value completed technologies. The customer relationships were valued using the multi-period excess earnings 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.

The valuation of certain tangible assets acquired were determined using cost and market approaches. For personal property, we primarily used the cost approach to develop the estimated reproduction or replacement cost. For real property, we used a market approach based on the use of appraisals and input from market participants. The fair value of these assets is considered to be a Level 3 fair value measurement.

Refer to Note 14, "Commitments and Contingencies," for discussion of pre-acquisition contingencies assumed as a result of this acquisition.

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DeltaTech Controls

On August 4, 2014, we completed the acquisition of all of the outstanding shares of CoActive US Holdings, Inc., the direct or indirect parent of companies comprising the DeltaTech Controls business ("DeltaTech"), from CoActive Holdings, LLC for an aggregate purchase price of $177.8 million. DeltaTech is a manufacturer of customized electronic operator controls based on magnetic position sensing technology for the construction, agriculture, and material handling industries, and is being integrated into our Sensors segment. We acquired DeltaTech to expand our magnetic speed and position sensing business with new and existing customers in the HVOR market.

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

Net working capital	$12,974
Property, plant and equipment	8,421
Other intangible assets	111,277
Goodwill	99,254
Other noncurrent assets	5,663
Deferred income tax liabilities	(39,424)
Other long term liabilities	(21,237)
Fair value of net assets acquired, excluding cash and cash equivalents	176,928
Cash and cash equivalents	919
Fair value of net assets acquired	$177,847

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 valuations are completed and estimates of the fair value of liabilities assumed are finalized. The preliminary goodwill of $99.3 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.

In connection with the 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 estimated fair values, and weighted-average lives:

	Acquisition Date Fair Value	Weighted Average Lives (years)
Acquired definite-lived intangible assets:		
Customer relationships	$82,420	8
Completed technologies	26,139	10
Tradenames	1,820	5
Computer software	898	7
	$111,277	8

The definite-lived intangible assets were valued using the income approach. We used the relief-from-royalty method to value completed technologies and tradename intangibles. The customer relationships were valued using the multi-period excess earnings 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 and tradename intangibles, 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.

The valuation of certain tangible assets acquired was determined using the cost approach to develop the estimated reproduction or replacement cost. The fair value of these assets is considered to be a Level 3 fair value measurement.

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Magnum Energy

On May 29, 2014, we completed the acquisition of all of the outstanding shares of Magnum Energy Incorporated ("Magnum Energy" or "Magnum") for $60.6 million in cash. Magnum is a supplier of pure sine, low-frequency inverters and inverter/chargers based in Everett, Washington. Magnum products are used in recreational vehicles and the solar/off-grid applications market. Magnum is being integrated into our Controls segment. We acquired Magnum to complement our existing inverter business.

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. The final allocation of the purchase price will be completed when the estimates of the fair value of liabilities assumed are finalized. The majority of the purchase price was allocated to intangible assets, including goodwill.

The preliminary goodwill recognized as a result of this acquisition was approximately $12.8 million, which represents future economic benefits expected to arise from synergies from combining operations and the extension of existing customer relationships. In accordance with the terms of the agreement to purchase Magnum, we have treated this acquisition as an asset purchase as allowed under U.S. tax rules, and therefore all of the goodwill recorded is expected to be deductible for tax purposes.

In connection with the 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 estimated fair values, and weighted-average lives:

	Acquisition Date Fair Value	Weighted Average Lives (years)
Acquired definite-lived intangible assets:		
Completed technologies	$28,810	12
Customer relationships	11,670	7
Tradename	1,850	12
	$42,330	11

The completed technologies and tradename intangibles were valued using the income approach (the multi-period excess earnings method and the relief-from-royalty method, respectively). The customer relationships were valued using the cost approach. These valuation methods incorporate assumptions including future earnings related to completed technologies, expected discounted future cash flows resulting from the future estimated after-tax royalty payments avoided as a result of owning the tradename, and the estimated cost of replacement of existing customer relationships. The fair value of these assets is considered to be a Level 3 fair value measurement.

Wabash Technologies

On January 2, 2014, we completed the acquisition of all the outstanding shares of Wabash Worldwide Holding Corp. ("Wabash Technologies" or "Wabash") from an affiliate of Sun Capital Partners, Inc. for $59.6 million in cash. Wabash develops, manufactures, and sells a broad range of custom-designed sensors and has operations in the U.S., Mexico, and the U.K. We acquired Wabash in order to complement our existing magnetic speed and position sensor product portfolio and to provide new capabilities in throttle position and transmission range sensing, while enabling additional entry points into the heavy vehicle and off-road end-market. Wabash is being integrated into our Sensors segment.

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

Net working capital	$8,289
Property, plant and equipment	17,210
Other intangible assets	21,500
Goodwill	18,807
Deferred income tax liabilities	(6,658)
Other long term liabilities	(867)
Fair value of net assets acquired, excluding cash and cash equivalents	58,281
Cash and cash equivalents	1,304
Fair value of net assets acquired	$59,585

The allocation of the purchase price related to this acquisition was based on management's judgments after evaluating several factors, including valuation assessments of tangible and intangible assets, and estimates of the fair value of liabilities assumed. The goodwill of $18.8 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.

In connection with the 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 estimated fair values, and weighted-average lives:

	Acquisition Date Fair Value	Weighted Average Lives (years)
Acquired definite-lived intangible assets:		
Completed technologies	$13,600	9
Customer relationships	7,900	7
	$21,500	8

The definite-lived intangible assets were valued using the income approach. We used the relief-from-royalty method to value completed technologies and the multi-period excess earnings method to value customer relationships. 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.

The valuation of certain tangible assets acquired were determined using cost and market approaches. For personal property, we primarily used the cost approach to develop the estimated reproduction or replacement cost. For real property, we used a market approach based on the use of appraisals and input from market participants. The fair value of these assets is considered to be a Level 3 fair value measurement.

Aggregated Information on Business Combinations

Net revenue for DeltaTech, Magnum, and Wabash included in our consolidated statements of operations for the year ended December 31, 2014 was $148.5 million. Net income for DeltaTech, Magnum, and Wabash included in our consolidated statements of operations for the year ended December 31, 2014 was not material to our consolidated results.

Pro Forma Results

Had the DeltaTech, Magnum, and Wabash acquisitions closed at the beginning of 2013, Net revenue and Net income would not have been materially different from the amounts reported for the years ended December 31, 2014 and December 31, 2013.

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The following unaudited table presents the pro forma net revenue and earnings for the following periods of the combined entity had we acquired Schrader on January 1, 2013:

	Unaudited December 31, 2014	December 31, 2013
Pro forma net revenue	$2,849,547	$2,436,159
Pro forma net income	$264,907	$117,885

Pro forma net income for the year ended December 31, 2013 includes nonrecurring adjustments of $3.8 million related to the amortization of the step-up adjustment to record inventory at fair value and $9.0 million and $3.8 million of transaction costs and financing costs, respectively, incurred as a result of the acquisition.

7. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities as of December 31, 2014 and 2013 consisted of the following:

	December 31, 2014	December 31, 2013
Accrued compensation and benefits	$63,066	$39,331
Foreign currency and commodity forward contracts	18,037	21,471
Accrued interest	22,587	12,634
Accrued freight, utility, and insurance	14,717	9,812
Value-added taxes	6,489	2,863
Accrued taxes	10,819	6,640
Accrued professional fees	10,301	5,577
Accrued restructuring and severance	14,046	3,373
Deferred income	15,089	663
Current portion of pension and post-retirement benefit obligations	2,360	1,717
Other accrued expenses and current liabilities	45,270	19,158
Total	$222,781	$123,239

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8. Debt

Our debt as of December 31, 2014 and 2013 consisted of the following:

	December 31, 2014	December 31, 2013
Original Term Loan	$469,308	$474,062
Incremental Term Loan	598,500	—
6.5% Senior Notes	700,000	700,000
4.875% Senior Notes	500,000	500,000
5.625% Senior Notes	400,000	—
Revolving Credit Facility	130,000	—
Other debt	2,153	—
Less: discount	(6,312)	(2,289)
Less: current portion	(142,905)	(4,752)
Long-term debt, net of discount, less current portion	$2,650,744	$1,667,021
Capital lease and other financing obligations	$48,187	$52,193
Less: current portion	(3,074)	(3,348)
Capital lease and other financing obligations, less current portion	$45,113	$48,845

In May 2011, we completed a series of transactions designed to refinance our then existing indebtedness. The transactions included the issuance and sale of $700.0 million in aggregate principal amount of 6.5% senior notes due 2019 (the "6.5% Senior Notes") and the execution of a credit agreement (the "Credit Agreement") providing for senior secured credit facilities (the "Senior Secured Credit Facilities"), consisting of a $1,100.0 million term loan (the "Original Term Loan"), which was offered at an original issue price of 99.5%, and a $250.0 million revolving credit facility (the "Revolving Credit Facility"), of which up to $235.0 million may be borrowed as Euro revolver borrowings.

In April 2013, we completed the issuance and sale of $500.0 million in aggregate principal amount of 4.875% senior notes due 2023 (the "4.875% Senior Notes"). We used the proceeds from the issuance and sale of these notes, together with cash on hand, to (1) repay $700.0 million of the Original Term Loan, (2) pay all accrued interest on such indebtedness, and (3) pay all fees and expenses in connection with the issuance and sale of the 4.875% Senior Notes.

In August 2014, we acquired DeltaTech for $177.8 million. Refer to Note 6, "Acquisitions," for further discussion of this acquisition. We borrowed $160.0 million on the Revolving Credit Facility to fund a portion of the purchase price of this acquisition. The remaining balance on the Revolving Credit Facility as of December 31, 2014 was $130.0 million. The weighted-average interest rate on the Revolving Credit Facility for the year ended December 31, 2014 was 2.41%.

In October 2014, we completed a series of financing transactions (the "Transactions") in order to fund the acquisition of Schrader. The Transactions included the issuance and sale of $400.0 million in aggregate principal amount of 5.625% senior notes due 2024 (the "5.625% Senior Notes") and the entry into the third amendment to the Credit Agreement that provides for a $600.0 million incremental term loan (the "Incremental Term Loan," and together with the Original Term Loan, the "Term Loans"), which was offered at an original issue price of 99.25%. The net proceeds from the issuance and sale of the 5.625% Senior Notes and borrowings under the Incremental Term Loan, together with cash on hand, were used to (1) fund the acquisition of Schrader, (2) permanently repay all outstanding indebtedness under Schrader's existing credit facilities, and (3) pay all related fees and expenses in connection with the Transactions and the acquisition of Schrader.

Senior Secured Credit Facilities

The Original Term Loan, issued under the Senior Secured Credit Facilities, bears interest at variable rates. At our option, the Original Term Loan may be maintained from time to time as a Base Rate loan or a Eurodollar Rate loan (each as defined in the Credit Agreement), each with a different determination of interest rates. We currently maintain the Original Term Loan as a Eurodollar Rate loan, which includes a LIBOR index rate (subject to a floor of 75 basis points) plus a spread of 250 basis points. The interest rate on the Original Term Loan was 3.25% at December 31, 2014 and 2013. The Revolving Credit Facility bears interest at variable rates, which includes a LIBOR index rate plus

2.500%, 2.375%, or 2.250%, depending on the achievement of certain senior secured net leverage ratios.
We have amended the Credit Agreement on four occasions since its initial execution. The terms presented herein reflect

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the changes as a result of these various amendments.

In December 2012, we amended the Credit Agreement (the "First Amendment") to reduce the interest rate spread with respect to the Original Term Loan by 0.25%, to 1.75% and 2.75% for Base Rate loans and Eurodollar Rate loans, respectively. No changes were made to the terms of the Revolving Credit Facility.

In December 2013, we amended the Credit Agreement (the "Second Amendment") to (1) expand the Original Term Loan by $100.0 million, (2) reduce the interest rate spread with respect to the Original Term Loan by 0.25%, to 1.50% and 2.50% for Base Rate loans and Eurodollar Rate loans, respectively, (3) reduce the interest rate floor with respect to term loans that are Eurodollar Rate loans from 1.00% to 0.75%, (4) extend the maturity date of the Original Term Loan from May 12, 2018 to May 12, 2019, and (5) modify two negative covenants under the Credit Agreement, specifically (i) the amount of investments that may be made by Loan Parties (as defined in the Credit Agreement) in Restricted Subsidiaries that are not Loan Parties was increased from $100.0 million to $300.0 million, and (ii) Loan Parties and their Restricted Subsidiaries may make an additional $150.0 million of restricted payments so long as no default or event of default has occurred and is continuing or would result therefrom. Under the terms of the Second Amendment, the principal amount of the Original Term Loan amortizes in equal quarterly installments in an aggregate annual amount equal to 1.0% of the loan balance at the time of the Second Amendment, with the balance payable at maturity. No changes were made to the terms of the Revolving Credit Facility.

In October 2014, we amended the Credit Agreement (the "Third Amendment") to provide for the Incremental Term Loan. The principal amount of the Incremental Term Loan amortizes in equal quarterly installments in an aggregate annual amount equal to 1.0% of the original principal amount, with the balance due at maturity. At our option, the Incremental Term Loan may be maintained from time to time as a Base Rate loan or a Eurodollar Rate loan (each as defined in the Third Amendment), each with a different determination of interest rates. As of December 31, 2014, we maintain the Incremental Term Loan as a Eurodollar Rate loan, which accrues interest at a rate that is indexed to LIBOR, subject to a floor of 0.75% and a spread of 2.75%. Under the terms of the Third Amendment, we are required to pay a fee of 1.0% of the aggregate principal amount of the portion of the Incremental Term Loan prepaid or converted in connection with any repricing transaction occurring before April 14, 2015. The interest rate on the Incremental Term Loan at December 31, 2014 was 3.50%.

In November 2014, we amended the Credit Agreement (the "Fourth Amendment") to revise the calculation used to determine the commitment fee on the Revolving Credit Facility to be equal to the Applicable Rate (as defined in the Credit Agreement) times the unused portion of the Revolving Credit Facility. Prior to the Fourth Amendment, the commitment fee was calculated as the Applicable Rate times the total amount available to be borrowed under the Revolving Credit Facility, regardless of the portion used.

Pursuant to the Fourth Amendment, we are required to pay to our revolving credit lenders, on a quarterly basis, a commitment fee on the unused portion of the Revolving Credit Facility. The commitment fee is subject to a pricing grid based on our leverage ratio. The spreads on the commitment fee range from 25 to 50 basis points.

Revolving loans may be borrowed, repaid, and re-borrowed to fund our working capital needs and for other general corporate purposes. No amounts under the Term Loans, once repaid, may be re-borrowed.

All obligations under the Senior Secured Credit Facilities are unconditionally guaranteed by certain of our subsidiaries in the U.S., the Netherlands, Mexico, Japan, Belgium, Bulgaria, Malaysia, and Bermuda, Luxembourg, Brazil, France, and the U.K. (collectively, the "Guarantors"). The collateral for such borrowings under the Senior Secured Credit Facilities consists of substantially all present and future property and assets of STBV, Sensata Technologies Finance Company, LLC, and the Guarantors.

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 Senior Secured Credit Facilities. The Credit Agreement also requires mandatory prepayments of the outstanding borrowings under the Senior Secured Credit Facilities 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). The Credit Agreement requires that the proceeds of such mandatory prepayments be applied first to the tranche of term loans with the earliest maturity. These provisions were not triggered during the year ended December 31, 2014.

As of December 31, 2014, there was $113.7 million of availability under the Revolving Credit Facility, (net of $6.3 million in letters of credit). Outstanding letters of credit are issued primarily for the benefit of certain operating activities. As of December 31, 2014, no amounts had been drawn against these outstanding letters of credit, which are scheduled to expire on various dates in 2015.

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6.5% Senior Notes

The 6.5% Senior Notes were issued under an indenture dated May 12, 2011 (the "6.5% Senior Notes Indenture") among STBV, as issuer, The Bank of New York Mellon, as trustee, and the Guarantors. The 6.5% Senior Notes were offered at par. The 6.5% Senior Notes bear interest at a rate of 6.5% per annum, and interest is payable semi-annually in cash on May 15 and November 15 of each year. Our obligations under the 6.5% Senior Notes are guaranteed by all of STBV's existing and future wholly-owned subsidiaries that guarantee our obligations under the Senior Secured Credit Facilities, including a newly formed U.K. subsidiary. The 6.5% Senior Notes and the related guarantees are unsecured senior obligations of STBV and the Guarantors.

Additional securities may be issued under the 6.5% Senior Notes Indenture in one or more series from time to time, subject to certain limitations. At any time prior to May 15, 2015, we may redeem some or all of the 6.5% Senior Notes at a redemption price equal to 100.0% of the principal amount of such 6.5% Senior Notes redeemed, plus accrued and unpaid interest to the date of redemption, plus the Applicable Premium (also known as the "make-whole premium") set forth in the 6.5% Senior Notes Indenture.

On or after May 15, 2015, we may redeem some or all of the 6.5% Senior Notes at the redemption prices listed below, plus accrued interest:

Beginning May 15	Percentage	
2015	103.25	%
2016	101.63	%
2017 and thereafter	100.00	%

If certain changes in the law of any relevant taxing jurisdiction become effective that would require us or any Guarantor to pay additional amounts in respect of the 6.5% Senior Notes, we may redeem the 6.5% Senior Notes, in whole but not in part, at a redemption price equal to 100.0% of the principal amount thereof, plus accrued and unpaid interest, and additional amounts, if any, then due or that will become due on the date of redemption.

If STBV experiences certain change of control events, holders of the 6.5% Senior Notes may require us to repurchase all or part of the 6.5% Senior Notes at 101.0% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

4.875% Senior Notes

The 4.875% Senior Notes were issued under an indenture dated April 17, 2013 (the "4.875% Senior Notes Indenture") among STBV, as issuer, The Bank of New York Mellon, as trustee, and the Guarantors. The 4.875% Senior Notes were offered at par. Interest on the 4.875% Senior Notes is payable semi-annually on April 15 and October 15 of each year, with the first payment made on October 15, 2013. Our obligations under the 4.875% Senior Notes are guaranteed by all of STBV's subsidiaries that guarantee our obligations under the Senior Secured Credit Facilities, including a newly formed U.K. subsidiary. The 4.875% Senior Notes and the guarantees are senior unsecured obligations of STBV and the Guarantors and rank equally in right of payment to all existing and future senior unsecured indebtedness of STBV or the Guarantors, including the 6.5% Senior Notes.

At any time, we may redeem the 4.875% Senior Notes, in whole or in part, at a price equal to 100.0% of the principal amount of the 4.875% Senior Notes redeemed, plus accrued and unpaid interest to the date of redemption, plus the Applicable Premium (also known as the "make-whole premium") set forth in the 4.875% Senior Notes Indenture. In addition, if STBV experiences certain change of control events, holders of the 4.875% Senior Notes may require us to repurchase all or part of the 4.875% Senior Notes at 101.0% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date. If certain changes in the tax law of any relevant taxing jurisdiction become effective that would impose withholding taxes or other deductions on the payments of the 4.875% Senior Notes or the guarantees, we may redeem the 4.875% Senior Notes in whole, but not in part, at any time, at a redemption price of 100.0% of the principal amount, plus accrued and unpaid interest, if any, to the date of redemption.

The 4.875% Senior Notes Indenture provides for events of default (subject in certain cases to customary grace and cure periods) that include, among others, nonpayment of principal or interest when due, breach of covenants or other agreements in the 4.875% Senior Notes Indenture, defaults in payment of certain other indebtedness, certain events of bankruptcy or insolvency, and when the guarantees of significant subsidiaries cease to be in full force and effect. Generally, if an event of default occurs, the trustee or the holders of at least 25% in principal amount of the then

outstanding 4.875% Senior Notes may

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declare the principal of, and accrued but unpaid interest on, all of the 4.875% Senior Notes to be due and payable immediately. All provisions regarding remedies in an event of default are subject to the 4.875% Senior Notes Indenture.

5.625% Senior Notes

The 5.625% Senior Notes were issued under an indenture dated October 14, 2014 (the "5.625% Senior Notes Indenture") among STBV, as issuer, The Bank of New York Mellon, as trustee, and the Guarantors. The 5.625% Senior Notes were offered at par. Interest on the 5.625% Senior Notes is payable semi-annually on May 1 and November 1 of each year, with the first payment to be made on May 1, 2015. Our obligations under the 5.625% Senior Notes are guaranteed by all of STBV's subsidiaries that guarantee STBV's obligations under the Senior Secured Credit Facilities, including a newly formed U.K. subsidiary, which became the direct parent of August Cayman Company, Inc. immediately following the consummation of the acquisition of Schrader. The 5.625% Senior Notes and the guarantees are senior unsecured obligations of STBV and the Guarantors and rank equally in right of payment to all existing and future senior indebtedness of STBV or the Guarantors, including the Senior Secured Credit Facilities, the 6.5% Senior Notes, and the 4.875% Senior Notes.

At any time, we may redeem the 5.625% Senior Notes, in whole or in part, at a price equal to 100.0% of the principal amount of the 5.625% Senior Notes redeemed, plus accrued and unpaid interest to the date of redemption, plus the Applicable Premium (also known as the "make-whole premium") set forth in the 5.625% Senior Notes Indenture. In addition, if STBV experiences certain change of control events, holders of the 5.625% Senior Notes may require STBV to repurchase all or part of the 5.625% Senior Notes at 101.0% of the principal amount on the date of purchase, plus accrued and unpaid interest, if any, to the repurchase date. Upon changes in certain tax laws or treaties, or any change in the official application, administration, or interpretation thereof, STBV may, at its option, redeem the 5.625% Senior Notes, in whole but not in part, at a redemption price equal to 100.0% of the principal amount, plus accrued and unpaid interest, if any, to the date of redemption, plus all Additional Amounts (as defined in the 5.625% Senior Notes Indenture), if any, then due, and which will become due on the date of redemption.

The 5.625% Senior Notes Indenture provides for events of default (subject in certain cases to customary grace and cure periods) that include, among others, nonpayment of principal or interest when due, breach of covenants or other agreements in the 5.625% Senior Notes Indenture, defaults in payment of certain other indebtedness, certain events of bankruptcy or insolvency, and when the guarantees of significant subsidiaries cease to be in full force and effect. Generally, if an event of default occurs, the trustee or the holders of at least 25% in principal amount of the then outstanding 5.625% Senior Notes may declare the principal of, and accrued but unpaid interest on, all of the 5.625% Senior Notes to be due and payable immediately. All provisions regarding remedies in an event of default are subject to the 5.625% Senior Notes Indenture.

Restrictions

As of December 31, 2014, for purposes of the 6.5% Senior Notes, the 4.875% Senior Notes, the 5.625% Senior Notes (collectively, the "Senior Notes"), and the Term Loans, all of the subsidiaries of STBV were "Restricted Subsidiaries." Under certain circumstances, STBV will be permitted to designate subsidiaries as "Unrestricted Subsidiaries." As per the terms of the 6.5% Senior Notes Indenture, the 4.875% Senior Notes Indenture, and the 5.625% Senior Notes Indenture (collectively, the "Senior Notes Indentures"), and the Credit Agreement, Restricted Subsidiaries are subject to restrictive covenants. Unrestricted Subsidiaries will not be subject to the restrictive covenants of the Credit Agreement and will not guarantee any of the Senior Notes.

Under the Revolving Credit Facility, STBV and its Restricted Subsidiaries are required to maintain a senior secured net leverage ratio not to exceed 5.0:1.0 at the conclusion of certain periods when outstanding loans and letters of credit that are not cash collateralized for the full face amount thereof exceed 10% of the commitments under the Revolving Credit Facility. In addition, STBV and its Restricted Subsidiaries are required to satisfy this covenant, on a pro forma basis, in connection with any new borrowings (including any letter of credit issuances) under the Revolving Credit Facility as of the time of such borrowings.

The Credit Agreement also contains non-financial covenants that limit our ability to incur subsequent indebtedness, incur liens, prepay subordinated debt, make loans and investments (including acquisitions), merge, consolidate, dissolve or liquidate, sell assets, enter into affiliate transactions, change our business, change our accounting policies,

make capital expenditures, amend the terms of our subordinated debt and our organizational documents, pay dividends and make other restricted payments, and enter into certain burdensome contractual obligations. These covenants are subject to important exceptions and qualifications set forth in the Credit Agreement.

The Senior Notes Indentures contain restrictive covenants that limit the ability of STBV and its Restricted Subsidiaries to, among other things: incur additional debt or issue preferred stock; create liens; create restrictions on STBV's subsidiaries'

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ability to make payments to STBV; pay dividends and make other distributions in respect of STBV's and its Restricted Subsidiaries' capital stock; redeem or repurchase STBV's capital stock, our capital stock, or the capital stock of any other direct or indirect parent company of STBV or prepay subordinated indebtedness; make certain investments or certain other restricted payments; guarantee indebtedness; designate unrestricted subsidiaries; sell certain kinds of assets; enter into certain types of transactions with affiliates; and effect mergers or consolidations. These covenants are subject to important exceptions and qualifications set forth in the Senior Notes Indentures. Certain of these covenants will be suspended if the Senior Notes are assigned an investment grade rating by Standard & Poor's Rating Services or Moody's Investors Service, Inc. and no default has occurred and is continuing at such time. The suspended covenants will be reinstated if the Senior Notes are no longer rated investment grade by either rating agency and an event of default has occurred and is continuing at such time. As of December 31, 2014, the Senior Notes were not rated investment grade by either rating agency.

The Guarantors under the Credit Agreement and the Senior Notes Indentures are generally not restricted in their ability to pay dividends or otherwise distribute funds to STBV, except for restrictions imposed under applicable corporate law.

STBV, however, 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; (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.

The Senior Notes Indentures generally provide that STBV can pay dividends and make other distributions to its parent companies upon the achievement of certain conditions and in an amount as determined in accordance with the Senior Notes Indentures.

The net assets of STBV subject to these restrictions totaled $1,249.1 million at December 31, 2014.

Accounting for Debt Transactions

In connection with our debt financing transactions in the fourth quarter of 2014, we incurred $17.7 million of financing costs, of which $1.9 million was recorded in Other, net, $1.9 million was recorded in Interest expense, and $13.9 million was recorded as deferred financing costs.

In connection with the issuance and sale of the 4.875% Senior Notes in April 2013, and the related repayment of $700.0 million of the Original Term Loan, in the year ended December 31, 2013, we recorded a $7.1 million loss to Other, net, which is composed of the write-off of unamortized deferred financing costs and original issue discount of $4.4 million and transaction costs of $2.7 million. For holders of the Original Term Loan who did not invest in the 4.875% Senior Notes, we wrote-off a pro rata portion of the related unamortized deferred financing costs and original issue discount. For holders of the Original Term Loan who were also investors in the 4.875% Senior Notes, we applied the provisions of ASC 470-50. Our evaluation of the accounting under ASC 470-50 was done on a creditor by creditor basis in order to determine if the terms of the debt were substantially different and, as a result, whether to

apply modification or extinguishment accounting. Borrowings associated with holders of the 4.875% Senior Notes that were not also holders of the Original Term Loan were accounted for as new issuances, as we did not have a previous financing relationship with these creditors. As such, we capitalized $3.9 million (i.e. a pro rata portion) of third party costs, primarily associated with issuances to these creditors, as deferred financing costs.

In connection with the Second Amendment, we recorded a $1.9 million loss to Other, net, which is composed primarily of transaction costs, in the three months ended December 31, 2013.

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In connection with the First Amendment, we recorded a loss in Other, net of $2.2 million, including the write-off of debt issuance costs and original issue discount of $0.2 million, in the three months ended December 31, 2012.
We applied the provisions of ASC 470-50 in accounting for the transactions described above.

Leases

We operate in leased facilities with initial terms ranging up to 20 years. The lease agreements frequently include options to renew for additional periods or to purchase the leased assets and generally require that we pay taxes, insurance, and maintenance costs. Depending on the specific terms of the leases, our obligations are in two forms: capital leases and operating leases. Rent expense for the years ended December 31, 2014, 2013, and 2012 was $7.5 million, $6.5 million, and $6.1 million, respectively.

In 2011, we recorded a capital lease obligation for a new facility in Baoying, China. The obligation recorded as of December 31, 2014 and 2013 was $7.1 million and $8.5 million, respectively.

We have recorded a capital lease, which matures in 2025, for a facility in Attleboro, Massachusetts. As of December 31, 2014 and 2013, the capital lease obligation outstanding for this facility was $24.7 million and $25.9 million, respectively.

Other Financing Obligations

In 2013, we entered into an agreement with one of our suppliers, Measurement Specialties, Inc., under which we acquired the rights to certain intellectual property in exchange for quarterly royalty payments through the fourth quarter of 2019. As of December 31, 2014 and 2013, we had recognized a liability of $7.6 million and $8.3 million, respectively, within Capital lease and other financing obligations related to this agreement.

In 2008, our Malaysian operating subsidiary entered into a series of agreements to sell and leaseback the land, building, and certain equipment associated with its manufacturing facility in Subang Jaya, Malaysia. The transaction, which was valued at RM41.0 million (or $12.6 million based on the closing date exchange rate), was accounted for as a financing transaction. Accordingly, the land, building, and equipment remains on the consolidated balance sheets, and the cash received was recorded as a liability as a component of Capital lease and other financing obligations. As of December 31, 2014 and 2013, the outstanding liability recorded was $8.4 million and $9.0 million, respectively.

Debt Maturities

The final maturity of the Revolving Credit Facility is on May 12, 2016. Loans made pursuant to the Revolving Credit Facility must be repaid in full on or prior to such date and are pre-payable at our option at par. All letters of credit issued thereunder will terminate at the final maturity of the Revolving Credit Facility unless cash collateralized prior to such time. The final maturity of the Original Term Loan is May 12, 2019. The final maturity of the Incremental Term Loan is October 14, 2021. The Term Loans must be repaid in full on or prior to their respective maturity dates. The 6.5% Senior Notes, the 4.875% Senior Notes, and the 5.625% Senior Notes mature on May 15, 2019, October 15, 2023, and November 1, 2024, respectively.

Remaining mandatory principal repayments of long-term debt, excluding capital lease payments, other financing obligations, and discretionary repurchases of debt, in each of the years ended December 31, 2015 through 2019 and thereafter are as follows:

For the year ended December 31,	Aggregate Maturities
2015	$142,905
2016	10,753
2017	10,753
2018	10,753
2019	1,156,299
Thereafter	1,468,498
Total long-term debt principal payments	$2,799,961

Compliance with Financial and Non-Financial Covenants

As of, and for the year ended, December 31, 2014, we were in compliance with all of the covenants and default provisions associated with our indebtedness.

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9. Income Taxes

Effective April 27, 2006 (inception), and concurrent with the completion of the acquisition of the Sensors and Controls business ("S&C") of Texas Instruments Incorporated ("TI") (the "2006 Acquisition"), we commenced filing tax returns in the Netherlands as a stand-alone entity. Several of our Dutch resident subsidiaries are taxable entities in the Netherlands and file tax returns under Dutch fiscal unity (i.e., consolidation). On April 30, 2008, our U.S. subsidiaries executed a separation and distribution agreement that divided our U.S. Sensors and Controls businesses, resulting in two separate U.S. consolidated federal income tax returns. Prior to April 30, 2008, we filed one consolidated tax return in the United States. Our remaining subsidiaries will file income tax returns in the countries in which they are incorporated and/or operate, including the Netherlands, Japan, China, Belgium, Bulgaria, South Korea, Malaysia, the U.K., France, and Mexico. The 2006 Acquisition purchase accounting and the related debt and equity capitalization of the various subsidiaries of the consolidated company, and the realignment of the functions performed and risks assumed by the various subsidiaries, are of significant consequence to the determination of future book and taxable income of the respective subsidiaries and Sensata as a whole.

Since our inception, we have incurred tax losses in the U.S., resulting in allowable tax net operating loss carryforwards. In measuring the related deferred tax assets, we considered all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance is needed for some portion or all of the deferred tax assets. Judgment is required in considering the relative impact of negative and positive evidence. The weight given to the potential effect of negative and positive evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary, and the more difficult it is to support a conclusion that a valuation allowance is not needed. Additionally, we utilize the “more likely than not” criteria established in ASC 740 to determine whether the future benefit from the deferred tax assets should be recognized. As a result, we have established a full valuation allowance on the deferred tax assets in jurisdictions in which it is more likely than not that such assets will not be utilized in the foreseeable future.

Income before taxes for the years ended December 31, 2014, 2013, and 2012 was as follows:

	U.S.	Non-U.S.	Total
For the year ended December 31,			
2014	$(92,632)	$346,058	$253,426
2013	$(80,426)	$314,363	$233,937
2012	$(100,156)	$272,821	$172,665

Provision for/(benefit from) income taxes for the years ended December 31, 2014, 2013, and 2012 was as follows:

	U.S. Federal	Non-U.S.	U.S. State	Total
For the year ended December 31,				
2014:				
Current	$—	$28,438	$395	$28,833
Deferred	(51,564)	(6,280)	(1,312)	(59,156)
Total	$(51,564)	$22,158	$(917)	$(30,323)
2013:				
Current	$—	$19,826	$275	$20,101
Deferred	11,857	13,919	(65)	25,711
Total	$11,857	$33,745	$210	$45,812
2012:				
Current	$—	$21,500	$295	$21,795
Deferred	16,039	(42,754)	104	(26,611)
Total	$16,039	$(21,254)	$399	$(4,816)

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Principal reconciling items from income tax computed at the U.S. statutory tax rate for the years ended December 31, 2014, 2013, and 2012 were as follows:

	For the year ended December 31,		
	2014	2013	2012
Tax computed at statutory rate of 35%	$88,700	$81,878	$60,433
Foreign tax rate differential	(70,090)	(66,835)	(31,352)
Unrealized foreign exchange (gains) and losses, net	(15,195)	(4,029)	(10,649)
Change in tax law or rates	(12,017)	(4,402)	(402)
Withholding taxes not creditable	4,940	16,101	3,247
Losses not tax benefited	40,200	25,192	49,761
Release of valuation allowances	(71,111)	—	(82,553)
U.S. state taxes, net of U.S. federal benefit	432	114	293
Reserve for tax exposure	308	(13,674)	4,483
Other	3,510	11,467	1,923
	$(30,323)	$45,812	$(4,816)

During the year ended December 31, 2014, we released a portion of our U.S. valuation allowance and recognized $71.1 million of benefit from income taxes in connection with the Wabash, DeltaTech, and Schrader acquisitions, for which deferred tax liabilities were established related primarily to the step-up of intangible assets for book purposes.

In December 2013, Mexico enacted a comprehensive tax reform package, which was effective January 1, 2014. As a result of this change, we adjusted our deferred taxes in that jurisdiction, resulting in the recognition of a tax benefit, which reduced deferred income tax expense by $4.7 million for fiscal year 2013.

In the fourth quarter of 2012, we determined, based on available facts, that it was more likely than not that our Netherlands net operating losses would be utilized in the foreseeable future. Therefore, we released the Netherlands' deferred tax asset valuation allowance. A net benefit of approximately $66.0 million is reflected in our 2012 deferred tax provision.

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The primary components of deferred income tax assets and liabilities as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Deferred tax assets:		
Inventories and related reserves	$9,781	$2,358
Accrued expenses	36,613	26,176
Property, plant and equipment	15,685	10,972
Intangible assets	48,747	84,080
Net operating loss, interest expense, and other carryforwards	401,803	332,730
Pension liability and other	10,106	3,531
Share-based compensation	11,633	11,765
Other	8,596	598
Total deferred tax assets	542,964	472,210
Valuation allowance	(394,838)	(379,003)
Net deferred tax asset	148,126	93,207
Deferred tax liabilities:		
Property, plant and equipment	(31,208)	(9,668)
Intangible assets and goodwill	(411,320)	(289,804)
Unrealized exchange gain	(12,959)	—
Tax on undistributed earnings of subsidiaries	(31,210)	(39,834)
Other	(5,546)	(7,496)
Total deferred tax liabilities	(492,243)	(346,802)
Net deferred tax liability	$(344,117)	$(253,595)

Subsequently reported tax benefits relating to the valuation allowance for deferred tax assets as of December 31, 2014 will be allocated to income tax benefit recognized in the consolidated statements of operations.

A full valuation allowance has been established on the net deferred tax assets in jurisdictions that have incurred net operating losses and in which it is more likely than not that such losses will not be utilized in the foreseeable future. For tax purposes, goodwill and indefinite-lived intangible assets are generally amortizable over 6 to 20 years. For book purposes, goodwill and indefinite-lived intangible assets are not amortized, but are tested for impairment annually. The tax amortization of goodwill and indefinite-lived intangible assets will result in a taxable temporary difference, which will not reverse unless the related book goodwill and/or intangible asset is impaired or written off. This liability may not be used to support deductible temporary differences, such as net operating loss carryforwards, which may expire within a definite period. The net change in the total valuation allowance for the year ended December 31, 2014 was an increase of $15.8 million, and for the year ended December 31, 2013 was an increase of $36.7 million.

Certain of our subsidiaries are currently eligible, or have been eligible, for tax exemptions or holidays in their respective jurisdictions. Our subsidiary in Changzhou, China, is eligible for a five-year tax holiday that began in 2008. Starting in 2013, our subsidiary in Changzhou, China was eligible for a reduced tax rate of 15%. The impact of the tax holidays and exemptions on our effective rate is included in the Foreign tax rate differential line in the reconciliation of the statutory rate to effective rate.

Withholding taxes may apply to intercompany interest, royalty, management fees, and certain payments to third parties. Such taxes are expensed if they cannot be credited against the recipient’s tax liability in its country of residence. Additional consideration also has been given to the withholding taxes associated with the remittance of presently unremitted earnings and the recipient's ability to obtain a tax credit for such taxes. Earnings are not considered to be indefinitely reinvested in the jurisdictions in which they were earned.

As of December 31, 2014, we have U.S. federal net operating loss carryforwards of $571.8 million. Our U.S. federal net operating loss and interest carryforwards include $225.2 million related to excess tax deductions from share-based payments, the tax benefit of which will be recorded as an increase in additional paid-in capital when the deductions

reduce current taxes payable. U.S. federal net operating loss carryforwards will expire from 2026 to 2034 and state net operating loss carryforwards will expire from 2014 to 2034. It is more likely than not that these net operating losses will not be utilized in the foreseeable

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future. We also have non-U.S. net operating loss carryforwards of $94.6 million, which will begin to expire in 2015. Additionally, we have tax credits in the Netherlands related to branch profits totaling $5.5 million that have an unlimited life.

We believe a change of ownership within the meaning of Section 382 of the Internal Revenue Code occurred in the fourth quarter of 2012. As a result, our U.S. federal net operating loss utilization will be limited to an amount equal to the market capitalization of our U.S. subsidiaries at the time of the ownership change multiplied by the federal long-term tax exempt rate. A change of ownership under Section 382 of the Internal Revenue Code is defined as a cumulative change of fifty percentage points or more in the ownership positions of certain stockholders owning five percent or more of our common stock over a three year rolling period. We do not believe the resulting change will prohibit the utilization of our U.S. federal net operating loss.

A reconciliation of the amount of unrecognized tax benefits is as follows:

Balance at December 31, 2011	$15,796
Increases related to prior year tax positions	8,191
Increases related to current year tax positions	2,574
Decreases related to lapse of applicable statute of limitations	(1,447)
Decreases related to settlements with tax authorities	(3,341)
Balance at December 31, 2012	21,773
Increases related to prior year tax positions	456
Increases related to current year tax positions	9,694
Decreases related to lapse of applicable statute of limitations	(905)
Decreases related to settlements with tax authorities	(8,774)
Balance at December 31, 2013	22,244
Increases related to prior year tax positions	7,540
Increases related to current year tax positions	4,204
Decreases related to lapse of applicable statute of limitations	(3,025)
Decreases related to settlements with tax authorities	(8,189)
Balance at December 31, 2014	$22,774

We have accrued potential interest and penalties relating to unrecognized tax benefits. For the year ended December 31, 2014, we recognized interest and penalties of $(1.2) million and $0.5 million, respectively, in the consolidated statements of operations, and as of December 31, 2014, we recognized interest and penalties of $1.8 million and $1.0 million, respectively, in the consolidated balance sheets. For the year ended December 31, 2013, we recognized interest and penalties of $(4.4) million and $(4.7) million, respectively, in the consolidated statements of operations, and as of December 31, 2013, we recognized interest and penalties of $1.8 million and $0.1 million, respectively, in the consolidated balance sheets. For the year ended December 31, 2012, we recognized interest and penalties of $1.5 million and $0.7 million, respectively, in the consolidated statements of operations, and as of December 31, 2012, we recognized interest and penalties of $6.1 million and $4.8 million, respectively, in the consolidated balance sheets.

The liability for unrecognized tax benefits generally relates to the allocation of taxable income to the various jurisdictions where we are subject to tax. At December 31, 2014, we anticipate that the liability for unrecognized tax benefits could decrease by up to $0.1 million within the next twelve months due to the expiration of certain statutes of limitation or the settlement of examinations or issues with tax authorities. The amount of unrecognized tax benefits as of December 31, 2014 and 2013 that will impact our effective tax rate are $20.9 million and $20.1 million, respectively.

Our major tax jurisdictions include the Netherlands, United States, Japan, Mexico, China, South Korea, Belgium, Bulgaria, and Malaysia. These jurisdictions generally remain open to examination by the relevant tax authority for the tax years 2008 through 2014.

We have various indemnification provisions in place with TI, Honeywell, William Blair, CoActive Holdings, LLC, and Tomkins Limited. These provisions provide for the reimbursement by TI, Honeywell, William Blair, CoActive Holdings, LLC, and Tomkins Limited of future tax liabilities paid by us that relate to the pre-acquisition periods of the

acquired businesses including S&C, First Technology Automotive, Airpax, DeltaTech, and Schrader, respectively.

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10. Pension and Other Post-Retirement Benefits
We provide various retirement and other post-retirement plans for current and former employees including defined benefit, defined contribution, and retiree healthcare benefit plans.
U.S. Benefit Plans
The principal retirement plans in the U.S. include a qualified defined benefit pension plan and a defined contribution plan. In addition, we provide post-retirement medical coverage and non-qualified benefits to certain employees.
Defined Benefit Pension Plans
The benefits under the qualified defined benefit pension plan are determined using a formula based upon years of service and the highest five consecutive years of compensation.
TI closed the qualified defined benefit pension plan to participants hired after November 1997. In addition, participants eligible to retire under the TI plan as of April 26, 2006 were given the option of continuing to participate in the qualified defined benefit pension plan or retiring under the qualified defined benefit pension plan and thereafter participating in an enhanced defined contribution plan.
We intend to contribute amounts to the qualified defined benefit pension plan in order to meet the minimum funding requirements of federal laws and regulations, plus such additional amounts as we deem appropriate. We do not expect to contribute to the qualified defined benefit pension plan during 2015.
We also sponsor a non-qualified defined benefit pension plan, which is closed to new participants and is unfunded. Effective January 31, 2012, we froze the defined benefit pension plans and eliminated future benefit accruals.
Defined Contribution Plans
Prior to August 1, 2012, we offered two defined contribution plans. Both defined contribution plans offered an employer matching savings option that allowed employees to make pre-tax contributions to various investment choices.
Employees who elected not to remain in the qualified defined benefit pension plan, and new employees hired after November 1997, could participate in an enhanced defined contribution plan, where employer matching contributions were provided for up to 4% of the employee’s annual eligible earnings. In addition, this plan provided for an additional fixed employer contribution of 2% of the employee’s annual eligible earnings for employees who elected not to remain in the qualified defined benefit pension plan and employees hired between November 1997 and December 31, 2003. Effective in 2012, we discontinued the additional fixed employer contribution of 2%.
Employees who remained in the qualified defined benefit pension plan were permitted to participate in a defined contribution plan, where 50% employer matching contributions were provided for up to 2% of the employee’s annual eligible earnings. Effective in 2012, we increased the employer matching contribution to 100% for up to 4% of the employee's annual eligible earnings.
In 2012, we merged the two defined contribution plans into one plan. The combined plan provides for an employer matching contribution of up to 4% of the employee's annual eligible earnings. Our matching of employees’ contributions under our defined contribution plan is discretionary and is based on our assessment of our financial performance.
The aggregate expense related to the defined contribution plans for U.S. employees was $3.2 million, $2.8 million, and $2.7 million for the years ended December 31, 2014, 2013, and 2012, respectively.
Retiree Healthcare Benefit Plan
We offer access to group medical coverage during retirement to some of our U.S. employees. We make contributions toward the cost of those retiree medical benefits for certain retirees. The contribution rates are based upon varying factors, the most important of which are an employee’s date of hire, date of retirement, years of service, and eligibility for Medicare benefits. The balance of the cost is borne by the participants in the plan. For the year ended December 31, 2014, we did not, and do not expect to, receive any amount of Medicare Part D Federal subsidy. Our projected benefit obligation as of December 31, 2014 and 2013 did not include an assumption for a Federal subsidy. U.S. retiree healthcare benefit plan obligations for employees that retired prior to the 2006 Acquisition have been assumed by TI.

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In the fourth quarter of 2013, we amended the retiree healthcare benefit plan to eliminate supplemental medical coverage offered to Medicare eligible retirees, effective January 1, 2014. As a result of the amendment, we recognized a gain of $7.2 million that was recorded in Accumulated other comprehensive loss in the fourth quarter of 2013, which will be amortized as a component of net periodic benefit cost over a period of approximately 5 years from the date of recognition, which represents the remaining average service period to the full eligibility dates of the active plan participants.

Non-U.S. Benefit Plans

Retirement coverage for non-U.S. employees is provided through separate defined benefit and defined contribution plans. Retirement benefits are generally based on an employee’s years of service and compensation. Funding requirements are determined on an individual country and plan basis and are subject to local country practices and market circumstances. We expect to contribute approximately $2.0 million to non-U.S. defined benefit plans during 2015.

Impact on Financial Statements

The following table outlines the net periodic benefit cost of the defined benefit and retiree healthcare benefit plans for the years ended December 31, 2014, 2013, and 2012:

	For the year ended December 31,								
	2014			2013			2012		
	U.S. Plans		Non-U.S. Plans	U.S. Plans		Non-U.S. Plans	U.S. Plans		Non-U.S. Plans
	Defined Benefit	Retiree Healthcare	Defined Benefit	Defined Benefit	Retiree Healthcare	Defined Benefit	Defined Benefit	Retiree Healthcare	Defined Benefit
Service cost	$—	$107	$2,480	$—	$252	$2,274	$81	$262	$2,989
Interest cost	1,792	329	1,185	1,441	589	1,156	1,936	654	1,155
Expected return on plan assets	(2,450)	—	(865)	(2,509)	—	(908)	(3,655)	—	(1,000)
Amortization of net loss	262	482	179	954	491	399	52	317	480
Amortization of prior service cost	—	(1,335)	—	—	—	10	—	—	12
Loss on settlement	—	—	51	779	—	18	613	—	384
Net periodic benefit cost	$(396)	$(417)	$3,030	$665	$1,332	$2,949	$(973)	$1,233	$4,020

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The following table outlines the rollforward of the benefit obligation and plan assets for the defined benefit and retiree healthcare benefit plans for the years ended December 31, 2014 and 2013:

	For the year ended December 31,					
	2014			2013		
	U.S. Plans		Non-U.S. Plans	U.S. Plans		Non-U.S. Plans
	Defined Benefit	Retiree Healthcare	Defined Benefit	Defined Benefit	Retiree Healthcare	Defined Benefit
Change in Benefit Obligation						
Beginning balance	$56,999	$10,576	$40,106	$64,179	$18,094	$44,576
Service cost	—	107	2,480	—	252	2,274
Interest cost	1,792	329	1,185	1,441	589	1,156
Plan participants' contributions	—	—	192	—	—	158
Plan amendment	—	—	(698)	—	(7,195)	(168)
Actuarial loss/(gain)	1,236	(735)	9,450	(3,142)	(626)	(1,069)
Settlements	—	—	(175)	(5,231)	—	(191)
Benefits paid	(1,560)	(304)	(1,794)	(248)	(538)	(947)
Acquisitions [(1)]	—	—	15,743	—	—	—
Foreign currency exchange rate changes	—	—	(6,812)	—	—	(5,683)
Ending balance	$58,467	$9,973	$59,677	$56,999	$10,576	$40,106
Change in Plan Assets						
Beginning balance	$55,933	$—	$35,729	$53,950	$—	$38,222
Actual return on plan assets	3,543	—	4,376	1,413	—	1,774
Employer contributions	241	304	2,040	6,049	538	2,686
Plan participants' contributions	—	—	192	—	—	158
Settlements	—	—	(175)	(5,231)	—	(191)
Benefits paid	(1,560)	(304)	(1,794)	(248)	(538)	(947)
Foreign currency exchange rate changes	—	—	(4,716)	—	—	(5,973)
Ending balance	$58,157	$—	$35,652	$55,933	$—	$35,729
Funded status at end of year	$(310)	$(9,973)	$(24,025)	$(1,066)	$(10,576)	$(4,377)
Accumulated benefit obligation at end of year	$58,467	NA	$50,959	$56,999	NA	$32,748

(1) Relates to unfunded defined benefit plans assumed as part of the acquisitions of Wabash, DeltaTech, and Schrader.

The following table outlines the funded status amounts recognized in the consolidated balance sheets as of December 31, 2014 and 2013:

	December 31, 2014			December 31, 2013		
	U.S. Plans		Non-U.S. Plans	U.S. Plans		Non-U.S. Plans
	Defined Benefit	Retiree Healthcare	Defined Benefit	Defined Benefit	Retiree Healthcare	Defined Benefit
Noncurrent assets	$3,311	$—	$540	$2,625	$—	$2,581
Current liabilities	(496)	(910)	(954)	(473)	(815)	(429)
Noncurrent liabilities	(3,125)	(9,063)	(23,611)	(3,218)	(9,761)	(6,529)
	$(310)	$(9,973)	$(24,025)	$(1,066)	$(10,576)	$(4,377)

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Balances recognized within Accumulated other comprehensive loss that have not been recognized as components of net periodic benefit costs, net of tax, as of December 31, 2014, 2013, and 2012 are as follows:

	2014			2013			2012		
	U.S. Plans		Non-U.S. Plans	U.S. Plans		Non-U.S. Plans	U.S. Plans		Non-U.S. Plans
	Defined Benefit	Retiree Healthcare	Defined Benefit	Defined Benefit	Retiree Healthcare	Defined Benefit	Defined Benefit	Retiree Healthcare	Defined Benefit
Prior service cost	$—	$(3,182)	$ (594)	$—	$(4,517)	$ (4)	$—	$—	$ 141
Net loss	$17,194	$3,697	$ 12,212	$17,312	$4,914	$ 7,790	$19,661	$5,615	$ 9,194

We expect to amortize a gain of $(0.2) million from accumulated other comprehensive loss to net periodic benefit costs during 2015.

Information for plans with an accumulated benefit obligation in excess of plan assets as of December 31, 2014 and 2013 is as follows:

	December 31, 2014		December 31, 2013	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Projected benefit obligation	$3,622	$31,908	$3,691	$12,042
Accumulated benefit obligation	$3,622	$27,299	$3,691	$9,099
Plan assets	$—	$7,215	$—	$5,084

Information for plans with a projected benefit obligation in excess of plan assets as of December 31, 2014 and 2013 is as follows:

	December 31, 2014		December 31, 2013	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Projected benefit obligation	$13,595	$31,908	$14,267	$12,042
Plan assets	$—	$7,215	$—	$5,084

Other changes in plan assets and benefit obligations, net of tax, recognized in Other comprehensive (income)/loss for the years ended December 31, 2014, 2013, and 2012 are as follows:

	For the year ended December 31,								
	2014			2013			2012		
	U.S. Plans		Non-U.S. Plans	U.S. Plans		Non-U.S. Plans	U.S. Plans		Non-U.S. Plans
	Defined Benefit	Retiree Healthcare	Defined Benefit	Defined Benefit	Retiree Healthcare	Defined Benefit	Defined Benefit	Retiree Healthcare	Defined Benefit
Net (gain)/loss	$143	$(735)	$4,640	$(1,284)	$(393)	$(1,072)	$11,159	$3,984	$1,096
Amortization of net loss	(262)	(482)	(167)	(576)	(308)	(314)	(52)	(317)	(350)
Amortization of prior service cost	—	1,335	2	—	—	(6)	—	—	(8)
Plan amendment	—	—	(592)	—	(4,517)	(139)	—	—	—
Settlement loss	—	—	(51)	(489)	—	(18)	(613)	—	(385)
Total recognized in other comprehensive (income)/loss	$(119)	$118	$3,832	$(2,349)	$(5,218)	$(1,549)	$10,494	$3,667	$353

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Assumptions and Investment Policies

Weighted-average assumptions used to calculate the projected benefit obligations of our defined benefit and retiree healthcare benefit plans as of December 31, 2014 and 2013 are as follows:

	December 31, 2014		December 31, 2013	
	Defined Benefit	Retiree Healthcare	Defined Benefit	Retiree Healthcare
U.S. assumed discount rate	2.90 %	2.90 %	3.50 %	3.40 %
Non-U.S. assumed discount rate	1.99 %	NA	2.73 %	NA
Non-U.S. average long-term pay progression	3.05 %	NA	3.23 %	NA

Weighted-average assumptions used to calculate the net periodic benefit cost of our defined benefit and retiree healthcare benefit plans for the years ended December 31, 2014, 2013, and 2012 are as follows:

	For the year ended December 31,					
	2014		2013		2012	
	Defined Benefit	Retiree Healthcare	Defined Benefit	Retiree Healthcare	Defined Benefit	Retiree Healthcare
U.S. assumed discount rate	3.50 %	3.40 %	2.50 %	3.40 %	4.00 %	4.30 %
Non-U.S. assumed discount rate	2.66 %	NA	2.85 %	NA	2.85 %	NA
U.S. average long-term rate of return on plan assets	4.75 %	— (1)	4.75 %	— (1)	7.00 %	— (1)
Non-U.S. average long-term rate of return on plan assets	2.17 %	NA	2.61 %	NA	2.79 %	NA
U.S. average long-term pay progression	— %	— (2)	— %	— (2)	4.00 %	— (2)
Non-U.S. average long-term pay progression	3.13 %	NA	3.21 %	NA	3.18 %	NA

(1) Long-term rate of return on plan assets is not applicable to our U.S. retiree healthcare benefit plan as we do not hold assets for this plan.

(2) Rate of compensation increase is not applicable to our U.S. retiree healthcare benefit plan as compensation levels do not impact earned benefits.

Assumed healthcare cost trend rates for the U.S. retiree healthcare benefit plan as of December 31, 2014, 2013, and 2012 are as follows:

	Retiree Healthcare		
	December 31, 2014	December 31, 2013	December 31, 2012
Assumed healthcare trend rate for next year:			
Attributed to less than age 65	7.60 %	7.60 %	7.90 %
Attributed to age 65 or greater	7.00 %	7.00 %	7.20 %
Ultimate trend rate	4.50 %	4.50 %	4.50 %
Year in which ultimate trend rate is reached:			
Attributed to less than age 65	2029	2029	2029
Attributed to age 65 or greater	2029	2029	2029

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Assumed healthcare trend rates could have a significant effect on the amounts reported for retiree healthcare plans. A one percentage point change in the assumed healthcare trend rates for the year ended December 31, 2014 would have the following effect:

	1 percentage point increase	1 percentage point decrease
Effect on total service and interest cost components	$2	$(2)
Effect on post-retirement benefit obligations	$46	$(58)

The table below outlines the benefits expected to be paid to participants from the plans in each of the following years, which reflect expected future service, as appropriate. The majority of the payments will be paid from plan assets and not company assets.

Expected Benefit Payments	U.S. Defined Benefit	U.S. Retiree Healthcare	Non-U.S. Defined Benefit
2015	$5,939	$910	$1,526
2016	6,113	1,118	1,942
2017	6,081	1,192	2,132
2018	5,746	1,237	2,228
2019	5,203	1,239	2,842
2020- 2024	18,255	4,239	15,402

Plan Assets

We hold assets for our defined benefit plans in the U.S., Japan, the Netherlands, and Belgium. Information about the assets for each of these plans is detailed below.

U.S. Plan Assets

In 2012, we made the decision to change the target asset allocation of the U.S. defined benefit plan from 51% fixed income and 49% equity to 84% fixed income and 16% equity securities, to better protect the funded status of our U.S. defined benefit plan. To arrive at the targeted asset allocation, we and our investment adviser collaboratively reviewed market opportunities using historic and statistical data, as well as the actuarial valuation for the plan, to ensure that the levels of acceptable return and risk are well-defined and monitored. Currently, we believe that there are no significant concentrations of risk associated with the plan assets.

The following table presents information about the plan's target asset allocation, as well as the actual allocation, as of December 31, 2014:

Asset Class	Target Allocation	Actual Allocation as of December 31, 2014
U.S. large cap equity	6%	7%
U.S. small / mid cap equity	4%	4%
International (non-U.S.) equity	6%	5%
Fixed income (U.S. investment grade)	82%	82%
High-yield fixed income	1%	1%
International (non-U.S.) fixed income	1%	1%

The portfolio is monitored for automatic rebalancing on a monthly basis.

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The following table presents information about the plan assets measured at fair value as of December 31, 2014 and 2013, aggregated by the level in the fair value hierarchy within which those measurements fall:

Asset Class	December 31, 2014 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	December 31, 2013 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
U.S. large cap equity	$3,869	$—	$—	$3,869	$5,155	$—	$—	$5,155
U.S. small / mid cap equity	2,204	—	—	2,204	1,766	—	—	1,766
International (non-U.S.) equity	3,273	—	—	3,273	3,432	—	—	3,432
Total equity mutual funds	9,346	—	—	9,346	10,353	—	—	10,353
Fixed income (U.S. investment grade)	47,441	—	—	47,441	44,185	—	—	44,185
High-yield fixed income	836	—	—	836	841	—	—	841
International (non-U.S.) fixed income	534	—	—	534	554	—	—	554
Total fixed income mutual funds	48,811	—	—	48,811	45,580	—	—	45,580
Total	$58,157	$—	$—	$58,157	$55,933	$—	$—	$55,933

Investments in mutual funds are based on the publicly-quoted final net asset values on the last business day of the year.

Permitted asset classes include U.S. and non-U.S. equity, U.S. and non-U.S. fixed income, and cash and cash equivalents. Fixed income includes both investment grade and non-investment grade. Permitted investment vehicles include mutual funds, individual securities, derivatives, and long-duration fixed income securities. While investment in individual securities, derivatives, long-duration fixed income, and cash and cash equivalents is permitted, the plan did not hold these types of investments as of December 31, 2014 or 2013.

Prohibited investments include direct investment in real estate, commodities, unregistered securities, uncovered options, currency exchange, and natural resources (such as timber, oil, and gas).

Japan Plan Assets

The target asset allocation of the Japan defined benefit plan is 50% equity securities and 50% fixed income securities and cash and cash equivalents, with allowance for a 20% deviation in either direction. We, along with the trustee of the plan's assets, minimize investment risk by thoroughly assessing potential investments based on indicators of historical returns and current ratings. Additionally, investments are diversified by type and geography.

The following table presents information about the plan’s target asset allocation, as well as the actual allocation, as of December 31, 2014:

Asset Class	Target Allocation	Actual Allocation as of December 31, 2014	
Equity securities	30%-70%	50	%
Fixed income securities and cash and cash equivalents	30%-70%	50	%

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The following table presents information about the plan assets measured at fair value as of December 31, 2014 and 2013, aggregated by the level in the fair value hierarchy within which those measurements fall:

	December 31, 2014				December 31, 2013			
Asset Class	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
U.S. equity	$3,365	$—	$—	$3,365	$3,673	$—	$—	$3,673
International (non-U.S.) equity	9,471	1,494	—	10,965	8,793	3,296	—	12,089
Total equity securities	12,836	1,494	—	14,330	12,466	3,296	—	15,762
U.S. fixed income	1,265	2,574	—	3,839	1,278	2,220	—	3,498
International (non-U.S.) fixed income	9,753	286	—	10,039	10,205	890	—	11,095
Total fixed income securities	11,018	2,860	—	13,878	11,483	3,110	—	14,593
Cash and cash equivalents	230	—	—	230	291	—	—	291
Total	$24,084	$4,354	$—	$28,438	$24,240	$6,406	$—	$30,646

The fair value of equity securities and bonds are based on publicly-quoted final stock and bond values on the last business day of the year.

Permitted asset classes include equity securities that are traded on the official stock exchange(s) of the respective countries, fixed income securities with certain credit ratings, and cash and cash equivalents.

The Netherlands Plan Assets

The assets of the Netherlands defined benefit plans are composed of insurance policies. The contributions (or premiums) we pay are used to purchase insurance policies that provide for specific benefit payments to our plan participants. The benefit formula is determined independently by us. On retirement of an individual plan participant, the insurance contracts purchased are converted to provide specific benefits for the participant. The contributions paid by us are commingled with contributions paid to the insurance provider by other employers for investment purposes and to reduce costs of plan administration. The Netherlands' defined benefit plans are not multi-employer plans.

The following tables present information about the plans' assets measured at fair value as of December 31, 2014 and 2013, aggregated by the level in the fair value hierarchy within which those measurements fall:

	December 31, 2014				December 31, 2013			
Asset Class	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Other (insurance policies)	$—	$—	$ 6,544	$6,544	$—	$—	$ 4,463	$4,463
Total	$—	$—	$ 6,544	$6,544	$—	$—	$ 4,463	$4,463

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The following table outlines the rollforward of the Netherlands plan Level 3 assets for the years ended December 31, 2014 and 2013:

	Fair value measurement using significant unobservable inputs (Level 3)
Balance at December 31, 2012	$5,973
Actual return on plan assets still held at reporting date	(2,647)
Purchases, sales, settlements, and exchange rate changes	1,137
Balance at December 31, 2013	4,463
Actual return on plan assets still held at reporting date	2,159
Purchases, sales, settlements, and exchange rate changes	(78)
Balance at December 31, 2014	$6,544

The fair value of the insurance contracts are measured based on the future benefit payments that would be made by the insurance company to vested plan participants if we were to switch to another insurance company without actually surrendering our policy. In this case, the insurance company would guarantee to pay the vested benefits at retirement accrued under the plan based on current salaries and service to date (i.e., no allowance for future salary increases or pension increases). The cash flows of the future benefit payments are discounted using the same discount rate as is used to value the defined benefit plan liabilities.

Belgium Plan Assets

The assets of the Belgium defined benefit plan are composed of insurance policies. As of December 31, 2014 and 2013 the fair value of these plan assets was $0.7 million and $0.6 million, respectively, and are considered to be Level 3 financial instruments.

11. Share-Based Payment Plans

In connection with the completion of our IPO, we adopted the Sensata Technologies Holding N.V. 2010 Employee Stock Purchase Plan (the “2010 Stock Purchase Plan”) and the Sensata Technologies Holding N.V. 2010 Equity Incentive Plan (the “2010 Equity Incentive Plan”). The purpose of the 2010 Stock Purchase Plan is to provide an incentive for our present and future eligible employees to purchase our ordinary shares and acquire a proprietary interest in us. The purpose of the 2010 Equity Incentive Plan is to promote long-term growth and profitability by providing our present and future eligible directors, officers, employees, consultants, and advisors with incentives to contribute to, and participate in, our success.

We have implemented management compensation plans to align compensation for certain key executives with our performance. The objective of the plans is to promote our long-term growth and profitability, along with that of our subsidiaries, by providing those persons who are involved in our successes with an opportunity to acquire an ownership interest in us. The following plans established prior to our IPO are still in effect and are: (i) the First Amended and Restated Sensata Technologies Holding B.V. 2006 Management Option Plan (the “2006 Stock Option Plan”), which replaced the Sensata Technologies Holding B.V. 2006 Management Option Plan; and (ii) the First Amended and Restated 2006 Management Securities Purchase Plan (the “Restricted Stock Plan”), which replaced the Sensata Technologies Holding B.V. 2006 Management Securities Purchase Plan.

On May 22, 2013, our shareholders approved an amendment to the 2010 Equity Incentive Plan to increase the number of ordinary shares authorized for issuance under the 2010 Equity Incentive Plan by 5.0 million ordinary shares to a total of 10.0 million ordinary shares. A summary of the ordinary shares authorized and available under each of our outstanding equity plans as of December 31, 2014 is presented below:

	Shares Authorized	Shares Available
2010 Equity Incentive Plan	10,000	5,984
2010 Stock Purchase Plan	500	470

We have no intention to issue shares from either the 2006 Stock Option Plan or the Restricted Stock Plan in the future.

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Options

A summary of stock option activity for the years ended December 31, 2014, 2013, and 2012 is presented in the table below (amounts have been calculated based on unrounded shares):

	Stock Options	Weighted-Average Exercise Price Per Option	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options				
Balance at December 31, 2011	8,025	$ 12.05	5.8	$ 121,095
Granted	1,301	32.09		
Forfeited	(502)	29.79		
Exercised	(1,948)	8.34		44,943
Balance at December 31, 2012	6,876	15.60	5.6	118,660
Granted	887	32.97		
Forfeited and expired	(147)	26.29		
Exercised	(2,474)	8.39		68,291
Balance at December 31, 2013	5,142	21.75	7.8	87,506
Granted	767	43.61		
Forfeited and expired	(231)	35.60		
Exercised	(1,589)	15.42		47,372
Balance at December 31, 2014	4,089	27.53	6.3	101,705
Options vested and exercisable as of December 31, 2014	2,575	21.33	5.0	80,018
Vested and expected to vest as of December 31, 2014[1]	4,000	27.29	6.2	100,463

(1) Consists of vested options and unvested options that are expected to vest. The expected to vest options are determined by applying the forfeiture rate assumption, adjusted for cumulative actual forfeitures, to total unvested options.

A summary of the status of our unvested options as of December 31, 2014 and of the changes during the year then ended is presented in the table below (amounts have been calculated based on unrounded shares):

	Stock Options	Weighted-Average Grant-Date Fair Value
Unvested as of December 31, 2013	1,713	$ 10.38
Granted during the year	767	$ 14.33
Vested during the year	(749)	$ 9.94
Forfeited during the year	(217)	$ 11.68
Unvested as of December 31, 2014	1,514	$ 12.41

The fair value of stock options that vested during the years ended December 31, 2014, 2013, and 2012 was $7.4 million, $6.7 million, and $11.0 million respectively.

Options granted in 2009 and prior vest ratably over a period of 5 years. Vesting occurs provided the participant of the option plan is continuously employed by us or any of our subsidiaries, and options vest immediately upon a change-in-control transaction under which (i) the investor group disposes of or sells more than 50% of the total voting power or economic interest in us to no or more independent third parties and (ii) disposes of or sells all or substantially all of our assets. Beginning in 2010, options granted to employees under the 2010 Equity Incentive Plan vest 25% per year over four years from the date of grant and do not include the same change-in-control provisions as options granted in 2009. Options granted to directors under the 2010 Equity Incentive Plan vest after one year.

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We recognize compensation expense for options on a straight-line basis over the requisite service period, which is generally the same as the vesting period. The options expire 10 years from the date of grant. Except as otherwise provided in specific option award agreements, if a participant ceases to be employed by us for any reason, options not yet vested expire at the termination date, and options that are fully vested expire 60 days after termination of the participant’s employment for any reason other than termination for cause (in which case the options expire on the participant’s termination date) or due to death or disability (in which case the options expire six months after the participant’s termination date).

The weighted-average grant-date fair value per option granted during the years ended December 31, 2014, 2013, and 2012 was $14.33, $10.37, and $10.72, respectively. The fair value of options was estimated on the date of grant using the Black-Scholes-Merton option-pricing model. See Note 2, "Significant Accounting Policies," for further discussion of how we estimate the fair value of options. The weighted-average key assumptions used in estimating the grant-date fair value of the options are as follows:

	For the year ended December 31,					
	2014		2013		2012	
Expected dividend yield	0	%	0	%	0	%
Expected volatility	30.00	%	30.00	%	30.00	%
Risk-free interest rate	2.00	%	1.10	%	1.88	%
Expected term (years)	5.9		6.1		6.3	
Fair value per share of underlying ordinary shares	$43.61		$32.97		$32.09	

We granted 96, 120, and 116 options to our directors under the 2010 Equity Incentive Plan in 2014, 2013, and 2012, respectively. These options vest after one year and are not subject to performance conditions. The weighted-average grant date fair value per option was $13.99, $10.25, and $9.31, respectively.

Restricted Securities

We grant restricted securities that include performance conditions. The performance based restricted securities generally cliff vest three years after the grant date. The number of securities that vest will depend on the extent to which certain performance criteria are met and could range between 0% and 150% of the number of securities granted. We also grant non-performance based restricted securities that cliff vest over various lengths of time ranging from 3 to 4 years, and others that vest 25% per year over four years. See Note 2, "Significant Accounting Policies," for discussion of how we estimate the fair value of restricted securities.

A summary of performance based restricted securities granted in the past three years is presented below:

Year ended December 31,	Performance Restricted Securities Granted	Weighted-Average Grant-Date Fair Value
2012	192	$32.11
2013	122	$32.70
2014	110	$43.48

As of December 31, 2014, the performance conditions for securities granted in 2012 were deemed not probable of occurring. Therefore, no cumulative compensation expense has been recorded for these awards over the period since their grant.

As of December 31, 2014, we considered it probable that the performance conditions associated with the securities granted in 2013 and 2014 will be met.

In addition, in 2014, 2013, and 2012 we granted 155, 124, and 147 restricted securities, respectively, for which there is no performance condition, to certain of our employees under the 2010 Equity Incentive Plan. The weighted-average grant date fair value of these securities was $44.52, $32.87, and $27.58, respectively.

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A summary of the unvested restricted securities (both service and performance based) activity for 2014, 2013, and 2012 is presented in the table below (amounts have been calculated based on unrounded shares):

	Restricted Securities	Weighted-Average Grant-Date Fair Value
Balance at December 31, 2011	390	$23.47
Granted	339	30.15
Forfeited	(131)	30.33
Vested	(110)	17.72
Balance at December 31, 2012	489	27.64
Granted	246	32.79
Forfeited	(41)	26.43
Vested	(64)	18.32
Balance at December 31, 2013	629	30.84
Granted	265	44.09
Forfeited	(172)	34.87
Vested	(65)	21.32
Balance at December 31, 2014	656	$36.06

Aggregate intrinsic value information for restricted securities as of December 31, 2014, 2013, and 2012 is presented below:

	December 31, 2014	December 31, 2013	December 31, 2012
Outstanding	$34,404	$24,390	$15,868
Expected to vest	$26,982	$14,670	$9,172

The expected to vest restricted securities are calculated by considering our assessment of the probability of meeting the required performance conditions and/or by applying a forfeiture rate assumption to the balance of the unvested restricted securities.

The weighted-average remaining periods over which the restrictions will lapse, expressed in years, as of December 31, 2014, 2013, and 2012 are as follows:

	December 31, 2014	December 31, 2013	December 31, 2012
Outstanding	1.5	1.5	1.9
Expected to vest	1.7	2.0	2.3

Share-Based Compensation Expense

The table below presents non-cash compensation expense related to our equity awards:

	For the year ended		
	December 31, 2014	December 31, 2013	December 31, 2012
Options	$7,685	$6,790	$11,777
Restricted securities	5,300	2,177	2,937
Total share-based compensation expense	$12,985	$8,967	$14,714

This compensation expense is recorded within SG&A expense in the consolidated statements of operations during the identified periods, with the exception of the amount recognized related to the amendment of the share-based compensation awards of our former Chief Executive Officer, as discussed below. We did not recognize a tax benefit associated with these expenses and capitalized an additional $0.1 million as an asset in the year ended December 31, 2014.

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During the year ended December 31, 2012, in connection with the retirement of our former Chief Executive Officer, we entered into an amendment of outstanding equity awards. Pursuant to the amendment, our former Chief Executive Officer's outstanding equity awards were amended as follows: (i) all of his outstanding unvested stock options fully vested in December 2012; (ii) all outstanding stock options that vested as of December 31, 2012 will remain exercisable until ten years from the date of original grant, subject to certain exceptions set forth in the amendment; (iii) unvested restricted stock that was subject only to time-based vesting fully vested in December 2012; and (iv) the condition in his restricted stock grant and award agreements that he remain employed until a specified date was waived and all outstanding restricted stock subject to performance-based vesting will remain subject to the performance vesting conditions set forth in the applicable grant and award agreement. As a result of the modification, we recorded a non-cash charge of $6.4 million, which was classified within the Restructuring and special charges line of our consolidated statement of operations for the year ended December 31, 2012.

The table below presents unrecognized compensation expense at December 31, 2014 for each class of award, and the remaining expected term for this expense to be recognized:

	Unrecognized compensation expense	Expected recognition (years)
Options	$13,055	2.5
Restricted securities	12,417	1.9
Total unrecognized compensation expense	$25,472	

12. Shareholders' Equity

On March 16, 2010, we completed an IPO of our ordinary shares. Subsequent to our IPO, we have completed various secondary public offerings of our ordinary shares. Our former principal shareholder, Sensata Investment Company S.C.A. ("SCA"), and certain members of management participated in the secondary offerings. The share capital of SCA is owned by entities associated with Bain Capital Partners, LLC ("Bain Capital"), a leading global private investment firm, co-investors (Bain Capital and co-investors are collectively referred to as the "Sponsors"), and certain members of our senior management. As of December 31, 2014, SCA no longer owned any of our outstanding ordinary shares.

The following table summarizes the details of our IPO and secondary offerings:

	Date of Completion	Ordinary shares sold by us	Ordinary shares sold by our existing shareholders and employees	Offering price per share	Net proceeds received [1]
IPO	March 16, 2010	26,316	5,284	$18.00	$436,053
Over-allotment [2]	April 14, 2010	—	4,740	$18.00	$2,515
Secondary public offering [2]	November 17, 2010	—	23,000	$24.10	$3,696
Secondary public offering	February 24, 2011	—	20,000	$33.15	$2,137
Over-allotment [2]	March 2, 2011	—	3,000	$33.15	$261
Secondary public offering	December 17, 2012	—	10,000	$29.95	$2,384
Secondary public offering	February 19, 2013	—	15,000	$33.20	$—
Secondary public offering	May 28, 2013	—	12,500	$35.95	$—
Secondary public offering	December 6, 2013	—	15,500	$38.25	$—
Secondary public offering	May 27, 2014	—	11,500	$42.42	$—
	September 10, 2014	—	15,051	$47.30	$—

Secondary public
offering

(1) The proceeds received by us, which include proceeds received from the exercise of stock options, are net of underwriters' discounts and commissions and offering expenses.
(2) Represents or includes shares exercised by the underwriters' option to purchase additional shares from the selling shareholders.

Our authorized share capital consists of 400.0 million ordinary shares with a nominal value of €0.01 per share, of which 178.4 million ordinary shares were issued and 169.3 million were outstanding as of December 31, 2014. This excludes 0.7 million unvested restricted securities. We also have authorized 400.0 million preference shares with a nominal value of €0.01 per share, none of which are issued or outstanding. See Note 11, "Share-Based Payment Plans," for awards available for grant under our outstanding equity plans.

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Treasury Shares

In October 2012, our Board of Directors authorized a $250.0 million share repurchase program. In October 2013 and February 2014, the Board of Directors authorized amendments to the terms of the program, in each case to reset the amount available for share repurchases to $250.0 million. Refer to the Capital Resources section of Item 7, "Management's Discussion and Analysis of Financial Conditions and Results of Operations," included elsewhere in this Annual Report on Form 10-K for further discussion of the terms of this program. During 2014, 2013, and 2012 we repurchased 4.3 million, 8.6 million, and 0.5 million ordinary shares, respectively, for an aggregate purchase price of approximately $181.8 million, $305.1 million, and $15.2 million, respectively, at an average price of $42.22, $35.55, and $29.75 per ordinary share, respectively. Of the ordinary shares repurchased in 2014 and 2013, 4.0 million and 4.5 million, respectively, were repurchased from SCA in private, non-underwritten transactions, concurrent with the closing of the May 2014 and December 2013 secondary offerings, respectively, at $42.42 and $38.25 per ordinary share, respectively, which, in each case, was equal to the price paid by the underwriters.

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 FIFO method. During 2014, 2013, and 2012 we issued 1.6 million, 2.5 million, and 0.1 million ordinary shares held in treasury, respectively, as part of our share-based compensation programs and employee stock purchase plan. In connection with our treasury share reissuances, in 2014, 2013, and 2012, we recognized losses of $28.7 million, $59.5 million, and $2.7 million, that were recorded in Retained earnings/(accumulated deficit).

Accumulated Other Comprehensive Loss

The components of Accumulated other comprehensive loss were as follows:

	Net Unrealized (Loss)/Gain on Derivative Instruments Designated and Qualifying as Cash Flow Hedges	Defined Benefit and Retiree Healthcare Plans	Accumulated Other Comprehensive Loss
Balance at December 31, 2011	$(3,127)	$(20,097)	$(23,224)
Pre-tax current period change	(3,151)	(14,330)	(17,481)
Income tax benefit/(expense)	1,483	(184)	1,299
Balance at December 31, 2012	(4,795)	(34,611)	(39,406)
Pre-tax current period change	(3,756)	14,621	10,865
Income tax benefit/(expense)	939	(5,505)	(4,566)
Balance at December 31, 2013	(7,612)	(25,495)	(33,107)
Pre-tax current period change	34,521	(4,667)	29,854
Income tax (expense)/benefit	(9,331)	836	(8,495)
Balance at December 31, 2014	$17,578	$(29,326)	$(11,748)

The details of the components of Other comprehensive income/(loss), net of tax, for the years ended December 31, 2014 and 2013 are as follows:

Year Ended December 31, 2014			Year Ended December 31, 2013		
Derivative Instruments Designated and Qualifying as Cash Flow Hedges	Defined Benefit and Retiree Healthcare Plans	Change in Accumulated Other Comprehensive Loss	Derivative Instruments Designated and Qualifying as Cash Flow Hedges	Defined Benefit and Retiree Healthcare Plans	Change in Accumulated Other Comprehensive Loss
$25,014	$(3,456)	$ 21,558	$(4,767)	7,405	$ 2,638

Other comprehensive income/(loss) before reclassifications						
Amounts reclassified from Accumulated other comprehensive loss	176	(375)	(199)	1,950	1,711	3,661
Net current period other comprehensive income/(loss)	$25,190	$(3,831)	$ 21,359	$(2,817)	$9,116	$ 6,299

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The details about the amounts reclassified from Accumulated other comprehensive loss for the years ended December 31, 2014 and 2013 are as follows:

Component	Amount of Loss/(Gain) Reclassified from Accumulated Other Comprehensive Loss		Affected Line in Consolidated Statements of Operations
	Year Ended December 31, 2014	Year Ended December 31, 2013	
Derivative instruments designated and qualifying as cash flow hedges			
Interest rate caps	$972	$1,063	Interest expense [1]
Interest rate caps	—	1,097	Other, net [1]
Foreign currency forward contracts	334	2,206	Net revenue [1]
Foreign currency forward contracts	(1,070)	(1,766)	Cost of revenue [1]
	236	2,600	Total before tax
	(60)	(650)	Benefit from income taxes
	$176	$1,950	Net of tax
Defined benefit and retiree healthcare plans	$(361)	$2,651	Various [2]
	(14)	(940)	Benefit from income taxes
	$(375)	$1,711	Net of tax

(1) See Note 16, "Derivative Instruments and Hedging Activities," for additional details on amounts to be reclassified in the future from Accumulated other comprehensive loss.

(2) Amounts related to defined benefit and retiree healthcare plans reclassified from Accumulated other comprehensive loss affect the Cost of revenue, Research and development, and Selling, general and administrative line items in the consolidated statements of operations. These amounts reclassified are included in the computation of net periodic benefit cost. See Note 10, "Pension and Other Post-Retirement Benefits," for additional details of net periodic benefit cost.

13. Related Party Transactions

Effective September 10, 2014, SCA sold its remaining shares in the Company, and was no longer a related party as of that date. The transactions below represent transactions that occurred prior to that date.

The table below presents related party transactions recognized during the identified periods.

	Administrative Services Agreement	Legal Services
Charges recognized in SG&A expense		
2014	$—	$260
2013	$(281)	$1,022
2012	$177	$835
Payments made related to charges recognized in SG&A expense		
2014	$—	$512
2013	$—	$1,256
2012	$385	$1,030

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Administrative Services Agreement

In 2009, we entered into a fee for service arrangement with SCA for ongoing consulting, management advisory, and other services (the "Administrative Services Agreement"), effective January 1, 2008. Expenses related to this arrangement were recorded in SG&A expense. On May 10, 2013, the Administrative Services Agreement was terminated upon a mutual agreement between us and SCA. As of December 31, 2014 and 2013, we did not record any amounts due to SCA under this agreement.

Financing and Secondary Transactions

During the time SCA was one of our shareholders, we utilized one of SCA's shareholders for legal services. Costs related to such legal services are recorded in SG&A expense. During the year ended December 31, 2013, we recorded $0.4 million for legal services provided by this shareholder in connection with our refinancing transactions, of which $0.3 million was paid during the year ended December 31, 2013 and $0.1 million was paid during the year ended December 31, 2014. These amounts are not reflected in the table above. During the year ended December 31, 2014, we did not record any expense related to these legal services.

As of December 31, 2014 and 2013, we had an amount due to this shareholder of $0.3 million and $0.7 million, respectively, related to secondary offerings and other matters.

Cross License Agreement

In connection with the 2006 Acquisition, we entered into a perpetual, royalty-free cross license agreement with TI (the "Cross License Agreement"). Under the Cross License Agreement, the parties grant each other a license to use certain technology used in connection with the other party's business.

Share Repurchase

We repurchased 4.0 million ordinary shares from SCA concurrent with the closing of the May 2014 secondary offering. The share repurchase was effected in a private, non-underwritten transaction at a price per ordinary share of $42.42, which was equal to the price paid by the underwriters.

We repurchased 4.5 million ordinary shares from SCA concurrent with the closing of the December 2013 secondary offering. The share repurchase was effected in a private, non-underwritten transaction at a price per ordinary share of $38.25, which was equal to the price paid by the underwriters.

14. Commitments and Contingencies

Future minimum payments for capital leases, other financing obligations, and non-cancelable operating leases in effect as of December 31, 2014 are as follows:

	Future Minimum Payments			
	Capital Leases	Other Financing Arrangements	Operating Leases	Total
For the year ending December 31,				
2015	$4,548	$ 2,239	$9,783	$16,570
2016	4,540	2,239	8,289	15,068
2017	4,419	2,739	6,762	13,920
2018	4,455	10,474	5,141	20,070
2019	4,491	2,000	2,862	9,353
2020 and thereafter	29,068	—	8,878	37,946
Net minimum rentals	51,521	19,691	41,715	112,927
Less: interest portion	(19,375)	(3,650)	—	(23,025)
Present value of future minimum rentals	$32,146	$ 16,041	$41,715	$89,902

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Non-cancelable purchase agreements exist with various suppliers, primarily for services such as information technology support. The terms of these agreements are fixed and determinable. As of December 31, 2014, we had the following purchase commitments:

	Purchase Commitments
For the year ending December 31,	
2015	$32,335
2016	11,955
2017	6,654
2018	2,990
2019	960
2020 and thereafter	48
Total	$54,942

Off-Balance Sheet Commitments

We execute contracts involving indemnifications standard in the relevant industry and indemnifications specific to certain transactions, such as the sale of a business. These indemnifications might include claims relating to the following: environmental matters; intellectual property rights; governmental regulations and employment-related matters; customer, supplier, and other commercial contractual relationships; and financial matters. Performance under these indemnifications would generally be triggered by a breach of terms of the contract or by a third-party claim. Historically, we have experienced only minimal and infrequent 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.

Sponsors: Upon the closing of the 2006 Acquisition, we entered into customary indemnification agreements with the Sponsors pursuant to which we agreed to indemnify them, either during or after the term of the agreements, against certain liabilities arising out of performance of a consulting agreement between us and each of the Sponsors and certain other claims and liabilities, including liabilities arising out of financing arrangements and securities offerings. There is no limit to the maximum future payments, if any, under these indemnifications.

Officers and Directors: In connection with our IPO, we entered into indemnification agreements with each of our board members and executive officers pursuant to which we agreed to indemnify, defend, and hold harmless, and also advance expenses as incurred, to the fullest extent permitted under applicable law, from damages arising from the fact that such person is or was one of our directors or officers or that of any of our subsidiaries.

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 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.

Underwriters: Pursuant to the terms of the underwriting agreements entered into in connection with our IPO and secondary public equity offerings, we are obligated to indemnify the underwriters against certain liabilities, including liabilities

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under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make in respect thereof. The underwriting agreements do not provide a limit to the maximum future payments, if any, under these indemnifications.

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 the 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 minimal and infrequent 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.

In 2001, TI Brazil was notified by the State of São Paolo, 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 Brazil ("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 (the “Acquisition Agreement”), 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

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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, San Paolo. 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 December 31, 2014 or 2013.

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 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. CDI has agreed to complete an ecological risk assessment on sediments in an unnamed stream crossing the sold and retained land and to indemnify the buyer for certain remediation costs associated with sediments in the unnamed stream. We do not expect the remaining cost associated with addressing the soil and groundwater contamination, or our obligations relating to the indemnification of the buyer of the facility, to be material.

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 zero, 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 have a material effect on our financial condition or results of operations.

Insurance Claims

The accounting for insurance claims depends on a variety of factors, including the nature of the claim, the evaluation of coverage, the amount of proceeds (or anticipated proceeds), the ability of an insurer to satisfy the claim, and the timing of the loss and corresponding recovery. In accordance with ASC 450, receipts from insurance up to the amount of loss recognized are considered recoveries. Recoveries are recognized in the financial statements when they are probable of receipt. Insurance proceeds in excess of the amount of loss recognized are considered gains. Gains are recognized in the financial statements in the period in which contingencies related to the claim (or a specific portion of the claim) have been resolved. We classify insurance proceeds in our consolidated statements of operations in a manner consistent with the related losses.

Pending Litigation and Claims

Ford Speed Control Deactivation Switch Litigation: We are involved in a number of litigation matters relating to a pressure switch that TI sold to Ford Motor Company ("Ford") for several years until 2002. Ford incorporated the switch into a cruise control deactivation switch system that it installed in certain vehicles. Due to concerns that, in some circumstances, this system and switch may cause fires, Ford and related companies issued numerous separate recalls of vehicles between 1999 and 2009, which covered approximately fourteen million vehicles in the aggregate.

As of December 31, 2014, we are a defendant in seven lawsuits in which plaintiffs have alleged property damage and various personal injuries caused by vehicle fires related to the system and switch. For the most part, these cases seek an unspecified amount of compensatory and exemplary damages, however one plaintiff has submitted a demand in the amount of $0.2 million. Ford and TI are co-defendants in each of these lawsuits. In accordance with the terms of the Acquisition Agreement, we are managing and defending these lawsuits on behalf of both parties.

Pursuant to the terms of the Acquisition Agreement, and subject to the limitations set forth in that agreement, TI has agreed to indemnify us for certain claims and litigation, including the Ford matter. The Acquisition Agreement provides that when the aggregate amount of costs and/or damages from such claims exceeds $30.0 million, TI will reimburse us for amounts incurred in excess of that threshold up to a cap of $300.0 million. We entered into an agreement with TI, called the Contribution and Cooperation Agreement, dated October 24, 2011, whereby TI acknowledged that amounts we paid through September 30, 2011, plus an additional cash payment, would be deemed to satisfy the $30.0 million threshold. Accordingly, TI will not contest the claims or the amounts claimed through September 30, 2011. Costs that we have incurred since September 30, 2011, or may incur in the future, will be reimbursed by TI up to a cap of $300.0 million less amounts incurred by TI. TI has reimbursed us for expenses incurred through September 30, 2014. We do not believe that aggregate TI and Sensata costs will exceed $300.0 million.

SGL Italia: Our subsidiaries, STBV and Sensata Technologies Italia, are defendants in a lawsuit, Luigi Lavazza s.p.a. and SGL Italia s.r.l. v. Sensata Technologies Italia s.r.l., Sensata Technologies, B.V., and Komponent s.r.l., Court of Milan, bench 7, brought in the court in Milan, Italy. The lawsuit alleges defects in one of our electromechanical control products. The plaintiffs are alleging €4.2 million in damages. We have denied liability in this matter. We filed our most recent answer to the lawsuit in November 2012. On February 14, 2014 the court appointed an independent technical expert and set a calendar for the process, to include a meeting of the expert with both parties on March 3, 2014 and a series of milestones for production of a report. The expert has submitted its final report to the court. The court reviewed this report at a hearing held in November 2014. On December 4, 2014, the court issued an order finding Sensata 30% to 40% responsible, and has set a hearing date of March 5, 2015 at which it will appoint an independent accounting expert to review the cost data and subsequently issue a report. We believe that a loss is probable. As of December 31, 2014, we have recorded an accrual of $0.3 million, which represents the low end of the estimated range of loss.

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. In the first quarter of 2014, another customer alleged similar defects. The alleged defects are not safety related. In the third quarter of 2014, we made a contribution to one of the customers in the amount of $0.7 million. We continue to work with these customers towards a final resolution of these matters and consider a loss to be probable. As of December 31, 2014, we have recorded an accrual of $0.9 million, representing our best estimate of the potential loss.

U.S. Automaker: A U.S. automaker has alleged non-safety related defects in certain of our sensor products installed in its vehicles from 2009 through 2011. In January 2015, the customer informed us that future repairs will involve up to 150,000 vehicles over an estimated ten year period, and that they will seek reimbursement of these costs (or a portion thereof). The estimated future costs are undetermined at this time. We are contesting the customer's allegations and do not believe a loss is probable. Accordingly, as of December 31, 2014, we have not recorded an accrual for this claim.

Korean Supplier: In the first quarter of 2014, one of our Korean suppliers, Yukwang Co. Ltd. ("Yukwang"), notified us that they were terminating our existing agreement with them 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 at Yukwang’s facility. Yukwang countered that we were in breach of contract and alleged damages of approximately $7.6 million. We are litigating these proceedings. 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. We have filed an appeal of the adverse decision and intend to aggressively pursue our claims and to defend against Yukwang’s counter claims.

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. Yukwang filed an appeal of that decision on October 14, 2014, and that appeal will be heard by the Seoul High Court (an intermediate appellate court), a process that could take between six and twelve months. The Seoul High Court has set a first hearing on the appeal for March 10, 2015. Additionally, the KIPT proceeding, which has been dormant, has a hearing scheduled for February 12, 2015. We continue to vigorously defend ourselves against these actions.

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. We have responded to information requests from the KFTC. If its investigation determines that our subsidiary has violated Korean law, the KFTC can order injunctions, award damages of up to 2% of impacted revenue for unfair trade practices, and award damages of up to two times the value of the relevant subcontract for violations of the subcontractor law. Damages could cover up to the entire period, which is several years, during which Sensata or any of its current subsidiaries had been operating in Korea. In addition, the KFTC has the authority to prosecute criminally.

We are responding to these various actions by Yukwang. We do not believe that a loss is probable, and as of December 31, 2014, we have not recorded an accrual for 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 $25.0 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 December 31, 2014, we have not recorded an accrual for this matter.

Bridgestone: On May 2, 2013, Bridgestone Americas Tire Operations, LLC ("Bridgestone") filed a lawsuit, Bridgestone Americas Tire Operations, LLC v. Schrader-Bridgestone International, Inc., Case No. 1:13-cv-00763, in the U.S. District Court for the District of Delaware, alleging that Schrader-Bridgeport International, Inc. d/b/a Schrader International, Inc., Schrader Electronics Ltd., and Schrader Electronics, Inc. (collectively, "Schrader Electronics") infringed on certain of its patents (U.S. Patent Numbers 5,562,787, 6,630,885, and 7,161,476) concerning original equipment and original equipment replacement TPMS. Bridgestone is seeking a permanent injunction preventing Schrader Electronics from making, using, importing, offering to sell, or selling any devices that infringe or contribute to the infringement of any claim of the asserted patents, or from inducing others to infringe any claim of the asserted patents; judgment for money damages, interest, costs, and other damages; and the award of a compulsory ongoing licensing fee. This case is in discovery, with a claim construction hearing having been held in December 2014, close of expert discovery scheduled for March 25, 2015, and a trial scheduled for June 1, 2015. Bridgestone has also filed a patent infringement lawsuit in Germany, Bridgestone Americas Tire Operations LLC v. Schrader International Inc., District Court Munich I, alleging that Schrader Electronics' TPMS products sold in Germany are infringing on one of its German counterparts' patents (the German part of European Patent Office patent No. 1309460 B1). On July 12, 2014, the German court rendered a judgment in favor of Bridgestone on the issue of infringement. We are filing an appeal of this decision. We have also filed a nullity action in the German patent court seeking a finding of invalidity of the patent. A hearing on that matter is expected in 2015. Bridgestone is asserting damages related to these various matters in excess of $45.0 million. We do not believe that a loss is probable, and as of December 31, 2014, we have not recorded an accrual for these matters.

FCPA Voluntary Disclosure

In 2010, an internal investigation was conducted under the direction of the Audit Committee of our Board of Directors to determine whether any laws, including the Foreign Corrupt Practices Act (the "FCPA"), may have been violated in connection with a certain business relationship entered into by one of our operating subsidiaries involving business in China. We believe the amount of payments and the business involved was immaterial. We discontinued the specific

business relationship, and our investigation has not identified any other suspect transactions. We contacted the United States Department of Justice (the "DOJ") and the SEC to make a voluntary disclosure of the possible violations, the investigation, and the initial findings. We have been fully cooperating with their review. During 2012, the DOJ informed us that it has closed its inquiry into the matter but indicated that it could reopen its inquiry in the future in the event it were to receive additional information or evidence. We have not received an update from the SEC concerning the status of its inquiry. The FCPA (and related statutes and regulations) provides for potential monetary penalties, criminal and civil sanctions, and other remedies. We are unable to estimate the

potential penalties and/or sanctions, if any, that might be assessed and, accordingly, no provision has been made in the accompanying consolidated financial statements.

Matters Resolved During 2014

Romans vs. Ford: We were a defendant in one case related to this system and switch that involves wrongful death allegations. This case, Romans vs. Ford et al, Case No. CVH 20100126, Court of Common Pleas, Madison County, Ohio, involved claims for property damage, personal injury, and three fatalities resulting from an April 5, 2008 residential fire alleged to involve a Ford vehicle. On April 1, 2010, the plaintiff filed suit against TI and Sensata and this case was subsequently consolidated with an earlier lawsuit, former Case No. CVC 20090074, filed against Ford. On March 18, 2013, the court granted our motion for dismissal, with the case continuing against Ford. The plaintiff subsequently filed an appeal of the decision dismissing Sensata. On April 22, 2013, the court issued a stay of the proceedings until the appeal was completed. On November 18, 2013, the Court of Appeals, 12th Appellate District of Ohio, Madison County (Case No. CA2013-04-012), issued an opinion affirming the summary judgment dismissal granted in our favor. On December 31, 2013, the plaintiff filed notice of appeal in the Supreme Court of Ohio. On March 28, 2014, we were informed that the Ohio Supreme Court had rejected the plaintiff's request, leaving the appellate court decision in place. We have been dismissed from the litigation in accordance with the trial court's previous ruling.

Venmar: We have been involved in a related series of claims and lawsuits involving products we sold to one of our customers, Venmar, that sold ventilation and air exchanger equipment containing an electromechanical control product. Venmar conducted recalls in conjunction with the U.S. Consumer Product Safety Commission on similar equipment in 2007, 2008, and 2011. In April 2013, two of the pending claims were filed as lawsuits. These are Cincinnati Ins. Co. v. Sensata Technologies, Inc., Case No. 13105170NP, 52nd Cir. Ct., Huron Co., MI and Auto-Owners Ins. Co. v. Venmar Ventilation, Case No. 13917CZ, 37th Cir. Ct., Calhoun Co., MI. These lawsuits involved claims for damages in the amount of $0.9 million and $6.2 million, respectively. On March 28, 2014, the lawsuit filed by Cincinnati Ins. Co. was settled out of court with no contribution from us. On September 4, 2014, Auto-Owners Ins. Co. agreed to dismiss us from the lawsuit and has filed a stipulation and order of dismissal with the court.

Aircraft: In 2012, certain of our subsidiaries, along with more than twenty other defendants, were named in lawsuits involving a plane crash on May 25, 2011 that resulted in four deaths. The first lawsuit was filed on May 24, 2012 in Pike Circuit Court, Kentucky. This lawsuit is styled Campbell vs. Aero Resources Corporation et al, Civil Action 12-C1-652, Commonwealth of Kentucky, Pike Circuit Court, Div. No. I (the "Campbell case"). A second lawsuit was filed on July 5, 2012 in Jessamine Circuit Court, Kentucky. This lawsuit is styled Shuey v. Hawker Beechcraft, Inc. et al, Civil Action 12-C1-650, Commonwealth of Kentucky, Jessamine Circuit Court, Civil Division (the "Shuey case"). The plaintiffs alleged that one of our circuit breakers was a component in the aircraft and brought claims of negligence and strict liability. Damages were unspecified. On December 5, 2013, the plaintiff in the Shuey case filed a stipulation dismissing us without prejudice. On March 24, 2014, we were informed that the plaintiffs in the Campbell case filed a motion to dismiss us without prejudice. With the dismissals of the lawsuits, we do not expect further proceedings in these matters.

15. Fair Value Measures

Our assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. The levels of the fair value hierarchy are described below:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets and liabilities that we have the ability to access at the measurement date.
- Level 2 inputs utilize inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 inputs are unobservable inputs for the asset or liability, allowing for situations where there is little, if any, market activity for the asset or liability.

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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 December 31, 2014 and 2013, aggregated by the level in the fair value hierarchy within which those measurements fell:

	December 31, 2014				December 31, 2013			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets								
Foreign currency forward contracts	$—	$ 31,785	$ —	$31,785	$—	$ 1,863	$ —	$1,863
Commodity forward contracts	—	114	—	114	—	151	—	151
Total	$—	$ 31,899	$ —	$31,899	$—	$ 2,014	$ —	$2,014
Liabilities								
Foreign currency forward contracts	$—	$ 9,656	$ —	$9,656	$—	$ 11,875	$ —	$ 11,875
Commodity forward contracts	—	11,975	—	11,975	—	13,229	—	13,229
Total	$—	$ 21,631	$ —	$21,631	$—	$ 25,104	$ —	$ 25,104

See Note 2, "Significant Accounting Policies," under the caption "Financial Instruments," for discussion of how we estimate the fair value of our financial instruments. See Note 16, "Derivative Instruments and Hedging Activities," for specific contractual terms utilized as inputs in determining fair value and a discussion of the nature of the risks being mitigated by these instruments.

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 December 31, 2014 and 2013, 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, 2014, we evaluated our goodwill for impairment using the qualitative method. Refer to Critical Accounting Policies in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this Annual Report on Form 10-K for further discussion of this process. Based on this analysis, we 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.

As of October 1, 2014, 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.

As of December 31, 2014, 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.

When determining fair value using the quantitative method, goodwill and indefinite-lived intangible assets are valued primarily using discounted cash flow models that incorporate assumptions for a reporting unit's short- and long-term revenue growth rates, operating margins, and discount rates, which represent our best estimates of current and forecasted market conditions, current cost structure, and the implied rate of return that management believes a market participant would require for an investment in a company having similar risks and business characteristics to the reporting unit being assessed.

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The fair value of assets held for sale is determined based on the use of appraisals, input from market participants, our experience selling similar assets, and/or internally developed cash flow models. See Note 3, "Property, Plant and Equipment," for details of fair value measurements of assets held for sale.
Refer to Note 6, "Acquisitions," for discussion of fair value measurements related to acquisitions that occurred during the year ended December 31, 2014.
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 consolidated balance sheets as of December 31, 2014 and 2013:

	December 31, 2014				December 31, 2013			
	Carrying	Fair Value			Carrying	Fair Value		
	Value [1]	Level 1	Level 2	Level 3	Value [1]	Level 1	Level 2	Level 3
Liabilities								
Original Term Loan	$469,308	$—	$466,966	$—	$474,062	$—	$475,016	$—
Incremental Term Loan	$598,500	$—	$595,534	$—	$—	$—	$—	$—
6.5% Senior Notes	$700,000	$—	$730,660	$—	$700,000	$—	$752,500	$—
4.875% Senior Notes	$500,000	$—	$495,650	$—	$500,000	$—	$472,500	$—
5.625% Senior Notes	$400,000	$—	$415,000	$—	$—	$—	$—	$—
Revolving Credit Facility	$130,000	$—	$128,250	$—	$—	$—	$—	$—
Other debt	$2,153	$—	$2,153	$—	$—	$—	$—	$—

(1) The carrying value is presented excluding discount.
The fair values of the Term Loans and the Senior Notes are 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.

16. Derivative Instruments and Hedging Activities

As required by 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 do not currently utilize fair value hedges or hedges of the foreign currency exposure of a net investment in a foreign operation.
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 consolidated statements of operations. Specific information about the valuations of derivatives is described in Note 2, "Significant Accounting Policies," and classification of derivatives in

the fair value hierarchy is described in Note 15, “Fair Value Measures.”

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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. 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 December 31, 2014, we had posted no cash collateral, compared to $0.4 million of cash collateral posted as of December 31, 2013.

Hedges of Interest Rate Risk

On August 12, 2014, our interest rate cap, a portion of which was designated as a cash flow hedge of floating interest payments on the Original Term Loan, matured. As a result, as of December 31, 2014, we have no outstanding interest rate derivatives.

Our objectives in using interest rate derivatives have historically been to add stability to interest expense and to manage our exposure to interest rate movements on our floating rate debt. To accomplish these objectives, during the years ended December 31, 2014, 2013, and 2012, we used interest rate caps to hedge the variable cash flows associated with our variable rate debt as part of our interest rate risk management strategy. Interest rate caps designated as cash flow hedges involve the receipt of variable rate amounts if interest rates rise above the cap strike rate on the contract.

For the year ended December 31, 2014, we recorded no ineffectiveness in earnings and no amounts were excluded from the assessment of effectiveness. For the years ended December 31, 2013 and 2012, the ineffective portion of the changes in the fair value of these derivatives recognized directly in earnings was not material and no amounts were excluded from the assessment of effectiveness.

Amounts reported in Accumulated other comprehensive loss related to interest rate derivatives are reclassified to Interest expense as interest payments are made on our variable rate debt. As of December 31, 2014, no amount remained in Accumulated other comprehensive loss.

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, but do not meet the criteria to be afforded hedge accounting treatment.

For each of the years ended December 31, 2014, 2013, and 2012, 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 December 31, 2014, we estimate that $22.1 million in net gains will be reclassified from Accumulated other comprehensive loss to earnings during the twelve months ending December 31, 2015.

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As of December 31, 2014, we had the following outstanding foreign currency forward contracts:

Notional (in millions)	Effective Date	Maturity Date	Index	Weighted Average Strike Rate	Hedge Designation
287.8 EUR	Various from October 2013 to December 2014	Various from February 2015 to November 2016	Euro to U.S. Dollar Exchange Rate	1.31 USD	Designated
58.1 EUR	Various from October 2013 to December 2014	January 30, 2015	Euro to U.S. Dollar Exchange Rate	1.25 USD	Non-designated
87.0 CNY	December 23, 2014	January 30, 2015	U.S. Dollar to Chinese Renminbi Exchange Rate	6.18 CNY	Non-designated
264.0 JPY	December 23, 2014	January 30, 2015	U.S. Dollar to Japanese Yen Exchange Rate	120.54 JPY	Non-designated
51,750.0 KRW	Various from March 2014 to December 2014	Various from February 2015 to November 2016	U.S. Dollar to Korean Won Exchange Rate	1,063.28 KRW	Designated
37,800.0 KRW	Various from March 2014 to December 2014	January 30, 2015	U.S. Dollar to Korean Won Exchange Rate	1,105.21 KRW	Non-designated
85.7 MYR	Various from January 2014 to December 2014	Various from February 2015 to November 2016	U.S. Dollar to Malaysian Ringgit Exchange Rate	3.36 MYR	Designated
26.7 MYR	Various from January 2014 to December 2014	January 30, 2015	U.S. Dollar to Malaysian Ringgit Exchange Rate	3.47 MYR	Non-designated
1,222.2 MXN	Various from January 2014 to December 2014	Various from February 2015 to November 2016	U.S. Dollar to Mexican Peso Exchange Rate	13.97 MXN	Designated
101.6 MXN	Various from January 2014 to December 2014	January 30, 2015	U.S. Dollar to Mexican Peso Exchange Rate	13.95 MXN	Non-designated
42.4 GBP	Various from October 2014 to December 2014	Various from February 2015 to November 2016	Pound Sterling to U.S. Dollar Exchange Rate	1.58 USD	Designated
5.3 GBP	Various from October 2014 to December 2014	January 30, 2015	Pound Sterling to U.S. Dollar Exchange Rate	1.56 USD	Non-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, including silver, gold, platinum, palladium, copper, aluminum, nickel, and zinc, used in the manufacturing of our products. 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, but do not meet the criteria to be

afforded hedge accounting treatment.

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We had the following outstanding commodity forward contracts, none of which were designated as derivatives in qualifying hedging relationships, as of December 31, 2014:

Commodity	Notional	Remaining Contracted Periods	Weighted-Average Strike Price Per Unit
Silver	2,095,639 troy oz.	January 2015 - December 2016	$19.07
Gold	15,272 troy oz.	January 2015 - December 2016	$1,295.09
Nickel	648,798 pounds	January 2015 - November 2016	$7.20
Aluminum	5,989,386 pounds	January 2015 - November 2016	$0.92
Copper	9,780,235 pounds	January 2015 - November 2016	$3.09
Platinum	8,323 troy oz.	January 2015 - November 2016	$1,385.74
Palladium	1,293 troy oz.	January 2015 - November 2016	$772.86
Zinc	1,755,012 pounds	January 2015 - October 2016	$1.04

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 consolidated balance sheets as of December 31, 2014 and December 31, 2013:

	Asset Derivatives			Liability Derivatives		
		Fair Value			Fair Value	
	Balance Sheet Location	December 31, 2014	December 31, 2013	Balance Sheet Location	December 31, 2014	December 31, 2013
Derivatives designated as hedging instruments under ASC 815						
Foreign currency forward contracts	Prepaid expenses and other current assets	$24,097	$ 1,566	Accrued expenses and other current liabilities	$6,332	$ 9,868
Foreign currency forward contracts	Other assets	5,163	—	Other long term liabilities	2,210	500
Total		$29,260	$ 1,566		$8,542	$ 10,368
Derivatives not designated as hedging instruments under ASC 815						
Commodity forward contracts	Prepaid expenses and other current assets	$107	$ 80	Accrued expenses and other current liabilities	$10,591	$ 10,096
Commodity forward contracts	Other assets	7	71	Other long term liabilities	1,384	3,133
Foreign currency forward contracts	Prepaid expenses and other current assets	2,525	297	Accrued expenses and other current liabilities	1,114	1,507
Total		$2,639	$ 448		$13,089	$ 14,736

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The following tables present the effect of our derivative financial instruments on the consolidated statements of operations for the years ended December 31, 2014 and 2013:

Derivatives designated as hedging instruments under ASC 815	Amount of Net (Loss)/Gain Recognized in Other Comprehensive Income/(Loss)		Location of Net (Loss)/Gain Reclassified from Accumulated Other Comprehensive Loss into Income	Amount of Net (Loss)/Gain Reclassified from Accumulated Other Comprehensive Loss into Income	
	2014	2013		2014	2013
Interest rate caps	$—	$(6)	Interest expense	$(972)	$(1,063)
Interest rate caps [1]	$—	$—	Other, net	$—	$(1,097)
Foreign currency forward contracts	$42,936	$(7,491)	Net revenue	$(334)	$(2,206)
Foreign currency forward contracts	$(8,651)	$1,141	Cost of revenue	$1,070	$1,766

(1) As discussed in Note 8, "Debt," in April 2013 we completed the issuance and sale of the 4.875% Senior Notes. The proceeds from this issuance and sale, along with cash on hand, were used to, among other things, repay $700.0 million of the Original Term Loan. As a result of this repayment, it was probable that a portion of the hedged forecasted transactions associated with our interest rate caps would not occur. Accordingly, we reclassified $1.1 million from Accumulated other comprehensive loss to Other, net, in the year ended December 31, 2013.

Derivatives not designated as hedging instruments under ASC 815	Amount of Gain/(Loss) Recognized in Income on Derivatives		Location of Gain/(Loss) Recognized in Income on Derivatives
	2014	2013	
Commodity forward contracts	$(9,017)	$(23,218)	Other, net
Foreign currency forward contracts	$5,469	$(3,290)	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, 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 December 31, 2014, the termination value of outstanding derivatives in a liability position, excluding any adjustment for non-performance risk, was $22.3 million. As of December 31, 2014, we had posted no 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.

17. Restructuring and Special Charges

Restructuring

Our restructuring programs are described below.

2011 Plan

In 2011, we committed to a restructuring plan (the "2011 Plan") to reduce the workforce in several business centers and manufacturing facilities throughout the world and to move certain manufacturing operations to our low-cost sites. In 2012, we expanded the 2011 Plan to include additional costs associated with ceasing manufacturing in our JinCheon, South Korea facility. These actions were completed in 2013, and we do not expect to incur any additional charges related to this plan. Substantially all remaining payments have been made.

MSP Plan

On January 28, 2011, we acquired the Magnetic Speed and Position ("MSP") business from Honeywell International Inc. On January 31, 2011, we announced a plan (the "MSP Plan") to close the manufacturing facilities in Freeport, Illinois and Brno, Czech Republic. Restructuring charges related to these actions consisted primarily of severance and facility exit and other costs.

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These actions were completed in 2013, and we do not expect to incur any additional charges related to this plan. Substantially all remaining payments have been made.

Special Charges

On September 30, 2012, a fire damaged a portion of our manufacturing facility in JinCheon, South Korea. As a result of the damage to our facility, equipment, and inventory caused by the fire and subsequent fire-fighting activities, we incurred a net loss of $1.3 million during the year ended December 31, 2012, which included $1.8 million of insurance proceeds. This net loss was recognized in the Restructuring and special charges line of our consolidated statements of operations. We also incurred other costs related to the fire during the years ended December 31, 2013 and 2012, which were primarily recognized in Cost of revenue. During the year ended December 31, 2013, we recognized $10.0 million of insurance proceeds related to this fire, of which $0.8 million was recognized in the Restructuring and special charges line of our consolidated statements of operations, and the remainder in Cost of revenue. During the year ended December 31, 2014, we recognized $7.3 million of insurance proceeds related to this fire, which were partially offset by certain charges and expenses incurred during the second quarter of 2014 related to the completed transformation of our South Korean operations. The insurance proceeds received during the year ended December 31, 2014, and the offsetting charges and expenses incurred, were recognized in the Cost of revenue line of our consolidated statements of operations. As discussed in Note 14, "Commitments and Contingencies," we classify insurance proceeds in our consolidated statements of operations in a manner consistent with the related losses.

During the year ended December 31, 2012, in connection with the retirement of our former Chief Executive Officer, we entered into a separation agreement and amendment of outstanding equity awards. Pursuant to the agreements, we incurred a charge of $5.3 million related to benefits payable in cash and a non-cash charge of $6.4 million related to the fair value of modifications to outstanding equity awards. We classified these charges within the Restructuring and special charges line of our consolidated statements of operations for the year ended December 31, 2012. See Note 11, "Share-Based Payment Plans," for further discussion on the modifications of equity awards.

Summary of Restructuring Programs and Special Charges

The following tables present costs/(gains) recorded within the consolidated statements of operations associated with our restructuring activities and special charges, and where these amounts were recognized, for the years ended December 31, 2014, 2013, and 2012:

	2011 Plan	MSP Plan	Other	Special Charges	Total
For the year ended December 31, 2014					
Restructuring and special charges	$(198)	$—	$22,091	$—	$21,893
Cost of revenue	—	—	—	(4,072)	(4,072)
Total	$(198)	$—	$22,091	$(4,072)	$17,821

	2011 Plan	MSP Plan	Other	Special Charges	Total
For the year ended December 31, 2013					
Restructuring and special charges	$5,332	$451	$957	$(1,220)	$5,520
Other, net	(49)	—	20	—	(29)
Cost of revenue	1,304	—	—	(8,030)	(6,726)
Total	$6,587	$451	$977	$(9,250)	$(1,235)

	2011 Plan	MSP Plan	Other	Special Charges	Total
For the year ended December 31, 2012					
Restructuring and special charges	$23,984	$3,120	$61	$12,987	$40,152
Other, net	4,821	1	7	—	4,829
Cost of revenue	1,519	—	3,778	1,910	7,207
Total	$30,324	$3,121	$3,846	$14,897	$52,188

The "other" charges recognized during the years ended December 31, 2014, 2013, and 2012 include severance charges related to the termination of a limited number of employees located in various business centers and facilities throughout the

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world. These charges were accounted for as part of an ongoing benefit arrangement in accordance with ASC Topic 712, Compensation - Nonretirement Postemployment Benefits ("ASC 712"). The "other" charges recognized during the year ended December 31, 2012 also include a non-cash charge of $3.8 million for a write-down related to classifying our Almelo facility as held for sale.

The "other" charges recognized during the year ended December 31, 2014 also include $16.2 million in severance charges recorded in connection with businesses acquired in 2014, in order to integrate these businesses with ours. The majority of these charges were accounted for as part of an ongoing benefit arrangement in accordance with ASC 712.

The following table outlines the changes to the restructuring liability associated with all of our "other" actions:

	Severance
Balance at December 31, 2013	$119
Charges	22,091
Payments	(2,296)
Balance at December 31, 2014	$19,914

The table below outlines the current and long-term components of our restructuring liabilities recognized in the consolidated balance sheets as of December 31, 2014 and 2013. The balance as of December 31, 2014 includes $0.5 million related to the 2011 Plan.

	December 31, 2014	December 31, 2013
Current liabilities	$14,046	$3,242
Long-term liabilities	6,350	—
	$20,396	$3,242

18. Segment Reporting

Prior to the fourth quarter of 2014, our two reportable segments, Sensors and Controls, were organized based on product families included in each segment (sensor products in the Sensors segment and control products in the Controls segment). In the fourth quarter of 2014, we realigned our segments as a result of organizational changes that better allocate our resources to support our ongoing business strategy. The portion of the Sensors segment that has historically served the HVAC and industrial end-markets (the industrial sensing product line) was moved to the Controls segment because the Controls segment is active in the end-markets that this product line serves, and has available resources and capacity to drive content growth in existing channels and systems. We have recast our reportable segments for each of the periods presented to reflect this change.

The realigned reportable segments are consistent with how management views the markets served by us and reflect the financial information that is reviewed by our chief operating decision maker. Our operating segments, Sensors and Controls, which each comprise one of our reportable segments, are businesses that we manage as components of an enterprise, for which separate 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."

The Sensors segment is a manufacturer of pressure, temperature, speed, position, and force sensors, and electromechanical sensor products used in subsystems of automobiles (e.g., engine, air conditioning and ride

stabilization), and heavy on- and off-road vehicles. These products help improve operating performance, for example, by making an automobile's

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heating and air conditioning systems work more efficiently, thereby improving gas mileage. These products are also used in systems that address safety and environmental concerns, for example, by improving the stability control of the vehicle and reducing vehicle emissions.

Our Sensors segment uses a broad range of manufactured components, subassemblies, and raw materials in the manufacture of our products, including silver, gold, platinum, palladium, copper, aluminum, zinc, and nickel, as well as magnets containing rare earth metals, of which a large majority of the world's production is in China. A reduction in the export of rare earth materials from China could limit the worldwide supply of these rare earth materials, significantly increasing the price of magnets, which could materially impact our business.

The Controls segment is a manufacturer of a variety of control products used in industrial, aerospace, military, commercial, and residential markets, and sensors used in industrial products such as HVAC systems. These products include motor and compressor protectors, circuit breakers, semiconductor burn-in test sockets, electronic HVAC sensors and controls, power inverters, precision switches, and thermostats. These products help prevent damage from overheating and fires in a wide variety of applications, including commercial heating and air conditioning systems, refrigerators, aircraft, automobiles, lighting, and other industrial applications. The Controls business also manufactures DC to AC power inverters, which enable the operation of electronic equipment when grid power is not available.

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 years ended December 31, 2014, 2013, and 2012 (recast to reflect our realigned segments):

	For the year ended December 31,		
	2014	2013	2012
Net revenue:			
Sensors	$1,755,857	$1,358,238	$1,316,904
Controls	653,946	622,494	597,006
Total net revenue	$2,409,803	$1,980,732	$1,913,910
Segment operating income (as defined above):			
Sensors	$475,943	$401,595	$362,833
Controls	202,115	195,822	189,368
Total segment operating income	678,058	597,417	552,201
Corporate and other	(137,872)	(94,029)	(89,804)
Amortization of intangible assets	(146,704)	(134,387)	(144,777)
Restructuring and special charges	(21,893)	(5,520)	(40,152)
Profit from operations	371,589	363,481	277,468
Interest expense	(107,210)	(95,101)	(100,037)
Interest income	1,106	1,186	815
Other, net	(12,059)	(35,629)	(5,581)
Income before income taxes	$253,426	$233,937	$172,665

No customer exceeded 10% of our Net revenue in any of the periods presented.

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The following table presents Net revenue by product categories for the years ended December 31, 2014, 2013, and 2012:

	For the year ended December 31,		
	2014	2013	2012
Net revenue:			
Pressure sensors	$1,186,913	$943,763	$863,369
Pressure switches	99,489	87,846	93,261
Temperature sensors	152,662	137,016	123,730
Speed and position sensors	194,076	153,537	164,777
Force sensors	20,653	49,579	81,871
Bimetal electromechanical controls	359,610	355,089	349,337
Thermal and magnetic-hydraulic circuit breakers	117,816	113,228	118,699
Power inverters	35,160	19,994	20,387
Interconnection	69,332	72,206	50,317
Other	174,092	48,474	48,162
	$2,409,803	$1,980,732	$1,913,910

The following table presents depreciation and amortization expense for the reported segments for the years ended December 31, 2014, 2013 and 2012 (recast to reflect our realigned segments):

	For the year ended December 31,		
	2014	2013	2012
Total depreciation and amortization			
Sensors	$40,092	$37,967	$34,451
Controls	9,582	8,313	9,494
Corporate and other[(1)]	162,834	138,996	155,520
Total	$212,508	$185,276	$199,465

(1) Included within Corporate and other is depreciation and amortization expense associated with the fair value step-up recognized in prior acquisitions. We do not allocate the additional depreciation and amortization expense associated with the step-up in the fair value of the PP&E and intangible assets associated with the acquisitions to our segments. This treatment is consistent with the financial information reviewed by our chief operating decision maker.

The following table presents total assets for the reported segments as of December 31, 2014 and 2013:

	December 31, 2014	December 31, 2013
Total assets		
Sensors	$1,157,628	$567,566
Controls	304,522	258,176
Corporate and other[(1)]	3,654,459	2,673,082
Total	$5,116,609	$3,498,824

(1) Included within Corporate and other as of December 31, 2014 and 2013 is $2,424.8 million and $1,756.0 million, respectively, of Goodwill, $910.8 million and $502.4 million, respectively, of Other intangible assets, net, $36.3 million and $33.2 million, respectively, of PP&E, and $0.0 million and $8.3 million, respectively, of assets held for sale. This treatment is consistent with the financial information reviewed by our chief operating decision maker.

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The following table presents capital expenditures for the reported segments for the years ended December 31, 2014, 2013, and 2012 (recast to reflect our realigned segments):

	For the year ended December 31,		
	2014	2013	2012
Total capital expenditures			
Sensors	$95,534	$38,358	$36,108
Controls	13,832	20,738	8,427
Corporate and other	34,845	23,688	10,251
Total	$144,211	$82,784	$54,786

Geographic Area Information

In the geographic area data below, Net revenue is aggregated based on an internal methodology that considers both the location of our subsidiaries and the primary location of each subsidiary's customers. PP&E is aggregated based on the location of our subsidiaries.

The following tables present Net revenue by geographic area and by significant country for the years ended December 31, 2014, 2013, and 2012:

	Net Revenue		
	For the year ended December 31,		
	2014	2013	2012
Americas	$961,024	$739,847	$710,899
Asia	742,263	656,070	657,756
Europe	706,516	584,815	545,255
	$2,409,803	$1,980,732	$1,913,910

	Net Revenue		
	For the year ended December 31,		
	2014	2013	2012
United States	$913,958	$704,493	$679,942
The Netherlands	496,376	449,054	421,412
China	341,864	285,118	248,627
Korea	181,588	166,457	173,061
Japan	150,018	155,277	235,594
All Other	325,999	220,333	155,274
	$2,409,803	$1,980,732	$1,913,910

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The following tables present long-lived assets, exclusive of Goodwill and Other intangible assets, net, by geographic area and by significant country as of December 31, 2014 and 2013:

	Long-Lived Assets	
	December 31, 2014	December 31, 2013
Americas	$220,761	$106,114
Asia	222,129	201,807
Europe	146,594	36,736
Total	$589,484	$344,657

	Long-Lived Assets	
	December 31, 2014	December 31, 2013
United States	$114,333	$52,738
China	170,857	151,942
Mexico	97,190	52,479
United Kingdom	67,751	—
Bulgaria	43,196	31,460
Malaysia	41,766	40,033
The Netherlands	6,310	3,410
All Other	48,081	12,595
	$589,484	$344,657

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19. 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 years ended December 31, 2014, 2013, and 2012, the weighted-average shares outstanding for basic and diluted net income per share were as follows:

	For the year ended		
	December 31, 2014	December 31, 2013	December 31, 2012
Basic weighted-average ordinary shares outstanding	170,113	176,091	177,473
Dilutive effect of stock options	1,929	2,774	3,993
Dilutive effect of unvested restricted securities	175	159	157
Diluted weighted-average ordinary shares outstanding	172,217	179,024	181,623

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

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 associated with restricted securities that were contingently issuable, for which the contingency had not been satisfied. Refer to Note 11, "Share-Based Payment Plans," for further discussion of our share-based payment plans.

	For the year ended		
	December 31, 2014	December 31, 2013	December 31, 2012
Anti-dilutive shares excluded	737	1,700	1,512
Contingently issuable shares excluded	386	411	361

20. Unaudited Quarterly Data

A summary of the unaudited quarterly results of operations for the years ended December 31, 2014 and 2013 is as follows:

	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
For the year ended December 31, 2014				
Net revenue	$ 705,261	$ 577,095	$ 575,853	$ 551,594
Gross profit	$ 235,512	$ 205,155	$ 207,407	$ 194,395
Net income	$ 69,520	$ 81,963	$ 63,893	$ 68,373
Basic net income per share	$ 0.41	$ 0.49	$ 0.37	$ 0.40
Diluted net income per share	$ 0.41	$ 0.48	$ 0.37	$ 0.39
	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
For the year ended December 31, 2013				
Net revenue	$ 505,015	$ 498,886	$ 506,418	$ 470,413
Gross profit	$ 189,208	$ 189,825	$ 183,719	$ 161,731
Net income	$ 67,067	$ 66,022	$ 20,371	$ 34,665
Basic net income per share	$ 0.38	$ 0.38	$ 0.12	$ 0.19
Diluted net income per share	$ 0.38	$ 0.37	$ 0.11	$ 0.19

In the fourth quarter of 2014, we completed the acquisition of Schrader. Net revenue and Income/(loss) before taxes for Schrader included in our consolidated statement of operations in the fourth quarter of 2014 were $133.3 million and $(3.6) million, respectively. In the third and fourth quarters of 2014, we recorded transaction costs of $3.5 million and $9.0 million, respectively, in connection with this acquisition. Also, in the fourth quarter of 2014, we completed a series of financing

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transactions in order to fund this acquisition. Refer to Note 8, "Debt" for further discussion of these transactions. We recorded $11.3 million of interest expense related to these transactions.

In the third and fourth quarters of 2014, we recorded restructuring charges of $4.5 million and $14.7 million, respectively. Refer to Note 17, "Restructuring and Special Charges," for further discussion of our restructuring charges.

In the first, second, and third quarters of 2014, we completed the acquisitions of Wabash, Magnum, and DeltaTech, respectively. Aggregate Net revenue for these acquisitions included in our consolidated statement of operations for each of the first, second, third, and fourth quarters of 2014 was $21.3 million, $23.5 million, $47.7 million, and $56.0 million, respectively. Net income for Wabash, Magnum, and DeltaTech included in our consolidated statement of operations was not material in any of these quarters.

The provision for income taxes for the first, third, and fourth quarters of 2014 included benefits from income taxes of $8.3 million, $32.5 million, and $30.3 million, respectively, due to the release of a portion of the U.S. valuation allowance in connection with the acquisitions of Wabash, DeltaTech, and Schrader, respectively, for which deferred tax liabilities were established related to acquired intangible assets.

During the first, second, third, and fourth quarters of 2014, we recognized gains/(losses) of $1.3 million, $4.2 million, $(9.1) million, and $(5.4) million, respectively, related to our commodity forward contracts, which are not designated for hedge accounting treatment in accordance with ASC 815. During the first, second, third, and fourth quarters of 2013, we recognized (losses)/gains of $(2.4) million, $(23.8) million, $9.8 million, and $(6.8) million, respectively, related to our commodity forward contracts. These contracts are not speculative and are used to manage our exposure to commodity price movements, but do not meet the criteria to be afforded hedge accounting treatment. Changes in the fair value of these contracts are recorded in the consolidated statements of operations as a gain or loss within Other, net. Refer to Note 16, "Derivative Instruments and Hedging Activities," for further discussion of our commodity forward contracts, and Note 2, "Significant Accounting Policies," for a detail of Other, net for years ended December 31, 2014 and 2013.

During the fourth quarter 2013, we closed income tax audits related to several subsidiaries in Asia and the Americas. As a result of negotiated settlements and final assessments, we recognized $4.1 million of tax benefit in this quarter. The benefit recorded in tax expense related to interest and penalties totaled $8.7 million. Furthermore, during the fourth quarter of 2013, we entered into an intercompany financial transaction with uncertain tax consequences. As a result of the noted transaction and other positions, we increased the disclosed unrecognized tax benefit by $8.0 million as of December 31, 2013.

In December 2013, Mexico enacted a comprehensive tax reform package, which was effective January 1, 2014. As a result of this change, we adjusted our deferred taxes in that jurisdiction, resulting in the recognition of a tax benefit, which reduced the deferred income tax expense by $4.7 million for fiscal year 2013.

In the second quarter of 2013, in connection with the issuance and sale of the 4.875% Senior Notes, we recorded a $7.1 million loss for the write-off of unamortized deferred financing costs and original issue discount. Refer to Note 8, "Debt," for further discussion related to the issuance and sale of the 4.875% Senior Notes.

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SCHEDULE I—CONDENSED FINANCIAL INFORMATION OF THE REGISTRANT
SENSATA TECHNOLOGIES HOLDING N.V.
(Parent Company Only)
Balance Sheets
(In thousands)

	December 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$1,398	$22,137
Intercompany receivables from subsidiaries	55,578	25,263
Prepaid expenses and other current assets	783	822
Total current assets	57,759	48,222
Investment in subsidiaries	1,249,050	1,095,652
Other assets	—	3
Total assets	$1,306,809	$1,143,877
Liabilities and shareholders’ equity		
Current liabilities:		
Accounts payable	$229	$457
Intercompany payables to subsidiaries	389	146
Accrued expenses and other current liabilities	2,371	989
Total current liabilities	2,989	1,592
Pension obligations	928	697
Total liabilities	3,917	2,289
Total shareholders’ equity	1,302,892	1,141,588
Total liabilities and shareholders’ equity	$1,306,809	$1,143,877

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

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SENSATA TECHNOLOGIES HOLDING N.V.
(Parent Company Only)
Statements of Operations
(In thousands)

	For the year ended		
	December 31, 2014	December 31, 2013	December 31, 2012
Net revenue	$—	$—	$—
Operating (income)/ costs and expenses:			
Cost of revenue	(2,417)	—	—
Selling, general and administrative	1,423	1,822	1,092
Total operating (income)/ costs and expenses	(994)	1,822	1,092
Gain/(loss) from operations	994	(1,822)	(1,092)
Interest expense	—	—	—
Interest income	—	—	—
Other, net	(50)	6	(55)
Gain/(loss) before income taxes and equity in net income of subsidiaries	944	(1,816)	(1,147)
Equity in net income of subsidiaries	282,805	189,941	178,628
Provision for income taxes	—	—	—
Net income	$283,749	$188,125	$177,481

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

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SENSATA TECHNOLOGIES HOLDING N.V.
(Parent Company Only)
Statements of Comprehensive Income
(In thousands)

	For the year ended		
	December 31, 2014	December 31, 2013	December 31, 2012
Net income	$283,749	$188,125	$177,481
Other comprehensive income/(loss), net of tax:			
Defined benefit plan	(374)	(353)	(289)
Subsidiaries' other comprehensive income/(loss)	21,733	6,652	(15,893)
Other comprehensive income/(loss)	21,359	6,299	(16,182)
Comprehensive income	$305,108	$194,424	$161,299

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

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SENSATA TECHNOLOGIES HOLDING N.V.
(Parent Company Only)
Statements of Cash Flows
(In thousands)

	For the year ended		
	December 31, 2014	December 31, 2013	December 31, 2012
Net cash (used in)/provided by operating activities	$(30,491)	$(24,958)	$9,547
Cash flows from investing activities:			
Insurance proceeds	2,417	—	—
Return of capital from subsidiaries	164,200	320,000	—
Net cash provided by investing activities	166,617	320,000	—
Cash flows from financing activities:			
Proceeds from exercise of stock options and issuance of ordinary shares	24,909	20,999	16,520
Payments to repurchase ordinary shares	(181,774)	(305,096)	(15,190)
Net cash (used in)/provided by financing activities	(156,865)	(284,097)	1,330
Net change in cash and cash equivalents	(20,739)	10,945	10,877
Cash and cash equivalents, beginning of year	22,137	11,192	315
Cash and cash equivalents, end of year	$1,398	$22,137	$11,192

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

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1. Basis of Presentation and Description of Business

Sensata Technologies Holding N.V. (Parent Company)—Schedule I—Condensed Financial Information of Sensata Technologies Holding N.V. (“Sensata Technologies Holding”), included in this Annual Report on Form 10-K, provides all parent company information that is required to be presented in accordance with Securities and Exchange Commission (“SEC”) rules and regulations for financial statement schedules. The accompanying condensed financial statements have been prepared in accordance with the reduced disclosure requirements permitted by the SEC. Sensata Technologies Holding and subsidiaries' audited consolidated financial statements are included elsewhere in this Annual Report on Form 10-K.

Sensata Technologies Holding conducts limited separate operations and acts primarily as a holding company. Sensata Technologies Holding has no direct outstanding debt obligations. Sensata Technologies B.V, however, is limited in its ability to pay dividends or otherwise make other distributions to its immediate parent company and, ultimately, to Sensata Technologies Holding, under its senior secured credit facilities and the indentures governing its senior notes. For a discussion of the debt obligations of the subsidiaries of Sensata Technologies Holding, see Note 8, "Debt," of the audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

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

2. Commitments and Contingencies

For a discussion of the commitments and contingencies of the subsidiaries of Sensata Technologies Holding, see Note 14, "Commitments and Contingencies," of the audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

3. Related Party Transactions

Effective September 10, 2014, Sensata Investment Company S.C.A. ("SCA") sold its remaining shares in Sensata Technologies Holding, and was no longer a related party as of that date. The transactions below represent transactions that occurred prior to that date.

Administrative Services Agreement

In 2009, Sensata Technologies Holding entered into a fee for service arrangement with its then principal shareholder, SCA, for ongoing consulting, management advisory, and other services (the “Administrative Services Agreement”), effective January 1, 2008. Expenses related to this arrangement are recorded in Selling, general and administrative expense. On May 10, 2013, the Administrative Services Agreement was terminated, upon a mutual agreement between Sensata Technologies Holding and SCA. During the years ended December 31, 2014, 2013, and 2012 Sensata Technologies Holding paid $0.0 million, $0.0 million, and $0.4 million, respectively, related to the Administrative Services Agreement. As of December 31, 2014, Sensata Technologies Holding did not record any amounts due to SCA under this agreement.

Share Repurchase

Sensata Technologies Holding repurchased 4.0 million ordinary shares from SCA concurrent with the closing of the May 2014 secondary offering. The share repurchase was effected in a private, non-underwritten transaction at a price per ordinary share of $42.42, which was equal to the price paid by the underwriters. Sensata Technologies Holding repurchased 4.5 million ordinary shares from SCA concurrent with the closing of a December 2013 secondary offering. The share repurchase was effected in a private, non-underwritten transaction at a price per ordinary share of $38.25, which was equal to the price paid by the underwriters. For further details on these secondary offerings, refer to Note 12, "Shareholders’ Equity," of the audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

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SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2014, 2013, and 2012
(in thousands)

	Balance at the beginning of the period	Additions Charged to expenses/against revenue	Deductions	Balance at the end of the period
For the year ended December 31, 2014				
Allowance for doubtful accounts and sales allowances	$9,199	$2,015	$(850)	$10,364
For the year ended December 31, 2013				
Allowance for doubtful accounts and sales allowances	$11,059	$507	$(2,367)	$9,199
For the year ended December 31, 2012				
Allowance for doubtful accounts and sales allowances	$11,329	$2,959	$(3,229)	$11,059

Note: Additions to the allowance for doubtful accounts are charged to expense. Additions to sales allowances are charged against revenues.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The required certifications of our Chief Executive Officer and Chief Financial Officer are included as Exhibits 31.1 and 31.2 to this Annual Report on Form 10-K. The disclosures set forth in this Item 9A contain information concerning the evaluation of our disclosure controls and procedures, management's report on internal control over financial reporting, and changes in internal control over financial reporting referred to in these certifications. These certifications should be read in conjunction with this Item 9A 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 December 31, 2014. 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 SEC'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 December 31, 2014, 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.

In 2014, we acquired Wabash Worldwide Holding Corp., Magnum Energy Incorporated, CoActive US Holdings, Inc. ("DeltaTech Controls"), and August Cayman Company, Inc. ("Schrader"). As permitted by the U.S. Securities and Exchange Commission, we excluded these acquisitions from our assessment of the effectiveness of internal control over financial reporting as of December 31, 2014, since it was not practical for management to conduct an assessment of internal control over financial reporting for these entities between the acquisition date and the date of management's assessment. Excluded from our assessment of the effectiveness of internal control over financial reporting as of December 31, 2014, were total assets and net revenues of approximately 10% and 12%, respectively, of our consolidated total assets and net revenues as of and for the year ended December 31, 2014.

Changes in Internal Control over Financial Reporting

Management’s assessment of the overall effectiveness of our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) has historically been based on the framework set forth in the Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations (“COSO”) of the Treadway Commission. In May 2013, COSO issued an updated framework (the “2013 COSO Framework”). We have integrated the changes prescribed by the 2013 COSO Framework into our internal controls over financial reporting during fiscal year 2014.

There were no other changes that occurred during the fourth quarter of the year ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). The Company's internal control system was designed to provide reasonable assurance to the Company's management, Board of Directors, and shareholders regarding the preparation and fair presentation of the Company's published financial statements in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

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 accounting principles generally accepted in the United States of America. 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.

In 2014, we acquired Wabash Worldwide Holding Corp., Magnum Energy Incorporated, CoActive US Holdings, Inc. ("DeltaTech Controls"), and August Cayman Company, Inc. ("Schrader"). As permitted by the U.S. Securities and Exchange Commission, we excluded these acquisitions from our assessment of the effectiveness of internal control over financial reporting as of December 31, 2014, since it was not practical for management to conduct an assessment of internal control over financial reporting for these entities between the acquisition date and the date of management's assessment. Excluded from our assessment of the effectiveness of internal control over financial reporting as of December 31, 2014, were total assets and net revenues of approximately 10% and 12%, respectively, of our consolidated total assets and net revenues as of and for the year ended December 31, 2014.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. In making its assessment of internal control over financial reporting, management used the criteria issued in the 2013 COSO Framework.

Based on the results of this assessment, management, including our Chief Executive Officer and Chief Financial Officer, has concluded that, as of December 31, 2014, the Company's internal control over financial reporting was effective.

The Company's independent registered public accounting firm, Ernst & Young LLP, has also issued an audit report on the Company's internal control over financial reporting, which is included elsewhere in this Annual Report on Form 10-K.

Almelo, The Netherlands
February 3, 2015

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Report of Independent Registered Accounting Firm
The Board of Directors and Shareholders of
Sensata Technologies Holding N.V.
We have audited Sensata Technologies Holding N.V.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Sensata Technologies Holding N.V.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company’s internal control over financial reporting based on our audit.
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.
A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company’s assets that could have a material effect on the financial statements.
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Wabash Worldwide Holding Corp., Magnum Energy Incorporated, CoActive US Holdings, Inc. and August Cayman Company, Inc., which are included in the 2014 consolidated financial statements of Sensata Technologies Holding N.V. and constituted 10% of total assets and 12% of net revenues, respectively, as of December 31, 2014 and for the year then ended. Our audit of internal control over financial reporting of Sensata Technologies Holding N.V. also did not include an evaluation of the internal control over financial reporting of Wabash Worldwide Holding Corp., Magnum Energy Incorporated, CoActive US Holdings, Inc. and August Cayman Company, Inc.
In our opinion, Sensata Technologies Holding N.V. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sensata Technologies Holding N.V. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, cash flows and changes in shareholders’ equity for each of the three years in the period ended December 31, 2014 of Sensata Technologies Holding N.V. and our report dated February 3, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Boston, Massachusetts
February 3, 2015

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ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 will be set forth in the Proxy Statement for our Annual General Meeting of Shareholders to be held on May 21, 2015 and is incorporated by reference into this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 will be set forth in the Proxy Statement for our Annual General Meeting of Shareholders to be held on May 21, 2015 and is incorporated by reference into this Annual Report on Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 will be set forth in the Proxy Statement for our Annual General Meeting of Shareholders to be held on May 21, 2015 and is incorporated by reference into this Annual Report on Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 will be set forth in the Proxy Statement for our Annual General Meeting of Shareholders to be held on May 21, 2015 and is incorporated by reference into this Annual Report on Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 will be set forth in the Proxy Statement for our Annual General Meeting of Shareholders to be held on May 21, 2015 and is incorporated by reference into this Annual Report on Form 10-K.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)

1. Financial Statements — See “Financial Statements” under Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.
2. Financial Statement Schedules — See “Financial Statement Schedules” under Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.
3. Exhibits

EXHIBIT INDEX

3.1	Amended Articles of Association of Sensata Technologies Holding N.V. (incorporated by reference to Exhibit 3.2 to Amendment No. 5 to the Registration Statement on Form S-1, filed on March 8, 2010).
3.2	Amendments to the Articles of Association of Sensata Technologies Holding N.V. dated February 22, 2013 (incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-K filed on February 6, 2014).
4.1	Indenture, dated as of May 12, 2011, among Sensata Technologies B.V., the guarantors party thereto and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed on May 17, 2011).
4.2	First Supplemental Indenture, dated June 9, 2011, among Sensata Technologies (Korea) Limited, a subsidiary of Sensata Technologies B.V., the existing guarantors and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.1 to the Quarterly Report on Form 10-Q filed on July 22, 2011).
4.3	Form of 6.5% Senior Note due 2019 (incorporated by reference to Exhibit 4.2 to Current Report on Form 8-K filed on May 17, 2011) (included as Exhibit A to Exhibit 4.1 thereof).
4.4	Second Supplemental Indenture, dated December 27, 2012, among Sensata Technologies US, LLC, Sensata Technologies US II, LLC, Sensata Technologies Bermuda, Ltd., ST US Cooperatief U.A., the existing guarantors and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.4 to the Annual Report on Form 10-K filed on February 8, 2013).
4.5	Indenture, dated as of April 17, 2013, among Sensata Technologies B.V., the Guarantors, and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K, filed on April 18, 2013).
4.6	Form of 4.875% Senior Note due 2023 (incorporated by reference to Exhibit 4.2 to Current Report on Form 8-K, filed on April 18, 2013) (included as Exhibit A to Exhibit 4.1 thereof).
4.7	Indenture, dated as of October 14, 2014, among Sensata Technologies B.V., the Guarantors, and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed on October 17, 2014).
4.8	Form of 5.625% Senior Note due 2024 (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K, filed on October 17, 2014) (included as Exhibit A thereto).
10.1	Asset and Stock Purchase Agreement, dated January 8, 2006, between Texas Instruments Incorporated and S&C Purchase Corp (incorporated by reference to Exhibit 10.6 to the Registration Statement on

	Form S-4 of Sensata Technologies B.V., filed on December 29, 2006).
10.2	Amendment No. 1 to Asset and Stock Purchase Agreement, dated March 30, 2006, between Texas Instruments Incorporated, Potazia Holding B.V. and S&C Purchase Corp (incorporated by reference to Exhibit 10.7 to Amendment No. 1 to the Registration Statement on Form S-4/A of Sensata Technologies B.V., filed on January 24, 2007).
10.3	Amendment No. 2 to Asset and Stock Purchase Agreement, dated April 27, 2006, between Texas Instruments Incorporated and Sensata Technologies B.V. (incorporated by reference to Exhibit 10.8 to the Registration Statement on Form S-4 of Sensata Technologies B.V., filed on December 29, 2006).
10.4	Cross-License Agreement, dated April 27, 2006, among Texas Instruments Incorporated, Sensata Technologies B.V. and Potazia Holding B.V. (incorporated by reference to Exhibit 10.10 to the Registration Statement on Form S-4 of Sensata Technologies B.V., filed on December 29, 2006).

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10.5	Sensata Technologies Holding B.V. First Amended and Restated 2006 Management Option Plan (incorporated by reference to Exhibit 10.12 to the Registration Statement on Form S-4 of Sensata Technologies B.V., filed on December 29, 2006).†
10.6	Sensata Technologies Holding B.V. First Amended and Restated 2006 Management Securities Purchase Plan (incorporated by reference to Exhibit 10.13 to the Registration Statement on Form S-4 of Sensata Technologies B.V., filed on December 29, 2006).†
10.7	First Amendment to the Sensata Technologies Holding B.V. First Amended and Restated 2006 Management Option Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the period ended September 30, 2009 of Sensata Technologies B.V., filed on November 13, 2009).†
10.8	First Amended and Restated Management Securityholders Addendum—Dutchco Option Plan, dated as of April 27, 2006 (incorporated by reference to Exhibit 10.47 to the Registration Statement on Form S-1, filed on November 25, 2009).
10.9	First Amended and Restated Management Securityholders Addendum—Dutchco Securities Plan, dated as of April 27, 2006 (incorporated by reference to Exhibit 10.48 to the Registration Statement on Form S-1, filed on November 25, 2009).
10.10	First Amended and Restated Management Securityholders Addendum—Luxco Securities Plan, dated as of April 27, 2006 (incorporated by reference to Exhibit 10.49 to the Registration Statement on Form S-1, filed on November 25, 2009).
10.11	Form of First Amended and Restated Investor Rights Agreement, entered into by and among Sensata Management Company S.A., Sensata Investment Company S.C.A, Sensata Technologies Holding N.V. (formerly known as Sensata Technologies Holding B.V.), funds managed by Bain Capital Partners, LLC or its affiliates, certain other investors that are parties thereto and such other persons, if any, that from time to time become parties thereto (incorporated by reference to Exhibit 10.50 to Amendment No. 4 to the Registration Statement on Form S-1, filed on February 26, 2010).
10.12	Form of Indemnification Agreement, entered among Sensata Technologies Holding N.V. (formerly known as Sensata Technologies Holding B.V.) and certain of its executive officers and directors listed on a schedule attached thereto (incorporated by reference to Exhibit 10.51 to Amendment No. 2 to the Registration Statement on Form S-1, filed on January 22, 2010).†
10.13	Administrative Services Agreement, effective as of January 1, 2008, by and between Sensata Investment Company S.C.A. and Sensata Technologies Holding B.V. (incorporated by reference to Exhibit 10.52 to Amendment No. 2 to the Registration Statement on Form S-1, filed on January 22, 2010).
10.14	Sensata Technologies Holding N.V. 2010 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q, filed on April 26, 2010).
10.15	Asset and Stock Purchase Agreement, dated October 28, 2010, by and among Sensata Technologies, Inc., Honeywell International Inc., Honeywell Co. Ltd., Honeywell spol s.r.o., Honeywell Aerospace s.r.o., Honeywell (China) Co. Ltd., Honeywell Automation India Limited, Honeywell Control Systems Limited, Honeywell GmbH and Honeywell Japan Inc. (incorporated by reference to Exhibit 2.1 to the

	Registration Statement on Form S-1, filed on November 3, 2010).
10.16	Amended and Restated Employment Agreement, dated March 22, 2011, between Sensata Technologies, Inc. and Jeffrey Cote (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q, filed on April 22, 2011).†
10.17	Amended and Restated Employment Agreement, dated March 22, 2011, between Sensata Technologies, Inc. and Martin Carter (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q, filed on April 22, 2011).†
10.18	Credit Agreement, dated as of May 12, 2011, by and among Sensata Technologies B.V., Sensata Technologies Finance Company, LLC, Sensata Technologies Intermediate Holding B.V., Morgan Stanley Senior Funding, Inc., as administrative agent, the initial l/c issuer and initial swing line lender named therein, and the other lenders party thereto (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on May 17, 2011).
10.19	Domestic Guaranty, dated as of May 12, 2011, made by each of Sensata Technologies Finance Company, LLC, Sensata Technologies, Inc., Sensata Technologies Massachusetts, Inc. and each of the Additional Guarantors from time to time made a party thereto in favor of the Secured Parties (as defined therein) (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on May 17, 2011).
10.20	Guaranty, dated as of May 12, 2011, made by Sensata Technologies B.V. in favor of the Secured Parties (as defined therein) (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed on May 17, 2011).

10.21	Foreign Guaranty, dated as of May 12, 2011, made by each of Sensata Technologies Holding Company US B.V., Sensata Technologies Holland, B.V., Sensata Technologies Holding Company Mexico, B.V., Sensata Technologies de México, S. de R.L. de C.V., Sensata Technologies Japan Limited, Sensata Technologies Malaysia Sdn. Bhd. and each of the Additional Guarantors from time to time made a party thereto in favor of the Secured Parties (as defined therein) (incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K filed on May 17, 2011).
10.22	Patent Security Agreement, dated as of May 12, 2011, made by each of Sensata Technologies Finance Company, LLC, Sensata Technologies, Inc. and Sensata Technologies Massachusetts, Inc. to Morgan Stanley Senior Funding, Inc., as collateral agent (incorporated by reference to Exhibit 10.5 to Current Report on Form 8-K filed on May 17, 2011).
10.23	Trademark Security Agreement, dated as of May 12, 2011, made by each of Sensata Technologies Finance Company, LLC, Sensata Technologies, Inc. and Sensata Technologies Massachusetts, Inc. to Morgan Stanley Senior Funding, Inc., as collateral agent (incorporated by reference to Exhibit 10.6 to Current Report on Form 8-K filed on May 17, 2011).
10.24	Domestic Pledge Agreement, dated as of May 12, 2011, made by each of Sensata Technologies B.V. and Sensata Technologies Holding Company US B.V. to Morgan Stanley Senior Funding, Inc., as collateral agent (incorporated by reference to Exhibit 10.7 to Current Report on Form 8-K filed on May 17, 2011).
10.25	Domestic Security Agreement, dated as of May 12, 2011, made by each of Sensata Technologies Finance Company, LLC, Sensata Technologies, Inc. and Sensata Technologies Massachusetts, Inc. to Morgan Stanley Senior Funding, Inc., as collateral agent (incorporated by reference to Exhibit 10.8 to Current Report on Form 8-K filed on May 17, 2011).
10.26	Share Purchase Agreement, dated June 14, 2011, by and among Sensata Technologies, Inc., Elex N.V. and Epiq N.V. (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on June 16, 2011).
10.27	Form of April 1, 2011 Option Agreement to Thomas Wroe, Martha Sullivan and Steven Major (incorporated by reference to Exhibit 10.36 to the Annual Report on Form 10-K filed on February 10, 2012).†
10.28	Form of April 1, 2011 Restricted Securities Agreement to Thomas Wroe, Martha Sullivan and Steven Major (incorporated by reference to Exhibit 10.37 to the Annual Report on Form 10-K filed on February 10, 2012).†
10.29	Form of Amended Options Agreement (incorporated by reference to Exhibit 10.38 to the Annual Report on Form 10-K filed on February 10, 2012).†
10.30	Amendment to Award Agreement between Sensata Technologies Holding N.V. and Jeffrey Cote dated January 23, 2012 (incorporated by reference to Exhibit 10.39 to the Annual Report on Form 10-K filed on February 10, 2012).†
10.31	Form of Director Options Agreement (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed on July 27, 2012).

10.32	Amendment No. 1 to Credit Agreement dated as of December 6, 2012, to the Credit Agreement dated as of May 12, 2011, by and among Sensata Technologies B.V., Sensata Technologies Finance Company LLC, Sensata Technologies Intermediate Holding B.V., the subsidiary guarantors party thereto, Morgan Stanley Senior Funding, Inc., and Barclays Bank PLC (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on December 10, 2012).
10.33	Separation Agreement, dated December 10, 2012, between Sensata Technologies, Inc. and Thomas Wroe (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on December 10, 2012).†
10.34	Amendment to Equity Award Agreements, dated December 10, 2012, between Sensata Technologies Holding N.V. and Thomas Wroe (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on December 10, 2012).†
10.35	Second Amended and Restated Employment Agreement, dated January 1, 2013, between Sensata Technologies, Inc. and Martha Sullivan (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on January 4, 2013).†
10.36	Employment Agreement, dated January 1, 2013, between Sensata Technologies, Inc. and Steven Beringhause (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on January 4, 2013).†
10.37	Intellectual Property License Agreement, dated March 14, 2013, between Sensata Technologies, Inc. and Measurement Specialties, Inc. (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on March 20, 2013).

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10.38	Agreement between Sensata Technologies Holding, N.V. and Sensata Investment Company S.C.A., dated May 10, 2013, to terminate the Administrative Services Agreement (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on May 10, 2013).
10.39	Sensata Technologies Holding N.V. 2010 Equity Incentive Plan, as Amended May 22, 2013 (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed on July 29, 2013).†
10.40	Share Repurchase Agreement, dated as of November 29, 2013, between Sensata Technologies Holding N.V. and Sensata Investment Company S.C.A. (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on December 2, 2013)
10.41	Amendment No. 2 to Credit Agreement dated as of December 11, 2013, to the Credit Agreement dated as of May 12, 2011, by and among Sensata Technologies B.V., Sensata Technologies Finance Company LLC, Sensata Technologies Intermediate Holding B.V., the subsidiary guarantors party thereto, and Morgan Stanley Senior Funding, Inc. (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on December 11, 2013).
10.42	Employment Agreement, entered into on February 4, 2014 between Sensata Technologies, Inc. and Paul S. Vasington (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on February 4, 2014).†
10.43	Share Repurchase Agreement, dated as of May 19, 2014, between Sensata Technologies Holding N.V. and Sensata Investment Company S.C.A. (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on May 20, 2014).
10.44	Stock Purchase Agreement, dated as of July 3, 2014, by and among Sensata Technologies Minnesota, Inc., CoActive Holdings, LLC, and CoActive US Holdings, Inc. (incorporated by reference to Exhibit 2.1 to Current Report on Form 8-K, filed on July 7, 2014).
10.45	Share Purchase Agreement, dated as of August 15, 2014, by and among Sensata Technologies B.V., Sensata Technologies Holding N.V., and Schrader International, Inc. (incorporated by reference to Exhibit 2.1 to Current Report on Form 8-K, filed on August 18, 2014).
10.46	Commitment Letter, dated as of August 15, 2014, by and among Sensata Technologies B.V., Sensata Technologies Finance Company, LLC, Barclays Bank PLC, and Morgan Stanley Senior Funding, Inc. (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on August 18, 2014).
10.47	Amendment No. 3 to Credit Agreement dated as of October 14, 2014, to the Credit Agreement dated as of May 12, 2011, by and among Sensata Technologies B.V., Sensata Technologies Finance Company LLC, Sensata Technologies Intermediate Holding B.V., the subsidiary guarantors party thereto, Barclays Bank PLC and the other lenders party thereto, and Morgan Stanley Senior Funding, Inc. (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on October 17, 2014).
10.48	Amendment No. 4 to Credit Agreement, dated as of November 4, 2014, to the Credit Agreement, dated as of May 12, 2011, by and among Sensata Technologies B.V., Sensata Technologies Finance Company, LLC, Sensata Technologies Intermediate Holding B.V., the subsidiary guarantors party

	thereto, Morgan Stanley Senior Funding, Inc. and the other lenders party thereto (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on November 10, 2014).
21.1	Subsidiaries of Sensata Technologies Holding N.V.*
23.1	Consent of Ernst & Young LLP.*
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	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer. *

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101	The following materials from Sensata's Annual Report on Form 10-K for the year ended December 31, 2014, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012, (ii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013, and 2012, (iii) Consolidated Balance Sheets at December 31, 2014 and 2013, (iv) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2014, 2013 and 2012, (v) Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012, (vi) the Notes to Consolidated Financial Statements, (vii) Schedule I — Condensed Financial Information of the Registrant and (viii) Schedule II — Valuation and Qualifying Accounts.

* Filed herewith.
† Indicates management contract or compensatory plan, contract or arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

SENSATA TECHNOLOGIES HOLDING N.V.

	/s/ MARTHA SULLIVAN
By:	Martha Sullivan
Its:	President and Chief Executive Officer

Date: February 3, 2015

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

SIGNATURE	TITLE	DATE
/S/ MARTHA SULLIVAN Martha Sullivan	President, Chief Executive Officer, and Director (Principal Executive Officer)	February 3, 2015
/S/ PAUL VASINGTON Paul Vasington	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 3, 2015
/S/ THOMAS WROE Thomas Wroe	Chairman of the Board of Directors	February 3, 2015
/S/ LEWIS CAMPBELL Lewis Campbell	Director	February 3, 2015
/S/ MICHAEL JACOBSON Michael Jacobson	Director	February 3, 2015
/S/ JOHN LEWIS John Lewis	Director	February 3, 2015
/S/ PAUL EDGERLEY Paul Edgerley	Director	February 3, 2015
/S/ CHARLES PEFFER Charles Peffer	Director	February 3, 2015
/S/ KIRK POND Kirk Pond	Director	February 3, 2015
/S/ STEPHEN ZIDE Stephen Zide	Director	February 3, 2015
/S/ ANDREW TEICH Andrew Teich	Director	February 3, 2015

/S/ JAMES HEPPELMANN James Heppelmann	Director	February 3, 2015
/S/ MARTHA SULLIVAN Martha Sullivan	Authorized Representative in the United States	February 3, 2015

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