Sensata Technologies Holding N.V.
Form S-1
November 03, 2010
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As filed with the Securities and Exchange Commission on November 3, 2010

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

SENSATA TECHNOLOGIES HOLDING N.V.

(Exact name of registrant as specified in its charter)

The Netherlands	**3823**	**98-0641254**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Number)**	**(I.R.S. Employer Identification Number)**

Kolthofsingel 8, 7602 EM Almelo

The Netherlands

Telephone: 31-546-879-555

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

CT Corporation

111 Eighth Avenue

New York, New York 10011

Telephone: (212) 894-8800

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Dennis M. Myers, P.C.	**Steven P. Reynolds**	**Mark G. Borden**
Jeffrey W. Richards, P.C.	**General Counsel**	**Peter N. Handrinos**
Kirkland & Ellis LLP	**Sensata Technologies, Inc.**	**Wilmer Cutler Pickering Hale and Dorr LLP**
300 North LaSalle	**529 Pleasant Street**	**60 State Street**
Chicago, Illinois 60654	**Attleboro, Massachusetts 02703**	**Boston, Massachusetts 02109**
Telephone: (312) 862-2000	**Telephone: (508) 236-3800**	**Telephone: (617) 526-6000**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed to register additional securities for an offering pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	**Amount to be Registered(1)**	**Proposed Maximum Offering Price per Share(2)**	**Proposed Maximum Aggregate Offering Price(2)**	**Amount of Registration Fee**
Ordinary Shares, 0.01 per share	23,000,000	$22.88	$526,240,000	$37,521

(1) Includes 3,000,000 ordinary shares that the underwriters have the option to purchase to cover over-allotments, if any.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended (the Securities Act), based on the average of high and low prices of ordinary shares on November 1, 2010, as reported on the New York Stock Exchange.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information contained in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)

Issued November 3, 2010

20,000,000 Ordinary Shares

All of the ordinary shares in this offering are being sold by the selling shareholders identified in this prospectus. Sensata Technologies Holding N.V. will not receive any proceeds from the ordinary shares sold by the selling shareholders in this offering.

Our ordinary shares are listed on the New York Stock Exchange under the symbol ST. The last reported sale price of our ordinary shares on the New York Stock Exchange on November 1, 2010 was $22.72 per share.

Investing in our ordinary shares involves risks. See Risk Factors beginning on page 11 of this prospectus.

Price $ Per Share

	Price to Public	*Underwriting Discounts and Commissions*	*Proceeds to Selling Shareholders*
Per Share	$	$	$
Total	$	$	$

To the extent that the underwriters sell more than 20,000,000 ordinary shares, the underwriters have a 30-day option to purchase up to an additional 3,000,000 ordinary shares from the selling shareholders identified in this prospectus on the same terms set forth above. See the section of this prospectus entitled Underwriting.

Neither the Securities and Exchange Commission nor any state securities regulator has approved or disapproved of these securities nor passed upon the accuracy or adequacy of the disclosures in the prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the ordinary shares against payment on or about , 2010.

Morgan Stanley **Barclays Capital** **Goldman, Sachs & Co.**

BofA Merrill Lynch **J.P. Morgan**

Citi **BMO Capital Markets** **Oppenheimer & Co.** **RBC Capital Markets**

, 2010

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You should rely only on the information contained in this prospectus, any free writing prospectus prepared by or on behalf of us or any information to which we have referred you. Neither we, the selling shareholders nor the underwriters have authorized anyone to provide you with information different from that contained in this prospectus. The selling shareholders are offering to sell, and seeking offers to buy, ordinary shares only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date on the front cover of this prospectus, or any other date stated in this prospectus, regardless of the time of delivery of this prospectus or of any sale of our ordinary shares.

Sensata®, *Klixon*®, *Airpax*®, and *Dimensions* and other trademarks or service marks of Sensata appearing in this prospectus are the property of Sensata Technologies Holding N.V. and/or its affiliates. This prospectus also contains additional trade names, trademarks and service marks belonging to us and to other companies. We do not intend our use or display of other parties trademarks, trade names or service marks to imply, and such use or display should not be construed to imply, a relationship with, or endorsement or sponsorship of us by, these other parties.

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PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information, including the section entitled Risk Factors and the consolidated financial statements and related notes, included elsewhere in this prospectus. Because this is a summary, it may not contain all of the information that may be important to you. You should read the entire prospectus and the other documents to which we have referred you before deciding whether to invest in this offering. You should carefully consider, among other things, the matters discussed in Risk Factors.

Unless the context specifically indicates otherwise, references in this prospectus to: (i) we, us, our, the Company and Sensata refer collectively to Sensata Technologies Holding N.V. and its consolidated subsidiaries and their respective predecessors; (ii) the 2006 Acquisition refers to the acquisition of the sensors and controls business, or S&C business, of Texas Instruments Incorporated, or Texas Instruments, on April 27, 2006 by an investor group led by investment funds advised or managed by the principals of Bain Capital Partners, LLC, or Bain Capital; (iii) Sponsors refers collectively to Bain Capital and its co-investors; and (iv) Predecessor for accounting purposes refers to the S&C business with respect to its results of operations for periods prior to the 2006 Acquisition.

SENSATA TECHNOLOGIES HOLDING N.V.

Our Company

Sensata, a global industrial technology company, is a leader in the development, manufacture and sale of sensors and controls. We produce a wide range of customized, innovative sensors and controls for mission-critical applications such as thermal circuit breakers in aircraft, pressure sensors in automotive systems, and bimetal current and temperature control devices in electric motors. We believe that we are one of the largest suppliers of sensors and controls in the majority of the key applications in which we compete and that we have developed our strong market position due to our long-standing customer relationships, technical expertise, product performance and quality and competitive cost structure. We compete in growing global market segments driven by demand for products that are safe, energy-efficient and environmentally friendly. In addition, our long-standing position in emerging markets, including our 15-year presence in China, further enhances our growth prospects. We deliver a strong value proposition to our customers by leveraging an innovative portfolio of core technologies and manufacturing at high volumes in low-cost locations such as China, Mexico, Malaysia and the Dominican Republic.

Our sensors are customized devices that translate a physical phenomenon such as force or position into electronic signals that microprocessors or computer-based control systems can act upon. Our controls are customized devices embedded within systems to protect them from excessive heat or current. Underlying these sensors and controls are core technology platforms thermal and magnetic-hydraulic circuit protection, micro electromechanical systems, ceramic capacitance or capacitive, and monosilicon strain gage that we leverage across multiple products and applications, enabling us to optimize our research, development, and engineering investments and achieve economies of scale.

Our primary products include pressure sensors, force sensors, position sensors, motor protectors, and thermal and magnetic-hydraulic circuit breakers and switches. We develop customized and innovative solutions for specific customer requirements, or applications, across the appliance, automotive, heating, ventilation and air-conditioning, or HVAC, industrial, aerospace, defense, data / telecom, and other end-markets. We have long-standing relationships with a geographically diverse base of leading global original equipment manufacturers, or OEMs, and other multi-national companies. Our largest end-customers for each of our segments within each of our principal operating regions of the Americas, Asia Pacific and Europe include, in alphabetical order: A.O. Smith, Arcelic, Askol, Continental, Danfoss, Emerson, Ford, GM, Honda, Huawei, LG Group, Peugeot, Renault-Nissan, Samsung Electronics, Volkswagen and Whirlpool.

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We develop products that address increasingly complex engineering requirements by investing substantially in research, development and application engineering. By locating our global engineering team in close proximity to key customers in regional business centers, we are exposed to many development opportunities at an early stage and work closely with our customers to deliver the required solutions. Systems development by our customers typically requires significant multi-year investment for certification and qualification, which are often government or customer mandated. We believe the capital commitment and time required for this process significantly increases the switching costs once a customer has designed and installed a particular sensor or control into a system.

We are a global business with a diverse revenue mix by geography, customer and end-market and have significant operations around the world. Our subsidiaries located in the Americas, Europe and the Asia Pacific region generated 43%, 25% and 32%, respectively, of our net revenue for the nine months ended September 30, 2010. Our largest customer accounted for approximately 7% of our net revenue for the nine months ended September 30, 2010. Our net revenue for the nine months ended September 30, 2010 was derived from the following end-markets: 21% from European automotive; 16% from North American automotive; 17% from Asia and rest of world automotive; 14% from appliances and HVAC; 13% from industrial; 6% from heavy vehicle off-road; and 13% from all other end-markets. Within many of our end-markets, we are a significant supplier to multiple OEMs, reducing our exposure to fluctuations in market share within individual end-markets.

We have a history of innovation dating back to our origins. We operated as a part of Texas Instruments from 1959 until we were acquired as a result of the 2006 Acquisition. We then expanded our operations in part through the acquisition of Airpax Holdings, Inc., or Airpax, in July 2007 and First Technology Automotive and Special Products, or First Technology Automotive, in December 2006.

Our Competitive Strengths

We believe we have a number of competitive strengths that differentiate us from our competitors. These include:

Leading positions in high-growth segments. We believe that we are one of the largest suppliers of sensors and controls in the majority of the key applications in which we compete. We attribute our strong market positions to our long-standing customer relationships, technical expertise, breadth of product portfolio, product performance and quality, and competitive cost structure.

Innovative, highly engineered products for mission-critical applications. Most of our products are highly engineered, critical components in complex systems that are essential to the proper functioning of the product in which they are integrated. Our products are differentiated by their performance, reliability and level of customization, which are critical factors in customer selection.

Long-standing local presence in key emerging markets. We believe that our long-standing local presence in key emerging markets such as China, India and Brazil provides us with significant growth opportunities. Our sales into these markets represented approximately 15% of our net revenue for the nine months ended September 30, 2010.

Collaborative, long-term relationships with diversified customer base. We have worked with our top 25 customers for an average of 22 years. As a result of the long development lead times and embedded nature of our products, we collaborate closely with our customers throughout the design and development phase of their products.

High switching costs. The technology-driven, highly customized and integrated nature of our products requires customers to invest heavily in certification and qualification over a one- to three-year period to ensure proper functioning of the system in which our products are embedded. We believe the capital commitment and

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time required for this process significantly increases the switching costs for customers once a particular sensor or control has been designed and installed in a system. In addition, our products are often relatively low-cost components integrated into mission-critical applications for high-value systems.

Attractive cost structure with scale advantage and low-cost footprint. We believe that our global scale and cost-focused approach have provided us with an attractive cost position within our industry. We currently manufacture approximately one billion devices per year, with approximately 90% of our production in low-cost countries including China, Mexico, Malaysia and the Dominican Republic.

Operating model with high cash generation and significant revenue visibility. We believe our strong customer value proposition and cost structure enable us to generate attractive operating margins and return on capital. We believe that our current manufacturing base offers significant capacity to support higher revenue levels. In addition, we believe that our business provides us with significant visibility into new business opportunities based on product development cycles that are typically more than one year, our ability to win design awards in advance of OEM system roll-outs and commercialization and our lengthy product life cycles. Additionally, customer order cycles typically provide us with visibility into more than a majority of our expected quarterly revenues at the start of each quarter.

Experienced management team. Our senior management team has significant collective experience both within our business and in working together managing our business. Our CEO, President and other members of our senior management team have been employed by our company and its predecessor, the S&C business of Texas Instruments, for the majority of their careers.

Our Growth Strategy

We intend to enhance our position as a leading provider of customized, innovative sensors and controls on a global basis. The key elements of our growth strategy include:

Continue product innovation and expansion. We believe our solutions help satisfy the world s need for safety, energy efficiency and a clean environment, as well as address the demand associated with the proliferation of electronic applications in everyday life. We expect to continue to address our customers increased demand for sensor and control solutions with our technology and engineering expertise. We leverage our various core technology platforms across many different products and applications to maximize the impact of our research, development and engineering investments and increase economies of scale.

Expand our presence in significant emerging markets. We believe emerging markets such as China, India, and Brazil represent substantial, rapidly growing opportunities. A growing middle class and rapid industrialization are creating significant demand for electric motors, consumer conveniences (such as appliances), automobiles, and communication infrastructure.

Broaden customer relationships. We believe our global presence and investments in application engineering and support will continue to create competitive advantages in serving multinational and local companies.

Extend low-cost advantage. By focusing on our design-driven cost initiatives and realizing economies of scale in materials and manufacturing, we will continue to strive to significantly reduce costs for our key products. We will also continue to locate our people and processes in the most strategic, cost-effective regions.

Recruit, retain, and develop talent globally. We intend to continue to recruit, develop and retain a highly educated, technically sophisticated and globally dispersed workforce.

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Pursue strategic acquisitions to extend leadership and leverage global platform. We intend to continue to opportunistically pursue selective acquisitions and joint ventures to extend our leadership across global end- markets and applications, realize operational value from our global low-cost footprint, and deliver the right technology solutions for emerging markets. We intend to continue to seek acquisitions that will present attractive risk-adjusted returns and significant value-creation opportunities.

Recent Developments

On October 28, 2010, we announced a definitive agreement to acquire the Automotive on Board sensors business of Honeywell International Inc. for approximately $140 million, subject to a working capital adjustment, in cash, which will be provided from cash on hand. This business is expected to generate approximately $130 million of revenue in 2010. We expect transaction costs within the range of $3 million to $4 million to be incurred in the fourth quarter of 2010 and expect the transaction to close in the first quarter of 2011, subject to regulatory approvals. We believe that this acquisition will expand our leadership in the global automotive sensors market, complement our organic growth in the powertrain segment for our existing pressure products, add new capabilities in light vehicle speed and position sensing, and increase our market share in Asia specifically in China, which we believe to be one of the world s fastest growing automotive sensors market. We expect that we will realize synergies from the integration of this business over 18 to 24 months following the closing. We believe this transaction represents a strategic use of our cash on hand and meets all of our strategic and investment return acquisition criteria. Except as set forth above, we have not included any historical or pro forma financial information regarding the Automotive on Board business in this prospectus as we do not believe such information is material in relation to our historical results of operations.

Risks Associated with Our Company

Investing in our company entails a high degree of risk, as more fully described in the Risk Factors section of this prospectus. You should consider carefully such risks before deciding to invest in our ordinary shares. These risks include, among others:

Continued fundamental changes in the industries in which we operate have had and could continue to have adverse effects on our businesses.

Our products are sold to automobile manufacturers and manufacturers of commercial and residential HVAC systems, as well as to manufacturers in the refrigeration, lighting, aerospace, telecommunications, power supply and generation and industrial markets, among others. These are global industries, and they are experiencing various degrees of growth and consolidation. This, in turn, affects overall demand and prices for our products sold to these industries.

We may incur material losses and costs as a result of product liability and warranty and recall claims that may be brought against us.

We have been and may continue to be exposed to product liability and warranty claims in the event that our products actually or allegedly fail to perform as expected or the use of our products results in, or is alleged to result in, bodily injury and/or property damage. Accordingly, we could experience material warranty or product liability losses in the future and incur significant costs to defend these claims.

Our substantial indebtedness could adversely affect our financial condition and our ability to operate our business, and we may not be able to generate sufficient cash flows to meet our debt service obligations.

Our substantial indebtedness could have important consequences to you. For example, it could make it more difficult for us to satisfy our debt obligations; limit our flexibility in planning for, or reacting to, changes in our business and future business opportunities, thereby placing us at a competitive disadvantage if our competitors are not as highly leveraged; or increase our vulnerability to general adverse economic and industry conditions.

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We have reported significant net losses for fiscal years following the 2006 Acquisition and may not sustain recently achieved profitability in the foreseeable future.

We incurred a significant amount of indebtedness in connection with the 2006 Acquisition and the subsequent acquisitions of First Technology Automotive and Airpax and, as a result, our interest expense has been substantial for periods following the 2006 Acquisition. Due, in part, to this significant interest expense and the amortization of intangible assets also related to these acquisitions, we have reported significant net losses for each fiscal year following the 2006 Acquisition. For the nine months ended September 30, 2010, we reported net income. We repaid a portion of our indebtedness in March and April 2010 with proceeds from our initial public offering; however, we continue to have a significant amount of indebtedness. Due to the significant interest expense associated with the remaining indebtedness and the continued amortization of intangible assets, we cannot assure you that we will sustain recently achieved profitability in the foreseeable future.

ADDITIONAL INFORMATION

The address of our registered office and principal executive office is Kolthofsingel 8, 7602 EM Almelo, the Netherlands, and its telephone number is 31-546-879-555. Our principal U.S. operating subsidiary is Sensata Technologies, Inc., a Delaware corporation, or STI. The address for STI is 529 Pleasant Street, Attleboro, Massachusetts 02703, and its telephone number is (508) 236-3800. Our website address is *www.sensata.com*. The information on, or accessible through, our website is not part of this prospectus.

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THE OFFERING

Ordinary shares offered by the selling shareholders	20,000,000 shares.
Ordinary shares to be outstanding immediately after this offering	172,978,041 shares.
Option to purchase additional ordinary shares	The underwriters have an option to purchase a maximum of 3,000,000 additional ordinary shares from the selling shareholders identified in this prospectus. The underwriters can exercise this option at any time within 30 days from the date of this prospectus.
Use of proceeds	The selling shareholders will receive all of the net proceeds from the sale of the ordinary shares in this offering. We will not receive any of the proceeds from the ordinary shares sold by the selling shareholders.
Risk factors	Investing in our ordinary shares involves a high degree of risk. See Risk Factors beginning on page 11 of this prospectus for a discussion of factors you should carefully consider before investing in our ordinary shares.
New York Stock Exchange symbol	ST

The number of ordinary shares that will be outstanding immediately after this offering is based on:

- 172,520,930 ordinary shares outstanding as of November 1, 2010, which includes 358,698 legally issued ordinary shares that are subject to forfeiture until such shares have vested and are not considered outstanding for accounting purposes; and

- 457,111 ordinary shares to be issued upon the exercise of outstanding stock options by the selling shareholders in connection with this offering at a weighted-average exercise price of $7.05 per share;

and excludes:

- an award for up to 45,900 ordinary shares that are subject to vesting based on achievement of specified performance and service conditions;

- 10,923,125 ordinary shares issuable upon the exercise of outstanding stock options at a weighted-average exercise price of $8.58 per share; and

5,455,845 ordinary shares reserved for future issuance under our equity incentive plans and employee stock purchase plan following this offering.

Except as otherwise indicated herein, all information in this prospectus, including the number of ordinary shares that will be outstanding after this offering, assumes no exercise of the underwriters option.

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SUMMARY HISTORICAL FINANCIAL DATA

Set forth below is summary historical consolidated financial data of Sensata for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2009 and 2010. The summary historical data as of December 31, 2009 and for the years ended December 31, 2007, 2008 and 2009 has been derived from our audited historical financial statements included elsewhere in this prospectus. The summary historical data as of September 30, 2010 and for the nine months ended September 30, 2009 and 2010 has been derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. Our unaudited condensed consolidated financial statements have been prepared on the same basis as the audited financial statements and reflect all adjustments, consisting of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods. Our historical results are not necessarily indicative of the results that may be expected in the future. This information is only a summary and should be read in conjunction with our historical financial statements and the related notes thereto and other financial information appearing elsewhere in this prospectus, including Use of Proceeds, Capitalization, Selected Consolidated and Combined Historical Financial Data, and Management s Discussion and Analysis of Financial Condition and Results of Operations.

	For the year ended December 31,			For the nine months ended September 30,	
(Amounts in thousands, except per share amounts)	**2007**	**2008**	**2009**	**2009**	**2010**
Statement of Operations Data:					
Net revenue	$ 1,403,254	$ 1,422,655	$ 1,134,944	$ 796,855	$ 1,152,237
Operating costs and expenses:					
Cost of revenue	944,765	951,763	742,080	521,154	712,019
Research and development	33,891	38,256	16,796	12,692	17,253
Selling, general and administrative[1]	166,065	166,625	126,952	95,301	156,013
Amortization of intangible assets and capitalized software	131,064	148,762	153,081	115,060	108,309
Impairment of goodwill and intangible assets		13,173	19,867	19,867	
Restructuring	5,166	24,124	18,086	18,033	196
Total operating costs and expenses	1,280,951	1,342,703	1,076,862	782,107	993,790
Profit/(loss) from operations	122,303	79,952	58,082	14,748	158,447
Interest expense	(191,161)	(197,840)	(150,589)	(115,373)	(82,170)
Interest income	2,574	1,503	573	471	634
Currency translation (loss)/gain and other, net[2]	(105,449)	55,467	107,695	94,101	20,525
(Loss)/income from continuing operations before taxes	(171,733)	(60,918)	15,761	(6,053)	97,436
Provision for income taxes	62,504	53,531	43,047	35,165	35,996
(Loss)/income from continuing operations	(234,237)	(114,449)	(27,286)	(41,218)	61,440
Loss from discontinued operations	(18,260)	(20,082)	(395)	(395)	
Net (loss)/income[3]	$ (252,497)	$ (134,531)	$ (27,681)	$ (41,613)	$ 61,440
Net (loss)/income per share basic:					
Continuing operations	$ (1.62)	$ (0.79)	$ (0.19)	$ (0.29)	$ 0.37
Discontinued operations	(0.13)	(0.14)	(0.00)	(0.00)	
Net (loss)/income per share basic	$ (1.75)	$ (0.93)	$ (0.19)	$ (0.29)	$ 0.37
Net (loss)/income per share diluted:					
Continuing operations	$ (1.62)	$ (0.79)	$ (0.19)	$ (0.29)	$ 0.36
Discontinued operations	(0.13)	(0.14)	(0.00)	(0.00)	

Net (loss)/income per share diluted	$ (1.75)	$ (0.93)	$ (0.19)	$ (0.29)	$ 0.36
Weighted-average ordinary shares outstanding basic	144,054	144,066	144,057	144,057	164,122
Weighted-average ordinary shares outstanding diluted	144,054	144,066	144,057	144,057	170,651
Other Financial Data:					
Net cash provided by/(used in):					
Operating activities	$ 155,278	$ 47,481	$ 187,577	$ 127,724	$ 201,678
Investing activities	(355,710)	(38,713)	(15,077)	(10,630)	(34,725)
Financing activities	175,736	8,891	(101,748)	3,342	87,501
Capital expenditures	66,701	40,963	14,959	11,527	35,089
EBITDA[(4)] (unaudited)	187,862	315,460	366,890	257,519	316,753

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(Amounts in thousands)	As of December 31, 2009	As of September 30, 2010
Balance Sheet Data:		
Cash and cash equivalents	$ 148,468	$ 402,922
Working capital[5]	245,445	524,325
Total assets	3,166,870	3,339,466
Total debt, including capital lease and other financing obligations	2,300,826	1,913,808
Total shareholders equity	387,158	919,852

(1) For the nine months ended September 30, 2010, selling, general and administrative expense includes $18.9 million recorded as a cumulative catch-up adjustment for previously unrecognized compensation expense associated with the Tranche 2 and 3 option awards and the related modification, and $22.4 million in fees related to the termination of the advisory agreement with the Sponsors at their option. See Executive Compensation Components of Compensation Equity Compensation and Certain Relationships and Related Party Transactions Advisory Agreement.

(2) Currency translation (loss)/gain and other, net for the years ended December 31, 2008 and 2009 and for the nine months ended September 30, 2009 and 2010 includes (losses)/gains of $15.0 million, $120.1 million, $120.1 million and $(23.5) million, respectively, recognized on repurchases of 8% Senior Notes, 9% Senior Subordinated Notes and 11.25% Senior Subordinated Notes as well as currency translation (loss)/gain associated with the Euro-denominated debt of $53.2 million, $(13.6) million, $(28.5) million and $53.8 million, respectively. Currency translation (loss)/gain and other, net for the year ended December 31, 2007 primarily includes currency translation loss associated with the Euro-denominated debt of $(111.9) million.

(3) Included within net (loss)/income for the periods presented were the following expenses:

				(unaudited)	
	For the year ended December 31,			For the nine months ended September 30,	
(Amounts in thousands)	2007	2008	2009	2009	2010
Amortization and depreciation expense related to the step-up in fair value of fixed and intangible assets[a]	$ 154,296	$ 160,594	$ 157,797	$ 117,677	$ 109,280
Deferred income tax expense and other tax expense	46,126	29,980	26,592	25,696	31,494
Amortization expense of deferred financing costs	9,640	10,698	9,055	6,775	6,512
Interest expense related to uncertain tax positions	1,747	43	823	754	387

(a) Amortization and depreciation expense related to the step-up in fair value of fixed and intangible assets relates to the acquisition of the S&C business of Texas Instruments, First Technology Automotive and Airpax and the step-up in the fair value of these assets through purchase accounting.

(4) We present EBITDA in this prospectus to provide investors with a supplemental measure of our operating performance. EBITDA is a non-GAAP financial measure. We define EBITDA as net (loss)/income before interest, taxes, depreciation and amortization. We believe EBITDA assists our board of directors, management and investors in comparing our operating performance on a consistent basis because it removes the impact of our capital structure (such as interest expense), asset base (such as depreciation and amortization) and tax structure. The use of EBITDA has limitations and you should not consider this performance measure in isolation from or as an alternative to U.S. GAAP measures such as net (loss)/income.

The following table summarizes the calculation of EBITDA and provides a reconciliation from net (loss)/income, the most directly comparable financial measure presented in accordance with U.S. GAAP, for the periods presented:

				(unaudited)	
	For the year ended December 31,			For the nine months ended September 30,	
(Amounts in thousands)	2007	2008	2009	2009	2010
Net (loss)/income	$ (252,497)	$ (134,531)	$ (27,681)	$ (41,613)	$ 61,440
Provision for income taxes	62,504	53,531	43,047	35,165	35,996
Interest expense, net	188,587	196,337	150,016	114,902	81,536
Depreciation and amortization	189,268	200,123	201,508	149,065	137,781

EBITDA	$ 187,862	$ 315,460	$ 366,890	$ 257,519	$ 316,753

Following the 2006 Acquisition, our senior management, together with our Sponsors, developed a series of strategic initiatives to better position us for future revenue growth and an improved cost structure. This plan has been modified from time to time to reflect changes in overall market conditions and the competitive environment facing our business. These initiatives have included, among other items, acquisitions, divestitures, restructurings of certain operations and various financing transactions. In connection with these activities, we incurred certain costs and expenses included in EBITDA that we have further described below and believe are important to consider in evaluating our operating performance over this period.

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The following table summarizes certain expenses, losses and gains included in EBITDA for the periods presented:

(Amounts in thousands)	For the year ended December 31, 2007	2008	2009	(unaudited) For the nine months ended September 30, 2009	2010
Supplemental Information:					
Acquisition, integration and financing costs and other significant items:					
Transition costs[a]	$ 16,768	$ 4,052	$ 23	$ 23	$
Litigation costs[b]	4,006	840	147	76	
Integration and finance costs[c]	13,649	20,931	2,813	3,029	
Relocation and disposition costs[d]	114	12,828	8,202	7,319	
Pension charges[e]		3,588	4,828	4,702	
Inventory step-up[f]	4,454				
IPR&D write-off[g]	5,700				
Other[h]	3,123	27,106	6,972	5,505	
Subtotal	47,814	69,345	22,985	20,654	
Impairment of goodwill and intangible assets[i]		13,173	19,867	19,867	
Severance and other termination costs associated with downsizing[j]	5,166	12,282	12,276	12,121	209
Stock compensation[k]	2,015	2,108	2,233	1,174	4,783
Management fees[l]	4,000	4,000	4,000	3,000	
Subtotal	58,995	100,908	61,361	56,816	4,992
(Gain)/loss on extinguishment of debt[m]		(14,961)	(120,123)	(120,123)	23,474
Costs related to initial public offering[n]					43,298
Currency translation loss/(gain) on debt[o]	111,946	(53,209)	15,301	28,482	(48,460)
Other[p]	(25)	123	973	(594)	3,682
Total	$ 170,916	$ 32,861	$ (42,488)	$ (35,419)	$ 26,986

(a) Represents transition costs incurred by us in becoming a stand-alone company, one of our subsidiaries becoming an SEC reporting company and complying with Section 404 of the Sarbanes-Oxley Act of 2002.
(b) Represents litigation costs we recognized related to customers alleging defects in certain of our products, which were manufactured and sold prior to April 27, 2006 (inception).
(c) Represents integration and financing costs related to the acquisitions of Airpax, First Technology Automotive and SMaL Camera Technologies, Inc., or SMaL Camera, and other consulting and advisory fees associated with acquisitions and financings, whether or not consummated.
(d) Represents costs we incurred to move certain operations to lower-cost Sensata locations, close certain manufacturing operations and dispose of the SMaL Camera business.
(e) Represents pension curtailment and settlement losses, and amortization of prior service costs associated with various restructuring activities.
(f) Represents the impact on our cost of revenue from the increase in the carrying value of the inventory that was adjusted to fair value as a result of the application of purchase accounting to the acquisitions of the S&C business of Texas Instruments, Airpax and First Technology Automotive.
(g) Represents the charge we recorded for acquired in-process research and development associated with our acquisition of SMaL Camera in March 2007.
(h) Represents other (gains)/losses, including impairment losses associated with certain assets held for sale, losses related to the early termination of commodity forward contracts of $7.2 million during fiscal year 2008, a loss of $13.4 million during fiscal year 2008 associated with a settlement with a significant automotive customer that alleged defects in certain of our products installed in its automobiles, and a reserve associated with the Whirlpool recall litigation. See Management s Discussion and Analysis of Financial Condition and Results of Operations Legal Proceedings.
(i) Represents the impairment of goodwill and intangible assets associated with a reporting unit within our controls business segment and relates to products used in the semiconductor business.
(j) Represents severance, outplacement costs and special termination benefits associated with the downsizing of various manufacturing facilities and our corporate office.
(k) Represents share-based compensation expense recorded in accordance with ASC Topic 718, *Compensation Stock Compensation*, excluding $18.9 million related to the cumulative catch-up adjustment for previously unrecognized compensation expense associated with the Tranche 2 and 3 option awards and the related modification. See Executive Compensation Components of Compensation Equity Compensation.
(l)

Represents fees expensed under the terms of the advisory agreement with our Sponsors. This agreement was terminated in connection with the completion of our initial public offering. See Certain Relationships and Related Party Transactions Advisory Agreement.

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(m) Relates to the repurchases of outstanding notes.

(n) Represents costs recorded as expenses related to our initial public offering in March 2010, including $18.9 million recorded as a cumulative catch-up adjustment for previously unrecognized compensation expense associated with the Tranche 2 and 3 option awards and the related modification, and $22.4 million in fees related to the termination of the advisory agreement with the Sponsors at their option. See Executive Compensation Components of Compensation Equity Compensation and Certain Relationships and Related Party Transactions Advisory Agreement.

(o) Reflects the losses/(gains) associated with the translation of our Euro-denominated debt into U.S. dollars and losses/(gains) on related hedging transactions.

(p) Represents unrealized (gains)/losses on commodity forward contracts and estimated potential penalty expenses associated with uncertain tax positions, and in addition, for the nine months ended September 30, 2010, expense associated with the reversal of tax indemnification assets and other tax-related assets of $5.2 million.

See Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information regarding certain of these items.

(5) We define working capital as current assets less current liabilities.

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RISK FACTORS

Investing in our ordinary shares involves a high degree of risk. You should carefully consider the risks described below, as well as other information included in this prospectus, before making an investment decision. The risks described below are not the only ones facing us. The occurrence of any of the following risks or additional risks and uncertainties not presently known to us or that we currently believe to be immaterial could materially and adversely affect our business, financial condition or results of operations. In such case, the trading price of our ordinary shares could decline, and you may lose all or part of your original investment. Before deciding whether to invest in our ordinary shares, you should also refer to the other information contained in this prospectus, including our consolidated financial statements and related notes.

Risk Factors Related To Our Business

Continued fundamental changes in the industries in which we operate have had and could continue to have adverse effects on our businesses.

Our products are sold to automobile manufacturers and manufacturers of commercial and residential HVAC systems, as well as to manufacturers in the refrigeration, lighting, aerospace, telecommunications, power supply and generation and industrial markets, among others. These are global industries, and they are experiencing various degrees of growth and consolidation. Customers in these industries are located in every major geographic market. As a result, our customers are affected by changes in global and regional economic conditions, as well as by labor relations issues, regulatory requirements, trade agreements and other factors. These factors, in turn, affect overall demand and prices for our products sold to these industries. Changes in the industries in which we operate may be more detrimental to us in comparison to our competitors due to our significant levels of debt. In addition, many of our products are platform-specific for example, sensors are designed for certain of our HVAC manufacturer customers according to specifications to fit a particular model. Our success may, to a certain degree, be connected with the success or failure of one or more of the industries to which we sell products, either in general or with respect to one or more of the platforms or systems for which our products are designed.

Continued pricing and other pressures from our customers may adversely affect our business.

Many of our customers, including automotive manufacturers and other industrial and commercial OEMs, have policies of seeking price reductions each year. Recently, many of the industries in which our products are sold have suffered from unfavorable pricing pressures in North America and Europe, which in turn has led manufacturers to seek price reductions from their suppliers. Our significant reliance on these industries subjects us to these and other similar pressures. If we are not able to offset continued price reductions through improved operating efficiencies and reduced expenditures, those price reductions may have a material adverse effect on our results of operations and cash flows. In addition, our customers occasionally require engineering, design or production changes. In some circumstances, we may be unable to cover the costs of these changes with price increases. Additionally, as our customers grow larger, they may increasingly require us to provide them with our products on an exclusive basis, which could cause an increase in the number of products we must carry and, consequently, increase our inventory levels and working capital requirements. Certain of our customers, particularly domestic automotive manufacturers, are increasingly requiring their suppliers to agree to their standard purchasing terms without deviation as a condition to engage in future business transactions. As a result, we may find it difficult to enter into agreements with such customers on terms that are commercially reasonable to us.

Conditions in the automotive industry have had and may continue to have adverse effects on our results of operations.

Much of our business depends on and is directly affected by the global automobile industry. Sales to customers in the automotive industry accounted for approximately 54% of our total revenue for the nine months ended September 30, 2010. Automakers and their suppliers globally continue to experience significant difficulties from a weakened economy and tightening credit markets. Globally, many automakers and their suppliers are in financial distress. Continued adverse developments in the automotive industry, including but not limited to continued declines in demand, customer bankruptcies and increased demands on us for pricing decreases, would have adverse effects on our results of operations and could impact our liquidity position and our ability to meet restrictive debt covenants. In addition, these same conditions could adversely impact certain of our vendors financial solvency, resulting in potential liabilities or additional costs to us to ensure uninterrupted supply to our customers.

Our ability to operate our business effectively could be impaired if we fail to attract and retain key personnel.

Our ability to operate our business and implement our strategies effectively depends, in part, on the efforts of our executive officers and other key employees. Our management team has significant industry experience and would be difficult to replace. These individuals possess sales, marketing, engineering, manufacturing, financial and administrative skills that are critical to the operation of our business. In addition, the market for engineers and other individuals with the required technical expertise to succeed in our business is highly competitive and we may be unable to attract and retain qualified personnel to replace or succeed key employees should the need arise. During 2008 and 2009, we completed certain reductions in force at a number of our sites in order to align our business operations with current and projected economic conditions. The loss of the services of any of our key employees or the failure to attract or retain other qualified personnel could have a material adverse effect on our business.

If we fail to maintain our existing relationships with our customers, our exposure to industry and customer specific demand fluctuations could increase and our revenue may decline as a result.

Our customers consist of a diverse base of OEMs across the automotive, HVAC, appliance, industrial, aerospace, defense and other end-markets in various geographic locations throughout the world. In the event that we fail to maintain our relationships with our existing customers and such failure increases our dependence on particular markets or customers, then our revenue would be exposed to greater industry and customer specific demand fluctuations, and could decline as a result.

We are subject to risks associated with our non-U.S. operations, which could adversely impact the reported results of operations from our international businesses.

Our subsidiaries outside of the Americas generated approximately 57% of our net revenue for the nine months ended September 30, 2010, and we expect sales from non-U.S. markets to continue to represent a significant portion of our total sales. International sales and operations are subject to changes in local government regulations and policies, including those related to tariffs and trade barriers, investments, taxation, exchange controls and repatriation of earnings.

A significant portion of our revenue, expenses, receivables and payables are denominated in currencies other than U.S. dollars. We are, therefore, subject to foreign currency risks and foreign exchange exposure. Changes in the relative values of currencies occur from time to time and could affect our operating results. For financial reporting purposes, the functional currency that we use 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 Currency translation gain/(loss) and other, net. During times of a weakening U.S. dollar, our reported international sales and earnings will increase because the non-U.S. currency will translate into more U.S. dollars. Conversely, during times of a strengthening U.S. dollar, our reported international sales and earnings will be reduced because the local currency will translate into fewer U.S. dollars.

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There are other risks that are inherent in our non-U.S. operations, including the potential for changes in socio-economic conditions and/or monetary and fiscal policies, intellectual property protection difficulties and disputes, the settlement of legal disputes through certain foreign legal systems, the collection of receivables through certain foreign legal systems, exposure to possible expropriation or other government actions, unsettled political conditions and possible terrorist attacks against American interests. These and other factors may have a material adverse effect on our non-U.S. operations and, therefore, on our business and results of operations.

Our businesses operate in markets that are highly competitive, and competitive pressures could require us to lower our prices or result in reduced demand for our products.

Our businesses operate in markets that are highly competitive, and we compete on the basis of product performance, quality, service and/or price across the industries and markets we serve. A significant element of our competitive strategy is to manufacture high-quality products at low-cost, particularly in markets where low-cost country-based suppliers, primarily China with respect to the controls business, have entered our markets or increased their sales in our markets by delivering products at low-cost to local OEMs. Some of our competitors have greater sales, assets and financial resources than we do. In addition, many of our competitors in the automotive sensors market are controlled by major OEMs or suppliers, limiting our access to certain customers. Many of our customers also rely on us as their sole source of supply for many of the products we have historically sold to them. These customers may choose to develop relationships with additional suppliers or elect to produce some or all of these products internally, in each case in order to reduce risk of delivery interruptions or as a means of extracting pricing concessions. Certain of our customers currently have, or may develop in the future, the capability of internally producing the products we sell to them and may compete with us with respect to those and other products with respect to other customers. For example, Robert Bosch Gmbh, who is one of our largest customers with respect to our control products, also competes with us with respect to certain of our sensors products. Competitive pressures such as these, and others, could affect prices or customer demand for our products, negatively impacting our profit margins and/or resulting in a loss of market share.

We may not be able to keep up with rapid technological and other competitive changes affecting our industry.

The sensors and controls markets are characterized by rapidly changing technology, evolving industry standards, frequent enhancements to existing services and products, the introduction of new services and products and changing customer demands. Changes in competitive technologies may render certain of our products less attractive or obsolete, and if we cannot anticipate changes in technology and develop and introduce new and enhanced products on a timely basis, our ability to remain competitive may be negatively impacted. The success of new products depends on their initial and continued acceptance by our customers. Our businesses are affected by varying degrees of technological change, which result in unpredictable product transitions, shortened lifecycles and increased importance of being first to market with new products and services. We may experience difficulties or delays in the research, development, production and/or marketing of new products, which may negatively impact our operating results and prevent us from recouping or realizing a return on the investments required to bring new products to market.

As part of our ongoing cost containment program designed to align our operations with economic conditions, we have had to make, and will likely continue to make, adjustments to both the scope and breadth of our overall research and development program. Such actions may result in choices that could adversely affect our ability to either take advantage of emerging trends or to develop new technologies or make sufficient advancements to existing technologies.

We may not be able to protect our intellectual property, including our proprietary technology and the Sensata, Klixon, Airpax and Dimensions brands.

Our success depends to some degree on our ability to protect our intellectual property and to operate without infringing on the proprietary rights of third parties. If we fail to adequately protect our intellectual property, competitors may manufacture and market products similar to ours. We have sought and may continue from time

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to time to seek to protect our intellectual property rights through litigation. These efforts might be unsuccessful in protecting such rights and may adversely affect our financial performance and distract our management. We also cannot be sure that competitors will not challenge, invalidate or void the application of any existing or future patents that we receive or license. In addition, patent rights may not prevent our competitors from developing, using or selling products that are similar or functionally equivalent to our products. It is also possible that third parties may have or acquire licenses for other technology or designs that we may use or wish to use, so that we may need to acquire licenses to, or contest the validity of, such patents or trademarks of third parties. Such licenses may not be made available to us on acceptable terms, if at all, and we may not prevail in contesting the validity of third-party rights.

In addition to patent and trademark protection, we also protect trade secrets, know-how and other proprietary information, as well as brand names such as the Sensata, Klixon, Airpax and Dimensions brands under which we market many of the products sold in our controls business, against unauthorized use by others or disclosure by persons who have access to them, such as our employees, through contractual arrangements. These arrangements may not provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. Disputes may arise concerning the ownership of intellectual property or the applicability of confidentiality agreements, and we cannot be sure that our trade secrets and proprietary technology will not otherwise become known or that our competitors will not independently develop our trade secrets and proprietary technology. If we are unable to maintain the proprietary nature of our technologies, our sales could be materially adversely affected.

We may be subject to claims that our products or processes infringe the intellectual property rights of others, which may cause us to pay unexpected litigation costs or damages, modify our products or processes or prevent us from selling our products.

Third parties may claim that our processes and products infringe on their intellectual property rights. Whether or not these claims have merit, we may be subject to costly and time-consuming legal proceedings, and this could divert our management s attention from operating our business. If these claims are successfully asserted against us, we could be required to pay substantial damages and could be prevented from selling some or all of our products. We may also be obligated to indemnify our business partners or customers in any such litigation. Furthermore, we may need to obtain licenses from these third parties or substantially reengineer or rename our products in order to avoid infringement. In addition, we might not be able to obtain the necessary licenses on acceptable terms, or at all, or be able to reengineer or rename our products successfully. If we are prevented from selling some or all of our products, our sales could be materially adversely affected.

Increasing costs for manufactured components and raw materials may adversely affect our profitability.

We use a broad range of manufactured components and raw materials in the manufacture of our products, including silver, gold, nickel, aluminum and copper, which may experience significant volatility in their prices. We generally purchase raw materials at spot prices. We first entered into hedge arrangements in 2007 and may continue to do so from time to time in the future. Such hedges might not be economically successful. In addition, these hedges do not qualify as accounting hedges in accordance with U.S. GAAP. Accordingly, the change in fair value of these hedges is recognized in earnings immediately, which could cause volatility in our results of operations from quarter to quarter. The availability and price of raw materials and manufactured components may be subject to change due to, among other things, new laws or regulations, global economic or political events including strikes, terrorist actions and war, suppliers allocations to other purchasers, interruptions in production by suppliers, changes in exchange rates and prevailing price levels. It is generally difficult to pass increased prices for manufactured components and raw materials through to our customers in the form of price increases. Therefore, a significant increase in the price of these items could materially increase our operating costs and materially and adversely affect our profit margins.

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We may incur material losses and costs as a result of product liability and warranty and recall claims that may be brought against us.

We have been and may continue to be exposed to product liability and warranty claims in the event that our products actually or allegedly fail to perform as expected or the use of our products results, or is alleged to result, in death, bodily injury and/or property damage. Accordingly, we could experience material warranty or product liability losses in the future and incur significant costs to defend these claims. In addition, if any of our products are, or are alleged to be, defective, we may be required to participate in a recall of the underlying end product, particularly if the defect or the alleged defect relates to product safety. Depending on the terms under which we supply products, an OEM may hold us responsible for some or all of the repair or replacement costs of these products under warranties, when the product supplied did not perform as represented. In addition, a product recall could generate substantial negative publicity about our business and interfere with our manufacturing plans and product delivery obligations as we seek to repair affected products. Our costs associated with product liability, warranty and recall claims could be material.

We may not be successful in recovering damages, including those associated with product liability and warranty and recall claims, from Texas Instruments under the terms of our acquisition agreement entered into with Texas Instruments in connection with the 2006 Acquisition.

Texas Instruments has agreed in the 2006 Acquisition to indemnify us for certain claims and litigation. Texas Instruments is not required to indemnify us for these claims until the aggregate amount of damages from such claims exceeds $30.0 million. If the aggregate amount of these claims exceeds $30.0 million, Texas Instruments is obligated to indemnify us for amounts in excess of the $30.0 million threshold. Texas Instruments indemnification obligation is capped at $300.0 million. Based on claims to date, we believe that the aggregate amount of damages from these claims will ultimately exceed $30.0 million. See Business Legal Proceedings included elsewhere in this prospectus. There can be no assurance that we will be successful in recovering amounts from Texas Instruments.

Our substantial indebtedness could adversely affect our financial condition and our ability to operate our business, and we may not be able to generate sufficient cash flows to meet our debt service obligations.

As of September 30, 2010, we had $1,913.8 million of outstanding indebtedness, including $1,428.8 million of indebtedness under our Senior Secured Credit Facility (excluding availability under our revolving credit facility and outstanding letters of credit), $442.3 million of outstanding Senior Notes and Senior Subordinated Notes and $42.7 million of capital lease and other financing obligations. We may also incur additional indebtedness in the future. Our substantial indebtedness could have important consequences. For example, it could:

- make it more difficult for us to satisfy our debt obligations;
- restrict us from making strategic acquisitions;
- limit our flexibility in planning for, or reacting to, changes in our business and future business opportunities, thereby placing us at a competitive disadvantage if our competitors are not as highly leveraged;

increase our vulnerability to general adverse economic and industry conditions; or

require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness if we do not maintain specified financial ratios, thereby reducing the availability of our cash flow for other purposes.

In addition, our Senior Secured Credit Facility and the indentures governing our Senior Notes and Senior Subordinated Notes permit us to incur substantial additional indebtedness in the future. As of September 30, 2010, we had $143.1 million available to us for additional borrowing under our $150.0 million revolving credit facility portion of our Senior Secured Credit Facility. If we increase our indebtedness by borrowing under the revolving credit facility or incur other new indebtedness, the risks described above would increase.

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Labor disruptions or increased labor costs could adversely affect our business.

As of September 30, 2010, we had approximately 9,800 employees, of whom approximately 9% were located in the United States. None of our employees are covered by collective bargaining agreements. In various countries, local law requires our participation in works councils. A material labor disruption or work stoppage at one or more of our manufacturing facilities could have a material adverse effect on our business. In addition, work stoppages occur relatively frequently in the industries in which many of our customers operate, such as the automotive industry. If one or more of our larger customers were to experience a material work stoppage, that customer may halt or limit the purchase of our products. This could cause us to shut down production facilities relating to those products, which could have a material adverse effect on our business, results of operations and financial condition.

The loss of one or more of our suppliers of finished goods or raw materials may interrupt our supplies and materially harm our business.

We purchase raw materials and components from a wide range of suppliers. For certain raw materials or components, however, we are dependent on sole source suppliers. We generally obtain these raw materials and components through individual purchase orders executed on an as needed basis rather than pursuant to long-term supply agreements. Our ability to meet our customers needs depends on our ability to maintain an uninterrupted supply of raw materials and finished products from our third-party suppliers and manufacturers. Our business, financial condition or results of operations could be adversely affected if any of our principal third-party suppliers or manufacturers experience production problems, lack of capacity or transportation disruptions or otherwise determine to cease producing such raw materials or components. The magnitude of this risk depends upon the timing of the changes, the materials or products that the third-party manufacturers provide and the volume of the production. We may not be able to make arrangements for transition supply and qualifying replacement suppliers in both a cost effective and timely manner. See Management s Discussion and Analysis of Financial Condition and Results of Operations Off-Balance Sheet Arrangements.

Our dependence on third parties for raw materials and components subjects us to the risk of supplier failure and customer dissatisfaction with the quality of our products. Quality failures by our third-party manufacturers or changes in their financial or business condition which affect their production could disrupt our ability to supply quality products to our customers and thereby materially harm our business.

Non-performance by our suppliers may adversely affect our operations.

Because we purchase various types of raw materials and component parts from suppliers, we may be materially and adversely affected by the failure of those suppliers to perform as expected. This non-performance may consist of delivery delays or failures caused by production issues or delivery of non-conforming products. The risk of non-performance may also result from the insolvency or bankruptcy of one or more of our suppliers.

Our efforts to protect against and to minimize these risks may not always be effective. We may occasionally seek to engage new suppliers with which we have little or no experience. For example, we do not have a prior relationship with all of the suppliers that we are qualifying for the supply of contacts. The use of new suppliers can pose technical, quality and other risks.

We depend on third parties for certain transportation, warehousing and logistics services.

We rely primarily on third parties for transportation of the products we manufacture. In particular, a significant portion of the goods we manufacture are transported to different countries, requiring sophisticated warehousing, logistics and other resources. If any of the countries from which we transport products were to suffer delays in exporting manufactured goods, or if any of our third-party transportation providers were to fail to deliver the goods we manufacture in a timely manner, we may be unable to sell those products at full value, or at all. Similarly, if any of our raw materials could not be delivered to us in a timely manner, we may be unable to manufacture our products in response to customer demand.

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A material disruption at one of our manufacturing facilities could harm our financial condition and operating results.

If one of our manufacturing facilities were to be shut down unexpectedly, or certain of our manufacturing operations within an otherwise operational facility were to cease production unexpectedly, our revenue and profit margins would be adversely affected. Such a disruption could be caused by a number of different events, including:

- maintenance outages;
- prolonged power failures;
- an equipment failure;
- fires, floods, earthquakes or other catastrophes;
- potential unrest or terrorist activity;
- labor difficulties; or
- other operational problems.

In addition, approximately 95% of our products are manufactured at facilities located outside the United States. Serving a global customer base requires that we place more production in emerging markets, such as China, Mexico and Malaysia, to capitalize on market opportunities and maintain our low-cost position. Our international production facilities and operations could be particularly vulnerable to the effects of a natural disaster, labor strike, war, political unrest, terrorist activity or public health concerns, especially in emerging countries that are not well-equipped to handle such occurrences. Our manufacturing facilities abroad may also be more susceptible to changes in laws and policies in host countries and economic and political upheaval than our domestic facilities. If any of these or other events were to result in a material disruption of our manufacturing operations, our ability to meet our production capacity targets and satisfy customer requirements may be impaired.

We may not realize all of the revenue or achieve anticipated gross margins from products subject to existing purchase orders or for which we are currently engaged in development.

Our ability to generate revenue from products subject to customer awards is subject to a number of important risks and uncertainties, many of which are beyond our control, including the number of products our customers will actually produce as well as the timing of such production. Many of our customer contracts provide for supplying a certain share of the customer s requirements for a particular application or platform, rather than for manufacturing a specific quantity of products. In some cases we have no remedy if a customer chooses to purchase less than we expect. In cases where customers do make minimum volume commitments to us, our remedy for their failure to meet those minimum volumes is limited to increased pricing on those products the customer does purchase from us or renegotiating other contract terms. There is no assurance that such price increases or new terms will offset a shortfall in expected revenue. In addition, some of our customers may have the right to discontinue a program or replace us with another supplier under certain circumstances. As a result, products for which we are currently incurring development expenses may not be manufactured by customers at all, or may be manufactured in smaller amounts than currently anticipated. Therefore, our anticipated future revenue from products relating to existing customer awards or product development relationships may not result in firm orders from customers for the same amount. We also incur capital expenditures and other costs, and price our products, based on estimated production volumes. If actual production volumes were significantly lower than estimated, our anticipated revenue and gross margin from those new products would be adversely affected. We cannot predict the ultimate demand for our customers products, nor can we predict the extent to which we would be able to pass through unanticipated per-unit cost increases to our customers.

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Compliance with Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, may be costly with no assurance of maintaining effective internal controls over financial reporting.

We will likely experience significant operating expenses in connection with maintaining our internal control environment and Section 404 compliance activities. In addition, if we are unable to efficiently maintain effective internal controls over financial reporting, our operations may suffer and we may be unable to obtain an attestation on internal controls from our independent registered public accounting firm when required under the Sarbanes-Oxley Act of 2002. Recent cost reduction actions, including the loss of experienced finance and administrative personnel, may adversely effect our ability to maintain effective internal controls. This, in turn, could have a materially adverse impact on trading prices for our securities and adversely affect our ability to access the capital markets.

Export of our products are subject to various export control regulations and may require a license from either the U.S. Department of State, the U.S. Department of Commerce or the U.S. Department of the Treasury.

We must comply with the United States Export Administration Regulations, the International Traffic in Arms Regulations, or ITAR, and the sanctions, regulations and embargoes administered by the Office of Foreign Assets Control. Certain of our products that have military applications are on the munitions list of the ITAR and require an individual validated license in order to be exported to certain jurisdictions. Any changes in export regulations may further restrict the export of our products, and we may cease to be able to procure export licenses for our products under existing regulations. The length of time required by the licensing process can vary, potentially delaying the shipment of products and the recognition of the corresponding revenue. Any restriction on the export of a significant product line or a significant amount of our products could cause a significant reduction in revenue.

We may be adversely affected by environmental, safety and governmental regulations or concerns.

We are subject to the requirements of environmental and occupational safety and health laws and regulations in the United States and other countries, as well as product performance standards established by quasi governmental and industrial standards organizations. We cannot assure you that we have been and will continue to be in complete compliance with all of these requirements on account of circumstances or events that have occurred or exist but that we are unaware of, or that we will not incur material costs or liabilities in connection with these requirements in excess of amounts we have reserved. In addition, these requirements are complex, change frequently and have tended to become more stringent over time. These requirements may change in the future in a manner that could have a material adverse effect on our business, results of operations and financial condition. We have made and will continue to make capital and other expenditures to comply with environmental requirements. In addition, certain of our subsidiaries are subject to pending litigation raising various environmental and human health and safety claims. We cannot assure you that our costs to defend and settle these claims will not be material.

Changes in existing environmental and/or safety laws, regulations and programs could reduce demand for environmental and safety-related products, which could cause our revenue to decline.

A significant amount of our business is generated either directly or indirectly as a result of existing U.S. federal and state laws, regulations and programs related to environmental protection, fuel economy and energy efficiency and safety regulation. Accordingly, a relaxation or repeal of these laws and regulations, or changes in governmental policies regarding the funding, implementation or enforcement of these programs, could result in a decline in demand for environmental and safety products which may have a material adverse effect on our revenue.

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We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws.

The U.S. Foreign Corrupt Practices Act, or FCPA, and similar worldwide anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to non-U.S. government officials for the purpose of obtaining or retaining business. Our policies mandate compliance with these laws. Many of the countries in which we operate have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. Despite our compliance program, we cannot assure you that our internal control policies and procedures always will protect us from reckless or negligent acts committed by our employees or agents. Violations of these laws, or allegations of such violations, may have a negative effect on our results of operations, financial condition and reputation.

We recently conducted an internal investigation under the direction of the audit committee of our board of directors to determine whether any laws, including 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 are immaterial. We discontinued the specific business relationship and did not identify any other suspect transactions in our investigation. We contacted the United States Department of Justice and the Securities and Exchange Commission to begin the process of making a voluntary disclosure of the possible violations, investigation, and initial findings. We will cooperate fully with their review; however, the outcome of such review is unknown. 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 in connection with our voluntary disclosure of possible FCPA violations. Any such penalties or sanctions may have a negative effect on our results of operations, financial condition and reputation.

Integration of acquired companies and any future acquisitions and joint ventures or dispositions may require significant resources and/or result in significant unanticipated losses, costs or liabilities.

We have grown and in the future we intend to grow by making acquisitions or entering into joint ventures or similar arrangements. In October 2010, we announced a definitive agreement to acquire the Automotive on Board sensors business of Honeywell International Inc. This business is expected to generate approximately $130 million of revenue in 2010; however, there can be no assurance that the business will perform as expected. Any future acquisitions will depend on our ability to identify suitable acquisition candidates, to negotiate acceptable terms for their acquisition and to finance those acquisitions. We will also face competition for suitable acquisition candidates that may increase our costs. In addition, acquisitions or investments require significant managerial attention, which may be diverted from our other operations. Furthermore, acquisitions of businesses or facilities, including the Automotive on Board sensors business and those which may occur in the future, entail a number of additional risks, including:

- problems with effective integration of operations;
- the inability to maintain key pre-acquisition customer, supplier and employee relationships;
- increased operating costs; and
- exposure to unanticipated liabilities.

Subject to the terms of our indebtedness, we may finance future acquisitions with cash from operations, additional indebtedness and/or by issuing additional equity securities. In addition, we could face financial risks associated with incurring additional indebtedness such as reducing our liquidity and access to financing markets and increasing the amount of debt service. If conditions in the credit markets remain tight, the availability of debt to finance future acquisitions will be restricted and our ability to make future acquisitions will be limited.

We may also seek to restructure our business in the future by disposing of certain of our assets. There can be no assurance that any restructuring of our business will not adversely affect our financial position, leverage or

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results of operations. In addition, any significant restructuring of our business will require significant managerial attention which may be diverted from our operations and may require us to accept non-cash consideration for any sale of our assets, the market value of which may fluctuate.

We may not realize all of the anticipated operating synergies and cost savings from acquisitions, and we may experience difficulties in integrating these businesses, which may adversely affect our financial performance.

There can be no assurance that we will realize all of the anticipated operating synergies and cost savings from our acquisitions. We anticipate that we will achieve synergies from the planned acquisition of the Automotive on Board sensors business over 18 to 24 months following the closing. However, there can be no assurance that any of the anticipated synergies will be achieved and no assurance that they will be achieved in our estimated time frame. We may not be able to successfully integrate and streamline overlapping functions from this transaction or future acquisitions, and integration may be more costly to accomplish than we expect. In addition, we could encounter difficulties in managing our combined company due to its increased size and scope.

The closing of the acquisition of the Automotive on Board sensors business is subject to certain conditions, including the receipt of regulatory approvals.

The acquisition of the Automotive on Board sensors business is expected to close in early 2011. However, the closing of the acquisition is subject to the satisfaction of various closing conditions, including, among others, the termination or expiration of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended, and the receipt of approvals of certain Chinese regulatory authorities. There can be no assurance that the necessary regulatory approvals will be received, or that the other closing conditions will be satisfied, by the expected closing date of the acquisition, or that the closing of the acquisition will not be delayed for other reasons.

Taxing authorities could challenge our historical and future tax positions or our allocation of taxable income among our subsidiaries, or tax laws to which we are subject could change in a manner adverse to us.

The amount of income taxes we pay is subject to our interpretation of applicable tax laws in the jurisdictions in which we file. We have taken and will continue to take tax positions based on our interpretation of such tax laws. There can be no assurance that a taxing authority will not have a different interpretation of applicable law and assess us with additional taxes. Should we be assessed with additional taxes, this may result in a material adverse effect on our results of operations or financial condition.

We conduct operations through manufacturing and distribution subsidiaries in numerous tax jurisdictions around the world. Our transfer pricing methodology is based on economic studies. The price charged for products, services and financing among our companies could be challenged by the various tax authorities resulting in additional tax liability, interest and/or penalties.

Tax laws are subject to change in the various countries in which we operate. Such future changes could be unfavorable and result in an increased tax burden to us. See Tax Considerations included elsewhere in this prospectus.

We have significant unfunded benefit obligations with respect to our defined benefit and other post-retirement benefit plans.

We provide various retirement plans for employees, including defined benefit, defined contribution and retiree healthcare benefit plans. As of September 30, 2010, we had recognized a net accrued benefit liability of approximately $45.2 million representing the unfunded benefit obligations of the defined benefit and retiree healthcare plans.

We have previously experienced declines in interest rates and pension asset values. Future declines in interest rates or the market values of the securities held by the plans, or certain other changes, could materially deteriorate the funded status of our plans and affect the level and timing of required contributions in 2010 and beyond. Additionally, a material deterioration in the funded status of the plans could significantly increase pension expenses and reduce our profitability. We fund certain of our benefit obligations on a pay-as-you-go basis; accordingly, the related plans have no assets. As a result, we are subject to increased cash outlays and costs due to, among other factors, rising healthcare costs. Increases in the expected cost of health care in excess of current assumptions could increase actuarially determined liabilities and related expenses along with future cash outlays. Our assumptions used to calculate pension and healthcare obligations as of the annual measurement date directly impact the expense to be recognized in future periods. While our management believes that these assumptions are appropriate, significant differences in actual experience or significant changes in these assumptions may materially affect our pension and healthcare obligations and future expense.

We have recorded a significant amount of impairment charges of our goodwill and other identifiable intangible assets, and we may be required to recognize additional goodwill or intangible asset impairments which would reduce our earnings.

We have recorded a significant amount of goodwill and other identifiable intangible assets, including tradenames. Goodwill and other net identifiable intangible assets totaled approximately $2.3 billion as of September 30, 2010, or 69% of our total assets. Goodwill, which represents the excess of cost over the fair value of the net assets of the businesses acquired, was approximately $1.5 billion as of September 30, 2010, or 46% of our total assets. Goodwill and other net identifiable intangible assets were recorded at fair value on the date of acquisition. Impairment of goodwill and other identifiable intangible assets may result from, among other things, deterioration in our performance, adverse market conditions, adverse changes in laws or regulations, unexpected significant or planned changes in use of assets and a variety of other factors. The amount of any quantified impairment must be expensed immediately as a charge that is included in operating income which may impact our ability to raise capital. During our first quarter of fiscal year 2009, we determined the carrying value of goodwill and definite-lived intangible assets associated with our Interconnection reporting unit was impaired and recorded a charge totaling $19.9 million (goodwill of $5.3 million and definite-lived intangible assets of $14.6 million). During the fourth quarter of fiscal year 2008, it was determined that goodwill associated with our Interconnection reporting unit was impaired and, as a result, we recorded a charge of $13.2 million. As of October 1, 2009, we evaluated our goodwill and indefinite-lived intangible assets for impairment at the reporting unit level and determined that the fair value exceeded the carrying value on that date. There were no impairment charges recorded during the nine months ended September 30, 2010. Should certain assumptions used in the development of the fair value of our reporting units change, we may be required to recognize additional goodwill or intangible asset impairment.

Our business may not generate sufficient cash flow from operations, or future borrowings under our Senior Secured Credit Facility or from other sources may not be available to us in an amount sufficient, to enable us to repay our indebtedness, including our existing Senior Notes and Senior Subordinated Notes, or to fund our other liquidity needs, including capital expenditure requirements.

We cannot guarantee that we will be able to obtain enough capital to service our debt and fund our planned capital expenditures and business plan. If we complete additional acquisitions, our debt service requirements could also increase. If we cannot service our indebtedness, we may have to take actions such as selling assets, seeking additional equity investments or reducing or delaying capital expenditures, strategic acquisitions, investments and alliances, any of which could have a material adverse effect on our operations. Additionally, we may not be able to effect such actions, if necessary, on commercially reasonable terms, or at all.

Our failure to comply with the covenants contained in our credit arrangements, including as a result of events beyond our control, could result in an event of default which could materially and adversely affect our operating results and our financial condition.

Our Senior Secured Credit Facility requires us to maintain specified financial ratios, including a maximum ratio of total indebtedness to Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization

and certain other adjustments as defined in the Senior Secured Credit Facility) and a minimum ratio of Adjusted EBITDA to interest expense, and maximum capital expenditures. In addition, our Senior Secured Credit Facility and the indentures governing the Senior Notes and Senior Subordinated Notes require us to comply with various operational and other covenants. For purposes of the Senior Secured Credit Facility, Adjusted EBITDA is calculated using various add-backs to EBITDA. During the fourth quarter of fiscal year 2010, the leverage and coverage ratios will tighten from levels in 2009. The table below outlines the leverage and interest coverage ratios in accordance with the covenants in the Senior Secured Credit Facility and the minimum Adjusted EBITDA amounts that would be required in order to maintain compliance with the leverage ratio and interest coverage ratio based on total indebtedness at September 30, 2010 and interest expense for the four quarters ended September 30, 2010.

Effective as of	Maximum Leverage ratio covenant	Minimum required LTM Adjusted EBITDA to maintain compliance based on September 30, 2010 indebtedness(1)	Minimum Interest coverage ratio covenant	Minimum required LTM Adjusted EBITDA to maintain compliance based on last four quarters ended September 30, 2010 interest expense(1)
Fourth quarter 2009	7.50:1	NA	1.50:1	NA
Fourth quarter 2010	7.00:1	$ 229.0	1.60:1	$ 172.2
Fourth quarter 2011	7.00:1	$ 229.0	1.60:1	$ 172.2
Fourth quarter 2012	7.00:1	$ 229.0	1.60:1	$ 172.2

(1) Amounts are stated in millions and based on total indebtedness (as defined in the Senior Secured Credit Facility) of $1,602.9 million at September 30, 2010 and interest expense (as defined in the Senior Secured Credit Facility) of $107.6 million for the four quarters ended September 30, 2010.

Sufficiently adverse financial performance, including the failure to achieve our financial forecasts, could result in default under current and future ratio levels, particularly the ratio of total indebtedness to Adjusted EBITDA. Additionally, creditors may challenge the nature of our add-backs to EBITDA, possibly increasing the risk of default. If there were an event of default under any of our debt instruments that was not cured or waived, the holders of the defaulted debt could cause all amounts outstanding with respect to the debt to be due and payable immediately, which in turn would result in cross defaults under our other debt instruments. Our assets and cash flow may not be sufficient to fully repay borrowings if accelerated upon an event of default.

If, when required, we are unable to repay, refinance or restructure our indebtedness under, or amend the covenants contained in, our credit agreement, or if a default otherwise occurs, the lenders under our Senior Secured Credit Facility could elect to terminate their commitments thereunder, cease making further loans, declare all borrowings outstanding, together with accrued interest and other fees, to be immediately due and payable, institute foreclosure proceedings against those assets that secure the borrowings under our Senior Secured Credit Facility and prevent us from making payments on the notes. Any such actions could force us into bankruptcy or liquidation, and we might not be able to repay our obligations in such an event.

Our limited history as a stand-alone company could pose challenges in the operation of our business.

Prior to April 27, 2006, we operated as a business of Texas Instruments. Following the 2006 Acquisition, Texas Instruments no longer has any ownership interest in our Company. Historically, as part of Texas Instruments, we had access to the administrative services and internal controls provided by Texas Instruments. Until September 30, 2008, Texas Instruments provided the Company with certain administrative services, including real estate, finance and accounting, human resources, information technology, warehousing and logistics, record retention and security consulting services. As a result of the expiration of the transition services agreement, we have had to establish all of our own services, systems and controls and we may be unable to operate such services, systems and controls at the costs we paid to Texas Instruments under that agreement and reflected in our historical financial statements.

In the future, we may not secure financing necessary to operate and grow our business or to exploit opportunities.

Our future liquidity and capital requirements will depend upon numerous factors, some of which are outside our control, including the future development of the markets in which we participate. We may need to raise additional funds to support expansion, develop new or enhanced services, respond to competitive pressures, acquire complementary businesses or technologies or take advantage of unanticipated opportunities. If our capital resources are not sufficient to satisfy our liquidity needs, we may seek to sell additional debt or equity securities or obtain other debt financing. The incurrence of debt would result in increased expenses and could include covenants that would further restrict our operations. If the credit markets remain tight, we may not be able to obtain additional financing, if required, in amounts or on terms acceptable to us, or at all.

We have reported significant net losses for fiscal years following the 2006 Acquisition and may not sustain recently achieved profitability in the foreseeable future.

We incurred a significant amount of indebtedness in connection with the 2006 Acquisition and the subsequent acquisitions of First Technology Automotive and Airpax and, as a result, our interest expense has been substantial for periods following the 2006 Acquisition. Due, in part, to this significant interest expense and the amortization of intangible assets also related to these acquisitions, we have reported net losses of $252.5 million, $134.5 million and $27.7 million for fiscal years 2007, 2008 and 2009, respectively. For the nine months ended September 30, 2010, we reported net income of $61.4 million. We repaid approximately $327.1 million of our indebtedness in March and April 2010 with proceeds from our initial public offering; however, we continue to have a significant amount of indebtedness. Due to the significant interest expense associated with the remaining indebtedness and the continued amortization of intangible assets, we cannot assure you that we will sustain recently achieved profitability in the foreseeable future.

Risks Related to Our Organization and Structure

We are a Netherlands public limited liability company and it may be difficult for you to obtain or enforce judgments against us in the United States.

We are incorporated under the laws of the Netherlands, and a substantial portion of our assets are located outside of the United States. As a result, although we have appointed an agent for service of process in the U.S., it may be difficult or impossible for United States investors to effect service of process within the United States upon us or to realize in the United States on any judgment against us including for civil liabilities under the United States securities laws. Therefore, any judgment obtained in any United States federal or state court against us may have to be enforced in the courts of the Netherlands, or such other foreign jurisdiction, as applicable. Because there is no treaty or other applicable convention between the United States and the Netherlands with respect to legal judgments, a judgment rendered by any United States federal or state court will not be enforced by the courts of the Netherlands unless the underlying claim is relitigated before a Dutch court. Under current practice, however, a Dutch court will generally grant the same judgment without a review of the merits of the underlying claim (i) if that judgment resulted from legal proceedings compatible with Dutch notions of due process, (ii) if that judgment does not contravene public policy of the Netherlands and (iii) if the jurisdiction of the United States federal or state court has been based on internationally accepted principles of private international law. To date, we are aware of only one case in which a Dutch court has considered whether such a foreign judgment would be enforced in the Netherlands. In that case, a U.S. court entered a default judgment against the defendant, a Netherlands resident, in a lawsuit involving a breach of contract claim. The defendant sought to relitigate the claim in the Netherlands. The Dutch lower court ruled that the criteria discussed above were satisfied with respect to the U.S. judgment, as a result of which the Dutch court granted the same judgment without a review of the merits of the underlying claim. Investors should not assume, however, that the courts of the Netherlands, or such other foreign jurisdiction, would enforce judgments of United States courts obtained against us predicated upon the civil liability provisions of the United States securities laws or that such courts would enforce, in original actions, liabilities against us predicated solely upon such laws.

Your rights and responsibilities as a shareholder will be governed by Dutch law and will differ in some respects from the rights and responsibilities of shareholders under U.S. law, and your shareholder rights under Dutch law may not be as clearly established as shareholder rights are established under the laws of some U.S. jurisdictions.

Our corporate affairs are governed by our articles of association and by the laws governing companies incorporated in the Netherlands. The rights of our shareholders and the responsibilities of members of our board of directors under Dutch law may not be as clearly established as under the laws of some U.S. jurisdictions. In the performance of its duties, our board of directors is required by Dutch law to consider the interests of our company, its shareholders, its employees and other stakeholders in all cases with reasonableness and fairness. It is possible that some of these parties will have interests that are different from, or in addition to, your interests as a shareholder. It is anticipated that all of our shareholder meetings will take place in the Netherlands.

In addition, the rights of holders of ordinary shares and many of the rights of shareholders as they relate to, for example, the exercise of shareholder rights, are governed by Dutch law and our articles of association and differ from the rights of shareholders under U.S. law. For example, Dutch law does not grant appraisal rights to a company s shareholders who wish to challenge the consideration to be paid upon a merger or consolidation of the company. See Description of Ordinary Shares included elsewhere in this prospectus.

The provisions of Dutch corporate law and our articles of association have the effect of concentrating control over certain corporate decisions and transactions in the hands of our board of directors. As a result, holders of our shares may have more difficulty in protecting their interests in the face of actions by members of our board of directors than if we were incorporated in the United States. See Description of Ordinary Shares included elsewhere in this prospectus.

The payment of cash dividends on our shares is restricted under the terms of the agreements governing our indebtedness and is dependent on our ability to obtain funds from our subsidiaries.

We have never declared or paid any dividends on our ordinary shares and we currently do not plan to declare dividends on our ordinary shares in the foreseeable future. Because we are a holding company, our ability to pay cash dividends on our ordinary shares may be limited by restrictions on our ability to obtain sufficient funds through dividends from subsidiaries, including restrictions under the terms of the agreements governing our and our subsidiaries indebtedness. In that regard, our wholly-owned subsidiary, Sensata Technologies B.V., is limited in its ability to pay dividends or otherwise make distributions to its immediate parent company and, ultimately, to us. Under Dutch law, we may only pay dividends out of profits as shown in our adopted annual accounts prepared in accordance with International Financial Reporting Standards, or IFRS. We will only be able to declare and pay dividends to the extent our equity exceeds the sum of the paid and called up portion of our ordinary share capital and the reserves that must be maintained in accordance with provisions of Dutch law and our articles of association. See Description of Ordinary Shares Shareholder Rights Dividends. Subject to these limitations, the payment of cash dividends in the future, if any, will depend upon such factors as earnings levels, capital requirements, contractual restrictions, its financial condition and any other factors deemed relevant by our shareholders and board of directors.

We are a controlled company within the meaning of the New York Stock Exchange listing rules and, as a result, we qualify for, and rely on, applicable exemptions from certain corporate governance requirements.

We are a controlled company under the rules of the New York Stock Exchange. Under these rules, a company of which more than 50% of the voting power is held by a group is a controlled company and may elect not to comply with certain corporate governance requirements of such exchange, including the requirement that a majority of the board of directors consist of independent directors. Upon completion of this offering, our principal shareholder, Sensata Investment Company S.C.A., will own approximately 66.6% of our outstanding ordinary shares (or 64.9% if the underwriters exercise their option to purchase additional shares in full). We will continue to rely on this exemption to the extent it is applicable, and therefore we may not have a majority of

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independent directors, nor will our nominating and governance or compensation committees consist entirely of independent directors. Accordingly, you may not have the same protections afforded to stockholders of companies that are not deemed controlled companies.

Risks Related to Our Ordinary Shares and This Offering

There may not be an active, liquid trading market for our ordinary shares, and you may not be able to resell your shares at or above the price at which you purchase them.

The initial public offering of our ordinary shares was completed in March 2010 at a price of $18.00 per share. There has been a public market for our ordinary shares for only a short period of time. An active, liquid and orderly market for our ordinary shares may not be sustained, which could depress the trading price of our ordinary shares. An inactive market may also impair your ability to sell any of our ordinary shares that you purchase. In addition, the market price of our ordinary shares may fluctuate significantly and may be adversely affected by broad market and industry factors, regardless of our actual operating performance.

As a public company, we are subject to financial and other reporting and corporate governance requirements that may be difficult for us to satisfy.

We are subject to financial and other reporting and corporate governance requirements, including the requirements of the New York Stock Exchange listing rules, which impose compliance obligations upon us. We are working with our legal and financial advisors to manage our growth and obligations as a public company. We have made, and will continue to make, changes to our financial and management control systems. The expenses that we are required to incur in order to satisfy these requirements could be material. The requirements of being a public company may strain our resources, divert management s attention and affect our ability to attract and retain qualified board members.

Our principal shareholder will continue to have control over us after this offering which could limit your ability to influence the outcome of key transactions, including a change of control.

Upon completion of this offering, our principal shareholder, Sensata Investment Company S.C.A., will own approximately 66.6% of our outstanding ordinary shares (or 64.9% if the underwriters exercise their option to purchase additional shares in full). This entity is indirectly controlled by investment funds advised or managed by the principals of Bain Capital and, pursuant to agreements among all of its existing shareholders, Bain Capital has the right to appoint all of its directors. See Principal and Selling Shareholders and Certain Relationships and Related Party Transactions. As a result, this shareholder would be able to influence or control matters requiring approval by our shareholders, including the election of directors and the approval of mergers or other extraordinary transactions. They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. The concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our shareholders of an opportunity to receive a premium for their ordinary shares as part of a sale of us and might ultimately affect the market price of our ordinary shares.

Future sales of our ordinary shares in the public market could cause our share price to fall.

If our existing shareholders sell substantial amounts of our ordinary shares in the public market following this offering, the market price of our ordinary shares could decrease significantly. The perception in the public market that our existing shareholders might sell shares could also depress the market price of our ordinary shares. Upon the consummation of this offering, we will have 172,978,041 ordinary shares outstanding. Our directors, officers and selling shareholders will be subject to lock-up agreements with certain representatives of the underwriters for a period of 90 days from the date of this prospectus as described in Ordinary Shares Eligible for Future Sale Lock-up Agreements. After these lock-up agreements and the similar lock-up periods set forth

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in our registration rights agreement have expired, 115,629,953 shares, some of which will be subject to vesting, will be eligible for sale in the public market. The market price of our ordinary shares may drop significantly when the restrictions on resale by our existing shareholders lapse. A decline in the price of our ordinary shares might impede our ability to raise capital through the issuance of additional ordinary shares or other equity securities.

Our share price may be volatile, and the market price of our ordinary shares after this offering may drop below the price you pay.

Securities markets worldwide have experienced, and are likely to continue to experience, significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of our shares regardless of our operating performance. The trading price of our ordinary shares is likely to be volatile and subject to wide price fluctuations in response to various factors, including:

- market conditions in the broader stock market;
- actual or anticipated fluctuations in our quarterly financial and operating results;
- introduction of new products or services by us or our competitors;
- issuance of new or changed securities analysts reports or recommendations;
- sales, or anticipated sales, of large blocks of our stock;
- additions or departures of key personnel;
- regulatory or political developments;
- litigation and governmental investigations; and
- changing economic conditions.

These and other factors may cause the market price and demand for our ordinary shares to fluctuate substantially, which may limit or prevent investors from readily selling their ordinary shares and may otherwise negatively affect the liquidity of our ordinary shares. In addition, in the past, when the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the company that issued the stock. If any of our shareholders brought a lawsuit against us, we could incur substantial costs defending the lawsuit. Such a lawsuit could also divert the time and attention of our management from our business, which could significantly harm our profitability and reputation.

If securities or industry analysts do not publish research or reports about our business, if they adversely change their recommendations regarding our ordinary shares or if our results of operations do not meet their expectations, our share price and trading volume could decline.

The trading market for our ordinary shares will be influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our share price or trading volume to decline. Moreover, if one or more of the analysts who cover us downgrade our ordinary shares, or if our results of operations do not meet their expectations, our share price could decline.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including any documents incorporated by reference herein, includes forward-looking statements. These forward-looking statements include statements relating to our business. In some cases, forward-looking statements may be identified by terminology such as may, will, should, expects, anticipates, believes, projects, forecasts, continue or the negative of such terms or comparable terminology. Forward-looking statements contained herein (including future cash contractual obligations), or in other statements made by us, are made based on management s expectations and beliefs concerning future events impacting us and are subject to uncertainties and other important factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed or implied by forward-looking statements. We believe that the following important factors, among others (including those described in Risk Factors), could affect our future performance and the liquidity and value of our securities and cause our actual results to differ materially from those expressed or implied by forward-looking statements made by us or on our behalf:

- our operating results and financial condition have been and may continue to be adversely affected by the current financial crisis and worldwide economic conditions;
- continued fundamental changes in the industries in which we operate have had and could continue to have adverse effects on our businesses;
- we may incur material losses and costs as a result of product liability and warranty and recall claims that may be brought against us;
- our substantial indebtedness could adversely affect our financial condition and our ability to operate our business, and we may not be able to generate sufficient cash flows to meet our debt service obligations;
- we may not realize all of the anticipated operating synergies and cost savings from acquisitions, and we may experience difficulties in integrating these businesses, which may adversely affect our financial performance;
- the closing of the acquisition of the Automotive on Board sensors business is subject to certain conditions, including the receipt of regulatory approvals;
- we have reported significant net losses for fiscal years following the 2006 Acquisition and may not sustain recently achieved profitability in the foreseeable future; and
- the other risks set forth in Risk Factors included elsewhere in this prospectus.

All forward-looking statements speak only as of the date of this prospectus and are expressly qualified in their entirety by the cautionary statements contained in this prospectus. We undertake no obligation to update or revise forward-looking statements which may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events.

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MARKET AND INDUSTRY DATA AND FORECASTS

Market data and certain industry data and forecasts included in this prospectus were obtained from internal company surveys, market research, consultant surveys, publicly available information, reports of governmental agencies and industry publications and surveys. We have relied upon publications of J.D. Power and Associates, Global Industry Analysts, IC Insights, International Data Corporation, or International Data, Strategy Analytics, and VDC Research Group, Inc., or VDC Research, as our primary sources for third-party industry data and forecasts. Industry surveys, publications, consultant surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. We have not independently verified any of the data from third-party sources, nor have we ascertained the underlying economic assumptions relied upon therein. Similarly, internal surveys, industry forecasts and market research, which we believe to be reliable based upon our management s knowledge of the industry, have not been independently verified. Forecasts are particularly likely to be inaccurate, especially over long periods of time. In addition, we do not know what assumptions regarding general economic growth were used in preparing the forecasts we cite. Statements as to our market position are based on recently available data. While we are not aware of any misstatements regarding our industry data presented herein, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under the heading Risk Factors appearing elsewhere in this prospectus. While we believe our internal business research is reliable and market definitions are appropriate, neither such research nor definitions have been verified by any independent source. This prospectus may only be used for the purpose for which it has been published.

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USE OF PROCEEDS

The selling shareholders will receive all of the net proceeds from the sale of the ordinary shares in this offering. We will not receive any of the proceeds from the sale of ordinary shares by the selling shareholders, including any sales pursuant to the underwriters option to purchase additional shares. However, we will receive in the aggregate approximately $3.2 million from selling shareholders who will pay to us the exercise price for options exercised by them for the purpose of selling shares in this offering. The proceeds received by us in connection with the exercise of options to purchase our ordinary shares by the selling shareholders in connection with this offering will be used for general corporate purposes. We will pay the expenses of this offering, other than underwriting discounts and commissions.

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DIVIDEND POLICY

We have never declared or paid any dividends on our ordinary shares, and we currently do not plan to declare dividends on our ordinary shares in the foreseeable future. Because we are a holding company, our ability to pay cash dividends on our ordinary shares may be limited by restrictions on our ability to obtain sufficient funds through dividends from subsidiaries, including restrictions under the terms of the agreements governing our and our subsidiaries indebtedness. In that regard, our wholly-owned subsidiary, Sensata Technologies B.V., is limited in its ability to pay dividends or otherwise make distributions to its immediate parent company and, ultimately to us. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Indebtedness and Liquidity. Under Dutch law, we may only pay dividends out of profits as shown in our adopted annual accounts prepared in accordance with IFRS. We will only be able to declare and pay dividends to the extent our equity exceeds the sum of the paid and called up portion of our ordinary share capital and the reserves that must be maintained in accordance with provisions of Dutch law and our articles of association. See Description of Ordinary Shares Shareholder Rights Dividends. Subject to these limitations, the payment of cash dividends in the future, if any, will depend upon such factors as earnings levels, capital requirements, contractual restrictions, our overall financial condition and any other factors deemed relevant by our shareholders and board of directors.

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PRICE RANGE OF ORDINARY SHARES

Our ordinary shares have traded on the New York Stock Exchange under the symbol ST since March 11, 2010. Prior to that time, there was no public market for our ordinary shares. The following table sets forth the high and low intraday sales prices per share of our ordinary shares, as reported by the New York Stock Exchange, for the periods indicated.

	Price Range	
	High	**Low**
2010		
Quarter ended March 31, 2010(1)	$ 19.00	$ 17.12
Quarter ended June 30, 2010	$ 21.12	$ 15.30
Quarter ended September 30, 2010	$ 20.12	$ 15.25
Quarter ending December 31, 2010 (through November 1, 2010)	$ 23.71	$ 19.43

(1) Our ordinary shares began trading on March 11, 2010.

The closing sale price per share of our ordinary shares, as reported by the New York Stock Exchange, on November 1, 2010 was $22.72. As of November 1, 2010, there were 16 holders of record of our ordinary shares.

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CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2010.

You should read this table together with Management s Discussion and Analysis of Financial Condition and Results of Operations and our unaudited condensed consolidated financial statements and the related notes appearing elsewhere in this prospectus. Amounts in the table below have been calculated based on unrounded numbers. Accordingly, certain amounts may not add to the totals due to the effect of rounding.

(Amounts in millions, except share data)		**As of September 30, 2010 (unaudited)**
Long-term debt, including current maturities:		
Senior Secured Credit Facility:		
Revolving credit facility[(a)]	$	
Term loan facility[(b)]		1,428.8
Capital lease and other financing obligations		42.7
Senior Notes		201.2
Senior Subordinated Notes[(c)]		241.1
Total debt		1,913.8
Shareholders equity:		
Ordinary shares, 0.01 nominal value per share; 400,000,000 shares authorized, 171,412,366 shares issued	$	2.2
Treasury shares, at cost, 11,973 shares		(0.1)
Additional paid-in capital		1,514.0
Accumulated deficit		(566.2)
Accumulated other comprehensive loss		(29.9)
Total shareholders equity		919.9
Total capitalization	$	2,833.7

(a) Our revolving credit facility provides for up to $150.0 million of borrowings to fund our working capital needs.

(b) Our term loan facility includes a Euro-denominated term loan in an aggregate principal amount of 381.5 million as of September 30, 2010. We converted this term loan into U.S. dollars as of September 30, 2010 using an exchange rate of $1.36 = 1.00. On November 1, 2010, the exchange rate was $1.39 = 1.00.

(c) Our existing Senior Subordinated Notes are Euro-denominated with an aggregate principal amount of 177.1 million outstanding as of September 30, 2010. We converted the Senior Subordinated Notes into U.S. dollars as of September 30, 2010 using an exchange rate of $1.36 = 1.00. On November 1, 2010, the exchange rate was $1.39 = 1.00.

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SELECTED CONSOLIDATED AND COMBINED HISTORICAL FINANCIAL DATA

We have derived the selected consolidated statement of operations and other financial data for the years ended December 31, 2007, 2008 and 2009 and the selected consolidated balance sheet data as of December 31, 2008 and 2009 from the audited consolidated financial statements included elsewhere in this prospectus. We have derived the selected consolidated and combined statement of operations and other financial data for the year ended December 31, 2005 and the periods from January 1, 2006 to April 26, 2006 and April 27, 2006 (inception) to December 31, 2006 and the consolidated and combined balance sheet data as of December 31, 2005, 2006 and 2007 from the audited consolidated and combined financial statements not included in this prospectus. We have derived the selected consolidated statement of operations data and other financial data for the nine months ended September 30, 2009 and 2010 and the selected balance sheet data as of September 30, 2010 from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. Our unaudited condensed consolidated financial statements have been prepared on the same basis as the audited financial statements and reflect all adjustments, consisting of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods.

You should read the following information in conjunction with the section of this prospectus entitled Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and accompanying notes thereto included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results to be expected in any future period.

	Predecessor (combined)		Sensata Technologies Holding N.V. (consolidated)					
(Amounts in thousands, except per share data)	For the year ended December 31, 2005	For the period January 1 to April 26, 2006	For the period April 27 (inception) to December 31, 2006	For the year ended December 31, 2007	2008	2009	For the nine months ended September 30, 2009	2010
Statement of Operations Data:								
Net revenue	$ 1,060,671	$ 375,600	$ 798,507	$ 1,403,254	$ 1,422,655	$ 1,134,944	$ 796,855	$ 1,152,237
Operating costs and expenses:								
Cost of revenue	681,983	253,028	536,485	944,765	951,763	742,080	521,154	712,019
Research and development	31,252	8,635	19,742	33,891	38,256	16,796	12,692	17,253
Selling, general and administrative(1)	96,146	38,674	94,755	166,065	166,625	126,952	95,301	156,013
Amortization of intangible assets and capitalized software	2,458	1,078	82,740	131,064	148,762	153,081	115,060	108,309
Impairment of goodwill and intangible assets					13,173	19,867	19,867	
Restructuring	22,996	2,456		5,166	24,124	18,086	18,033	196
Total operating costs and expenses	834,835	303,871	733,722	1,280,951	1,342,703	1,076,862	782,107	993,790
Profit/(loss) from operations	225,836	71,729	64,785	122,303	79,952	58,082	14,748	158,447
Interest expense	(105)	(511)	(165,160)	(191,161)	(197,840)	(150,589)	(115,373)	(82,170)
Interest income			1,567	2,574	1,503	573	471	634
Currency translation gain/(loss) and other, net(2)		115	(63,633)	(105,449)	55,467	107,695	94,101	20,525
Income/(loss) from continuing operations before income taxes	225,731	71,333	(162,441)	(171,733)	(60,918)	15,761	(6,053)	97,436
Provision for income taxes	81,390	25,796	48,560	62,504	53,531	43,047	35,165	35,996
Income/(loss) from continuing operations	144,341	45,537	(211,001)	(234,237)	(114,449)	(27,286)	(41,218)	61,440
Loss from discontinued operations	(924)	(167)	(1,309)	(18,260)	(20,082)	(395)	(395)	

Net income/(loss)[3]	$ 143,417	$ 45,370	$ (212,310)	$ (252,497)	$ (134,531)	$ (27,681)	$ (41,613)	$ 61,440

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(Amounts in thousands, except per share data)	Predecessor (combined) For the year ended December 31, 2005	Predecessor (combined) For the period January 1 to April 26, 2006	Sensata Technologies Holding N.V. (consolidated) For the period April 27 (inception) to December 31, 2006	For the year ended December 31, 2007	2008	2009	For the nine months ended September 30, 2009	2010
Net income/(loss) per share basic:								
Continuing operations	NA	NA	$ (2.73)	$ (1.62)	$ (0.79)	$ (0.19)	$ (0.29)	$ 0.37
Discontinued operations	NA	NA	(0.02)	(0.13)	(0.14)	(0.00)	(0.00)	
Net income/(loss) per share basic	NA	NA	$ (2.75)	$ (1.75)	$ (0.93)	$ (0.19)	$ (0.29)	$ 0.37
Net income/(loss) per share diluted:								
Continuing operations	NA	NA	$ (2.73)	$ (1.62)	$ (0.79)	$ (0.19)	$ (0.29)	$ 0.36
Discontinued operations	NA	NA	(0.02)	(0.13)	(0.14)	(0.00)	(0.00)	
Net income/(loss) per share diluted	NA	NA	$ (2.75)	$ (1.75)	$ (0.93)	$ (0.19)	$ (0.29)	$ 0.36
Weighted average ordinary shares outstanding basic	NA	NA	77,276	144,054	144,066	144,057	144,057	164,122
Weighted-average ordinary shares outstanding diluted	NA	NA	77,276	144,054	144,066	144,057	144,057	170,651
Other Financial Data:								
Net cash provided by/ (used in):								
Operating activities	$ 173,276	$ 40,599	$ 129,923	$ 155,278	$ 47,481	$ 187,577	$ 127,724	$ 201,678
Investing activities	(56,505)	(16,705)	(3,142,543)	(355,710)	(38,713)	(15,077)	(10,630)	(34,725)
Financing activities	(116,771)	(23,894)	3,097,373	175,736	8,891	(101,748)	3,342	87,501
Capital expenditures[4]	42,218	16,705	29,630	66,701	40,963	14,959	11,527	35,089
EBITDA[5] (unaudited)	256,070	81,286	111,031	187,862	315,460	366,890	257,519	316,753

(Amounts in thousands)	Predecessor (combined) As of December 31, 2005	Sensata Technologies Holding N.V. (consolidated) As of December 31, 2006	2007	2008	2009	As of September 30, 2010
Balance Sheet Data:						
Cash and cash equivalents	$	$ 84,753	$ 60,057	$ 77,716	$ 148,468	$ 402,922
Working capital[6]	167,018	221,486	161,418	15,663	245,445	524,325
Total assets	504,297	3,372,292	3,555,508	3,303,381	3,166,870	3,339,466
Total debt, including capital lease and other financing obligations	31,165	2,272,633	2,562,480	2,511,187	2,300,826	1,913,808
Texas Instruments net investment/Total shareholders equity	355,673	824,609	566,310	405,332	387,158	919,852

(1) For the nine months ended September 30, 2010, selling, general and administrative expense includes $18.9 million recorded as a cumulative catch-up adjustment for previously unrecognized compensation expense associated with the Tranche 2 and 3 option awards and the related modification, and $22.4 million in fees related to the termination of the advisory agreement with the Sponsors at their option. See Executive Compensation Components of Compensation Equity Compensation and Certain Relationships and Related Party Transactions Advisory Agreement.

(2) Currency translation gain/(loss) and other, net in the period from April 27, 2006 (inception) to December 31, 2006 primarily includes currency translation loss associated with Euro-denominated debt and the deferred payments certificates of $(65.5) million. Currency translation gain/(loss) and other, net for the year

ended December 31, 2007 primarily includes currency translation loss associated with the Euro-denominated debt of $(111.9) million. Currency translation gain/(loss) and other, net for the years ended December 31, 2008 and 2009 and the nine months ended September 30, 2009 and 2010 includes gains/(losses) of $15.0 million, $120.1 million, $120.1 million and $(23.5) million, respectively, recognized on repurchases of Senior Notes and Senior Subordinated Notes, as well as currency translation gain/(loss) associated with the Euro-denominated debt of $53.2 million, $(13.6) million, $(28.5) million and $53.8 million, respectively.

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(3) Included within Net income/(loss) for each of the periods presented were the following expenses:

	(unaudited) Sensata Technologies Holding N.V. (consolidated)					
(Amounts in thousands)	For the period April 27 (inception) to December 31, 2006	For the year ended December 31, 2007	2008	2009	For the nine months ended September 30, 2009	2010
Amortization and depreciation expense related to the step-up in fair value of fixed and intangible assets [(a)]	$ 91,591	$ 154,296	$ 160,594	$ 157,797	$ 117,677	$ 109,280
Deferred income tax and other tax expense	30,148	46,126	29,980	26,592	25,696	31,494
Amortization expense of deferred financing costs	11,518	9,640	10,698	9,055	6,775	6,512
Interest expense related to uncertain tax positions		1,747	43	823	664	352
Interest expense related to Deferred Payment Certificates	44,581					

(a) Amortization and depreciation expense related to the step-up in fair value of fixed and intangible assets relates to the acquisition of the S&C business of Texas Instruments, First Technology Automotive and Airpax and the step-up in the fair value of these assets through purchase accounting.

(4) Excludes non-cash capital expenditures, financed through a capital lease, of $31.2 million for the year ended December 31, 2005.

(5) We present EBITDA in this prospectus to provide investors with a supplemental measure of our operating performance. EBITDA is a non-GAAP financial measure. We define EBITDA as net income/(loss) before interest, taxes, depreciation and amortization. We believe EBITDA assists our board of directors, management and investors in comparing our operating performance on a consistent basis because it removes the impact of our capital structure (such as interest expense), asset base (such as depreciation and amortization) and tax structure. The use of EBITDA has limitations and you should not consider this performance measure in isolation from or as an alternative to U.S. GAAP measures such as net income/(loss).

The following unaudited table summarizes the calculations of EBITDA and provides a reconciliation from net income/(loss), the most directly comparable financial measure presented in accordance with U.S. GAAP, for the periods presented:

	Predecessor (combined)		Sensata Technologies Holding N.V. (consolidated)					
(Amounts in thousands)	For the year ended December 31, 2005	For the period January 1 to April 26, 2006	For the period April 27 (inception) to December 31, 2006	For the year ended December 31, 2007	2008	2009	For the nine months ended September 30, 2009	2010
Net income/(loss)	$ 143,417	$ 45,370	$ (212,310)	$ (252,497)	$ (134,531)	$ (27,681)	$ (41,613)	$ 61,440
Provision for income taxes	81,390	25,796	48,560	62,504	53,531	43,047	35,165	35,996
Interest expense, net	105	511	163,593	188,587	196,337	150,016	114,902	81,536
Depreciation and amortization	31,158	9,609	111,188	189,268	200,123	201,508	149,065	137,781
EBITDA (unaudited)	$ 256,070	$ 81,286	$ 111,031	$ 187,862	$ 315,460	$ 366,890	$ 257,519	$ 316,753

Following the 2006 Acquisition, our senior management, together with our Sponsors, developed a series of strategic initiatives to better position us for future revenue growth and an improved cost structure. This plan has been modified, from time to time, to reflect changes in overall market conditions and the competitive environment facing our business. These initiatives have included, among other items, acquisitions, divestitures, restructurings of certain operations and various financing transactions. In connection with these activities, we incurred certain costs and expenses included in EBITDA that we have further described below and believe are important to consider in evaluating our operating performance over these periods.

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The following table summarizes certain expenses, losses and gains included in EBITDA for the periods presented:

(Amounts in thousands)	For the period April 27 (inception) to December 31, 2006	For the year ended December 31, 2007	2008	2009	(unaudited) For the nine months ended September 30, 2009	2010
Supplemental Information:						
Acquisition, integration and financing costs and other significant items:						
Transition costs[a]	$ 15,980	$ 16,768	$ 4,052	$ 23	$ 23	$
Litigation costs[b]	258	4,006	840	147	76	
Integration and finance costs[c]	1,182	13,649	20,931	2,813	3,029	
Relocation and disposition costs[d]		114	12,828	8,202	7,319	
Pension charges[e]			3,588	4,828	4,702	
Inventory step-up[f]	25,017	4,454				
IPR&D write-off[g]		5,700				
Other[h]	1,296	3,123	27,106	6,972	5,505	
Subtotal	43,733	47,814	69,345	22,985	20,654	
Impairment of goodwill and intangible assets[i]			13,173	19,867	19,867	
Severance and other termination costs associated with downsizing[j]		5,166	12,282	12,276	12,121	209
Stock compensation[k]	1,259	2,015	2,108	2,233	1,174	4,783
Management fees[l]	2,667	4,000	4,000	4,000	3,000	
Subtotal	47,659	58,995	100,908	61,361	56,816	4,992
(Gain)/loss on extinguishment of debt[m]			(14,961)	(120,123)	(120,123)	23,474
Costs related to initial public offering[n]						43,298
Currency translation loss/(gain) on debt[o]	65,519	111,946	(53,209)	15,301	28,482	(48,460)
Other[p]		(25)	123	973	(594)	3,682
Total	$ 113,178	$ 170,916	$ 32,861	$ (42,488)	$ (35,419)	$ 26,986

(a) Represents transition costs incurred by us in becoming a stand-alone company, one of our subsidiaries becoming an SEC reporting company and complying with Section 404 of the Sarbanes-Oxley Act of 2002.

(b) Represents litigation costs we recognized related to customers alleging defects in certain of our products, which were manufactured and sold prior to April 27, 2006 (inception).

(c) Represents integration and financing costs related to the acquisitions of Airpax, First Technology Automotive and SMaL Camera and other consulting and advisory fees associated with acquisitions and financings, whether or not consummated.

(d) Represents costs we incurred to move certain operations to lower-cost Sensata locations, close certain manufacturing operations and dispose of the SMaL Camera business.

(e) Represents pension curtailment and settlement losses, and amortization of prior service costs associated with various restructuring activities.

(f) Represents the impact on our cost of revenue from the increase in the carrying value of the inventory that was adjusted to fair value as a result of the application of purchase accounting to the acquisitions of the S&C business, Airpax and First Technology Automotive.

(g) Represents the charge we recorded for acquired in-process research and development associated with our acquisition of SMaL Camera in March 2007.

(h) Represents other (gains)/losses, including impairment losses associated with certain assets held for sale, losses related to the early termination of commodity forward contracts of $7.2 million during fiscal year 2008, a loss of $13.4 million during fiscal year 2008 associated with a settlement with a significant automotive customer that alleged defects in certain of our products installed in its automobiles, and a reserve associated with the Whirlpool recall litigation. See Management s Discussion and Analysis of Financial Condition and Results of Operations Legal Proceedings.

(i) Represents the impairment of goodwill and intangible assets associated with a reporting unit within our controls business segment and relates to products used in the semiconductor business.

(j) Represents severance, outplacement costs and special termination benefits associated with the downsizing of various manufacturing facilities and our corporate office.

(k) Represents share-based compensation expense recorded in accordance with ASC Topic 718, *Compensation Stock Compensation*, excluding $18.9 million related to the cumulative catch-up adjustment for previously unrecognized compensation expense associated with the Tranche 2 and 3 option awards and the related modification. See Executive Compensation Components of Compensation Equity Compensation.

(l) Represents fees expensed under the terms of the advisory agreement with our Sponsors. This agreement was terminated in connection with the completion of our initial public offering. See Certain Relationships and Related Party Transactions Advisory Agreement.

(m) Relates to the repurchases of outstanding notes.

(n) Represents costs recorded as expenses related to our initial public offering in March 2010 including $18.9 million recorded as a cumulative catch-up adjustment for previously unrecognized compensation expense associated with the Tranche 2 and 3 option awards and the related modification, and $22.4 million in fees related to the termination of the advisory agreement with the Sponsors at their option. See Executive Compensation Components of Compensation Equity Compensation and Certain Relationships and Related Party Transactions Advisory Agreement.

(o) Reflects the losses/(gains) associated with the translation of our Euro-denominated debt into U.S. dollars and losses/(gains) on related hedging transactions.

(p) Represents unrealized (gains)/losses on commodity forward contracts and estimated potential penalty expenses associated with uncertain tax positions, and in addition, for the nine months ended September 30, 2010, expense associated with the reversal of tax indemnification assets and other tax-related assets of $5.2 million.

See Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information regarding certain of these items.

(6) We define working capital as current assets less current liabilities. Prior to the 2006 Acquisition, we participated in Texas Instruments centralized system for cash management, under which our cash flows were transferred to Texas Instruments on a regular basis and netted against Texas Instruments net investment account. Consequently, none of Texas Instruments cash, cash equivalents, debt or interest expense has been allocated to our business in the Predecessor historical combined financial statements.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended to help the reader understand our business, financial condition, results of operations, liquidity and capital resources. You should read this discussion in conjunction with Selected Consolidated and Combined Historical Financial Data, and our audited consolidated financial statements and the related notes beginning on page F-1 of this prospectus as well as our unaudited condensed consolidated financial statements and the related notes beginning on page F-74 of this prospectus.

The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in Risk Factors. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

Overview

Sensata, a global industrial technology company, is a leader in the development, manufacture and sale of sensors and controls. We produce a wide range of customized, innovative sensors and controls for mission- critical applications such as thermal circuit breakers in aircraft, pressure sensors in automotive systems, and bimetal current and temperature control devices in electric motors. We believe that we are one of the largest suppliers of sensors and controls in the majority of the key applications in which we compete and that we have developed our strong market position due to our long-standing customer relationships, technical expertise, product performance and quality and competitive cost structure. We compete in growing global market segments driven by demand for products that are safe, energy-efficient and environmentally-friendly, as well as the proliferation of, and increasing use of sensors and controls in, electronic applications. In addition, our long-standing position in emerging markets, including our 15-year presence in China, further enhances our growth prospects. We deliver a strong value proposition to our customers by leveraging an innovative portfolio of core technologies and manufacturing at high volumes in low-cost locations such as China, Mexico, Malaysia and the Dominican Republic.

History

We have a history of innovation dating back to our origins. We operated as a part of Texas Instruments from 1959 until we were acquired as a result of the 2006 Acquisition. Since then, we have expanded our operations in part through the acquisition of Airpax in July 2007 and First Technology Automotive in December 2006.

Prior to our initial public offering in March 2010, we were a direct, 99% owned subsidiary of Sensata Investment Company S.C.A., a Luxembourg company, or Sensata Investment Co., which is owned by investment funds or vehicles advised or managed by Bain Capital, its co-investors and certain members of our senior management. Prior to the completion of this offering, Sensata Investment Co. owns 78.1% of our outstanding ordinary shares.

We conduct our operations through subsidiary companies, which operate business and product development centers in the United States, the Netherlands and Japan and manufacturing operations in Brazil, China, South Korea, Malaysia, Mexico, the Dominican Republic and the United States. Many of these companies are the successors to businesses that have been engaged in the sensing and control business since 1916.

Recent Developments

On October 28, 2010, we announced a definitive agreement to acquire the Automotive on Board sensors business of Honeywell International Inc. for approximately $140 million, subject to a working capital adjustment, in cash, which will be provided from cash on hand. This business is expected to generate

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approximately $130 million of revenue in 2010. We expect transaction costs within the range of $3 million to $4 million to be incurred in the fourth quarter of 2010 and expect the transaction to close in the first quarter of 2011, subject to regulatory approvals. We believe that this acquisition will expand our leadership in the global automotive sensors market, complement our organic growth in the powertrain segment for our existing pressure products, add new capabilities in light vehicle speed and position sensing, and increase our market share in Asia specifically in China, which we believe to be one of the world s fastest growing automotive sensors market. We expect that we will realize synergies from the integration of this business over 18 to 24 months following the closing. We believe this transaction represents a strategic use of our cash on hand and meets all of our strategic and investment return acquisition criteria. Except as set forth above, we have not included any historical or pro forma financial information regarding the Automotive on Board business in this prospectus as we do not believe such information is material in relation to our historical results of operations.

Selected Segment Information

We manage our sensors and controls businesses separately and report their results of operations as two segments for accounting purposes. Set forth below is selected information for each of these business segments for each of the periods presented.

Amounts and percentages in the tables below have been calculated based on unrounded numbers. Accordingly, certain amounts may not add to the totals due to the effect of rounding.

The following table presents net revenue by segment and segment operating income for the following periods:

(Amounts in millions)	For the year ended December 31, 2007	2008	2009	For the nine months ended September 30, 2009	2010
Net revenue					
Sensors segment	$ 882.5	$ 867.4	$ 685.1	$ 470.2	$ 716.8
Controls segment	520.8	555.3	449.9	326.6	435.5
Total net revenue	$ 1,403.3	$ 1,422.7	$ 1,134.9	$ 796.9	$ 1,152.2
Segment operating income					
Sensors segment	$ 244.3	$ 221.9	$ 194.1	$ 131.2	$ 240.2
Controls segment	130.0	136.5	129.6	94.4	148.8
Total segment operating income	$ 374.3	$ 358.3	$ 323.7	$ 225.5	$ 389.0

The following table presents net revenue by segment as a percentage of net revenue and segment operating income as a percentage of segment net revenue for the following years:

(As a percentage of revenue)	For the year ended December 31, 2007	2008	2009	For the nine months ended September 30, 2009	2010
Net revenue					
Sensors segment	62.9%	61.0%	60.4%	59.0%	62.2%

Controls segment	37.1	39.0	39.6	41.0	37.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Segment operating income (as a % of segment revenue)					
Sensors segment	27.7%	25.6%	28.3%	27.9%	33.5%
Controls segment	25.0%	24.6%	28.8%	28.9%	34.2%

For a reconciliation of total segment operating income to profit from operations, see Note 19 to our audited consolidated financial statements included elsewhere in this prospectus and Note 20 to our unaudited condensed consolidated financial statements included elsewhere in this prospectus.

Factors Affecting Our Operating Results

The following discussion sets forth certain components of our statements of operations as well as factors that impact those items.

Net Revenue

We generate revenue from the sale of sensors and controls products across all major geographic areas. Our net revenue from product sales includes total sales less estimates of returns for product quality reasons and for price allowances. Price allowances include discounts for prompt payment as well as volume-based incentives.

Because we sell our products to end-users in a wide range of industries and geographies, demand for our products is generally driven more by the level of general economic activity rather than conditions in one particular industry or geographic region.

Our overall net revenue is generally impacted by the following factors:

- fluctuations in overall economic activity within the geographic markets in which we operate;
- underlying growth in one or more of our core end-markets, either worldwide or in particular geographies in which we operate;
- the number of sensors and/or controls used within existing applications, or the development of new applications requiring sensors and/or controls;
- the mix of products sold, including the proportion of new or upgraded products and their pricing relative to existing products;
- changes in product sales prices (including quantity discounts, rebates and cash discounts for prompt payment);
- changes in the level of competition faced by our products, including the launch of new products by competitors;

- our ability to successfully develop and launch new products and applications; and

- fluctuations in exchange rates.

While the factors described above impact net revenue in each of our operating segments, the impact of these factors on our operating segments can differ, as described below. For more information about risks relating to our business, see Risk Factors Risk Factors Related To Our Business.

Cost of Revenue

We manufacture the majority of our products and subcontract only a limited number of products to third parties. As such, our cost of revenue consists principally of the following:

- *Production Materials Costs.* A portion of our production materials contains metals, such as copper, nickel and aluminum, and precious metals, such as gold and silver, and the costs of these materials may vary with underlying metals pricing. We purchase much of the materials used in production on a global best-cost basis, but we are still impacted by global and local market conditions. We enter into forward contracts to hedge a portion of our exposure to the potential change in prices associated with these commodities. The terms of these contracts fix the price at a future date for various notional amounts associated with these commodities.

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Employee Costs. These employee costs include the salary costs and benefit charges for employees involved in our manufacturing operations. These costs generally increase on an aggregate basis as sales and production volumes increase, and may decline as a percent of net revenue as a result of economies of scale associated with higher production volumes. We rely heavily on contract workers in certain geographies.

Other. Our remaining cost of revenue consists of:

- sustaining engineering activity costs;
- customer-related development costs;
- depreciation of fixed assets;
- freight costs;
- warehousing expenses;
- purchasing costs;
- outsourcing or subcontracting costs relating to services used by us on an occasional basis during periods of excess demand; and
- other general manufacturing expenses, such as expenses for energy consumption.

The main factors that influence our cost of revenue as a percent of net revenue include:

- production volumes fixed production costs are capitalized in inventory based on normal production volumes;
- transfer of production to our lower cost production facilities;
- the implementation of cost control measures aimed at improving productivity, including reduction of fixed production costs, refinements in inventory management and the coordination of purchasing within each subsidiary and at the business level;
- product lifecycles, as we typically incur higher cost of revenue associated with manufacturing over-capacity during the initial stages of product launches and when we are phasing out discontinued products;

- the increase in the carrying value of the inventory that was adjusted to fair value as a result of the application of purchase accounting associated with acquisitions;
- depreciation expense, including amounts arising from the adjustment of property, plant and equipment to fair value associated with acquisitions; and
- changes in the price of raw materials, including certain metals.

Research and Development

Research and development expenses consist of costs related to direct product design, development and process engineering. The level of research and development expense is related to the number of products in development, the stage of development process, the complexity of the underlying technology, the potential scale of the product upon successful commercialization and the level of our exploratory research. We conduct such activities in areas we believe will accelerate our longer term net revenue growth. Our basic technologies have been developed through a combination of internal development and third-party efforts (often by parties with whom we have joint development relationships). Our development expense is typically associated with:

- engineering core technology platforms to specific applications; and
- improving functionality of existing products.

Costs related to modifications of existing products for use by new customers in familiar applications is accounted for in cost of revenue and not included in research and development expense.

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Selling, General and Administrative

Our selling, general and administrative, or SG&A, expense consists of all expenditures incurred in connection with the sales and marketing of our products, as well as administrative overhead costs, including:

- salary and benefit costs for sales personnel and administrative staff. Expenses relating to our sales personnel generally increase or decrease principally with changes in sales volume due to the need to increase or decrease sales personnel to meet changes in demand. Expenses relating to administrative personnel generally do not increase or decrease directly with changes in sales volume;
- expense related to the use and maintenance of administrative offices, including depreciation expense;
- other administrative expense, including expense relating to logistics, information systems and legal and accounting services;
- general advertising expense; and
- other selling expenses, such as expenses incurred in connection with travel and communications.

Changes in SG&A expenses as a percent of net revenue have historically been impacted by a number of factors, including:

- changes in sales volume, as higher volumes enable us to spread the fixed portion of our sales and marketing expense over higher revenue;
- changes in the mix of products we sell, as some products may require more customer support and sales effort than others;
- changes in our customer base, as new customers may require different levels of sales and marketing attention;
- new product launches in existing and new markets, as these launches typically involve a more intense sales activity before they are integrated into customer applications; and
- customer credit issues requiring increases to the allowance for doubtful accounts.

Amortization of Intangible Assets and Capitalized Software

Acquisition-related intangible assets are amortized on the economic benefit basis based upon the useful lives of the assets. Capitalized software licenses are amortized on a straight-line basis over the term of the license.

Impairment of Goodwill and Intangible Assets

As a result of the annual goodwill impairment review in the fourth quarter of 2008, we determined that the goodwill associated with the Interconnection reporting unit was impaired and, therefore, recorded a charge of $13.2 million in the consolidated statement of operations for the year ended December 31, 2008. During our first quarter of 2009, we again performed a review of goodwill and definite-lived intangible asset for potential impairment since indicators were present and concluded that goodwill and definite-lived intangible assets were impaired and recorded a charge of $19.9 million, of which $5.3 million related to goodwill and $14.6 million related to definite-lived intangible assets. We believe that the global economic crisis, economic conditions within the semiconductor end-market and an increase in the competitive landscape surrounding suppliers to the semiconductor end-market were all factors that led to the impairment of goodwill. Key assumptions that were used in the development of the fair value of the Interconnection reporting unit are described in Critical Accounting Policies and Estimates Impairment of Goodwill and Intangible Assets .

As of October 1, 2009, we evaluated our goodwill and indefinite-lived intangible assets for impairment at the reporting unit level and determined that the fair values of the reporting units exceeded the carrying values on that date. There were no additional impairment charges recorded in the nine months ended September 30, 2010. Should certain assumptions used in the development of the fair value of our reporting units change, we may be required to recognize additional goodwill or intangible assets impairments.

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Restructuring

Restructuring costs consist of severance, outplacement, other separation benefits, pension settlement and curtailment losses and facilities and other exit costs.

Depreciation Expense

Property, plant and equipment are stated at cost and depreciated on a straight-line basis over their estimated useful lives. Property, plant and equipment acquired through the acquisitions of the S&C business and First Technology Automotive and Airpax businesses were stepped-up to fair value on the date of the respective business acquisition resulting in a new cost basis for accounting purposes. The amount of the adjustment to the cost basis of these assets as a result of the 2006 Acquisition, the First Technology Automotive acquisition and the Airpax acquisition totaled $57.8 million, $2.2 million and $5.1 million, respectively.

Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated 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. These assets are depreciated on a straight-line basis over the shorter of the estimated useful lives or the period of the related lease.

Interest Expense

Interest expense, net consists primarily of interest expense on institutional borrowings, interest rate derivative instruments, capital lease and other financing obligations. Interest expense, net also includes the amortization of deferred financing costs and interest expense on liabilities arising from uncertain tax positions.

Currency Translation Gain/(Loss) and Other, Net

Currency translation gain/(loss) and other, net includes gains and losses recognized on currency translation, gains and losses recognized on our derivatives used to hedge commodity prices and foreign currency exposures, gains and losses on the disposition of property, plant and equipment and gains on the repurchases of debt. We continue to derive a significant portion of our revenue in markets outside of the United States, primarily Europe and Asia. For financial reporting purposes, the functional currency of all our subsidiaries is the U.S. dollar. 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 the consolidated statements of operations.

Provision for Income Taxes

We and our subsidiaries are subject to income tax in the various jurisdictions in which we operate. While the extent of our future tax liability is uncertain, the purchase accounting of the 2006 Acquisition, the acquisition of First Technology Automotive and the acquisition of Airpax, the new debt and equity capitalization of our subsidiaries and the realignment of the functions performed and risks assumed by the various subsidiaries are among the factors that will determine the future book and taxable income of the respective subsidiary and Sensata as a whole.

We adopted guidance included within ASC 740 (originally issued as Financial Accounting Standards Board, or FASB, Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*) effective January 1, 2007, and recognized an increase of $0.7 million in the liability for unrecognized tax benefits, which was accounted for as an increase to the January 1, 2007 balance of accumulated deficit.

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For the Predecessor periods, our operations were included in the consolidated U.S. federal income tax return and certain foreign income tax returns of Texas Instruments. The income tax provisions and related deferred tax assets and liabilities for the Predecessor periods have been determined as if we were a separate taxpayer. Deferred income taxes are provided for temporary differences between the book and tax basis of assets and liabilities.

Loss from Discontinued Operations

In December 2008, we announced our intention to discontinue and sell our automotive vision sensing business, or the Vision business. In connection with this announcement, we reclassified to discontinued operations the results from operations of the Vision business and recognized a loss associated with measuring the net assets of the Vision business at fair value less cost to sell and other exit costs, in accordance with ASC Topic 360, *Property, Plant and Equipment*.

Effects of Acquisitions and Other Transactions

Purchase Agreement

On April 27, 2006, Sensata Technologies B.V., our indirect wholly-owned subsidiary, completed the acquisition of the S&C business from Texas Instruments for an aggregate purchase price of approximately $3.0 billion plus fees and expenses. The acquisition of the S&C business was effected through a number of our subsidiaries that collectively acquired the assets and assumed the liabilities being transferred. The acquisition structure resulted in significant tax amortization, which will reduce our overall cash tax expense compared to historical periods. We also entered into a transition services agreement pursuant to which we and Texas Instruments agreed to provide various services to each other in the area of facilities-related services, finance and accounting, human resources, information technology system services, warehousing and logistics and records retention and storage. As of September 30, 2008, we were no longer relying on these services from Texas Instruments. The fees for these services were equivalent to the provider s cost.

Shareholders Equity

Our authorized share capital at September 30, 2010 consisted of 400,000,000 ordinary shares with a nominal value of 0.01 per share, of which 171,400,393 ordinary shares were outstanding, which excludes 358,698 legally issued ordinary shares that are subject to forfeiture until such shares have vested and are not considered outstanding for accounting purposes.

Upon the close of the 2006 Acquisition, the Sponsors contributed $985.0 million to our parent, Sensata Investment Co., which, in turn, contributed these proceeds to us, and in exchange received 31,636,360 of our ordinary shares with a nominal value of 0.01 per share and a total value of $216.7 million as well as 616.9 million of deferred payment certificates. The deferred payment certificates were legally issued as debt and provided the holder with a 14% yield on the principal amount. As a result, the deferred payment certificates were classified as long-term debt as of April 27, 2006 and the accrued yield was recognized as interest expense. In addition, the deferred payment certificates and the related yield were remeasured into the U.S. dollar equivalent at the end of each reporting period with the difference recorded as currency gain or loss.

In May 2006, we granted 20,025 restricted ordinary shares and 390,487 deferred payment certificates to certain members of our management. On July 28, 2006, certain members of management participated in the Sensata Investment Co. First Amended and Restated 2006 Management Securities Purchase Plan. In connection with this plan, certain members of management contributed $1.6 million to Sensata Investment Co. and received an equity interest in Sensata Investment Co. On September 29, 2006, $1.6 million was contributed to us as a capital contribution from Sensata Investment Co. in exchange for 228,000 of our ordinary shares.

On September 21, 2006, we legally retired the deferred payment certificates by converting them into ordinary shares effective as of April 27, 2006. Upon conversion, additional ordinary shares totaling 112,165,276, excluding 70,998 restricted ordinary shares issued to management, were issued to the holders of the deferred payment certificates.

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During fiscal year 2008, we repurchased 11,973 ordinary shares from a shareholder.

In December 2009, we awarded 380,900 restricted ordinary shares, which are subject to forfeiture until such shares have vested.

In March 2010, we completed the initial public offering of our ordinary shares in which we sold 26,315,789 shares and our shareholders sold 5,284,211 shares at a public offering price of $18.00 per share. The net proceeds of the initial public offering to us totaled $435.9 million after deducting the underwriters discounts and commissions and offering expenses, including $2.5 million of proceeds from the exercise of stock options. In April 2010, the underwriters of our initial public offering exercised their option to purchase an additional 4,740,000 ordinary shares from selling shareholders at a price of $18.00 per share, which included 353,465 shares obtained by certain selling shareholders through the exercise of options to purchase ordinary shares. The sale of the additional shares closed on April 14, 2010. We did not receive any proceeds from the sale of the additional shares, other than the proceeds from the exercise of such stock options, which totaled $2.5 million.

Purchase Accounting

We accounted for the acquisitions of the S&C business, First Technology Automotive and Airpax using the purchase method of accounting. As a result, the purchase prices for each of these transactions, plus fees and expenses, have been allocated to the tangible and intangible assets acquired and liabilities assumed based upon their respective fair values as of the date of each acquisition. The excess of the purchase price over the fair value of assets and liabilities was assigned to goodwill, which is not amortized for accounting purposes, but is subject to testing for impairment at least annually. The application of purchase accounting resulted in an increase in amortization and depreciation expense in the periods subsequent to acquisition relating to our acquired intangible assets and property, plant and equipment. In addition to the increase in the carrying value of property, plant and equipment, we extended the remaining depreciable lives of property, plant and equipment to reflect the estimated remaining useful lives for purposes of calculating periodic depreciation. We also adjusted the value of the inventory to fair value, increasing the costs and expenses recognized upon the sale of this acquired inventory. See our audited consolidated financial statements that appear elsewhere in this prospectus.

Increased Leverage

We are a highly leveraged company and our interest expense has increased significantly in the periods following the consummation of the 2006 Acquisition, the First Technology Automotive acquisition and the Airpax acquisition. In addition, a portion of our debt and the related interest is denominated in Euros, subjecting us to changes in foreign currency rates. Further, a portion of our debt has a variable interest rate. We have utilized interest rate swaps, interest rate collars and interest rate caps to hedge the effect of variable interest rates. See Quantitative and Qualitative Disclosures about Market Risk Interest Rate Risk for more information regarding our hedging activities. Our large amount of indebtedness may limit our flexibility in planning for, or reacting to, changes in our business and future business opportunities since a substantial portion of our cash flow from operations will be dedicated to the payment of our debt service, and this may place us at a competitive disadvantage as some of our competitors are less leveraged. Our leverage may make us more vulnerable to a downturn in our business, industry or the economy in general. See Risk Factors.

Critical Accounting Policies and Estimates

Our discussion and analysis of results of operations and financial condition are based upon our consolidated financial statements. These financial statements have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the amounts reported in the financial statements. We base our estimates on historical experiences and assumptions believed to be reasonable under the circumstances and re-evaluate them on an ongoing basis. Those estimates form the basis for our judgments that affect the amounts reported in the financial statements. Actual results could differ from our estimates under different assumptions or conditions. Our significant accounting policies, which may be affected by our estimates and assumptions, are more fully described in Note 2 to our audited consolidated financial statements that appear elsewhere in this prospectus.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements. Management believes the following critical accounting policies reflect its most significant estimates and assumptions used in the preparation of the consolidated financial statements.

Revenue Recognition

We recognize revenue in accordance with Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements*, as amended by SAB No. 104, *Revenue Recognition*. Revenue and related cost of revenue from product sales is 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. Shipping and handling costs are included in cost of revenue. Sales to customers generally include a right of return. Sales returns have not historically been significant to our revenues and have been within the estimates made by management.

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.

Impairment of Goodwill and Intangible Assets

Identification of reporting units. We have four reporting units: Sensors, Electrical Protection, Power Protection and Interconnection. These reporting units have been identified based on the definitions and guidance provided in ASC Topic 350, *Intangibles Goodwill and Other* (ASC 350), which considers, among other things, the manner in which we operate our business and the availability of discrete financial information. 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 new reporting units.

Assignment of assets, liabilities and goodwill to each reporting unit. Assets acquired and liabilities assumed are assigned to a reporting unit as of the date of acquisition. In the event we reorganize our business, we reassign the assets, including goodwill, and the liabilities to the affected reporting units. Some assets or liabilities relate to the operations of multiple reporting units. We allocate these assets and liabilities to the reporting units based on methods that we believe are reasonable and supportable. We apply that allocation method on a consistent basis from year to year. We view some assets and liabilities, such as cash and cash equivalents, our corporate offices, debt and deferred financing costs as being corporate in nature. Accordingly, we do not assign these assets and liabilities to our reporting units.

Accounting policies relating to goodwill and the goodwill impairment test. Companies acquired in business combinations are recorded at their fair value on the date of acquisition. The excess of the purchase price over the fair value of assets acquired and liabilities assumed is recognized as goodwill. As of December 31, 2009, goodwill and other intangible assets totaled $1,530.6 million and $865.5 million, respectively, or approximately 48% and 27% of our total assets, respectively. As of September 30, 2010, goodwill and other intangible assets totaled $1,529.0 million and $759.1 million, respectively, or approximately 46% and 23% of our total assets, respectively.

In accordance with 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 carrying amount. We perform our annual evaluation of goodwill and other intangible assets for impairment at the reporting unit level in the fourth quarter of each fiscal year.

The first step of our annual evaluation is to compare the estimated fair value of the reporting units to their respective carrying values to determine whether there is an indicator of potential impairment. 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.

If the carrying amount of a reporting unit exceeds its estimated fair value, we conduct a second step, which is comprised of additional factors in assessing the fair value of goodwill. If the carrying amount 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. The fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets such as the assembled workforce) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

Estimated fair value for each reporting unit. In connection with our 2009 annual impairment review, we estimated the fair value of our reporting units using the discounted cash flow method.

For the discounted cash flow method, we prepared detailed annual projections of future cash flows for each reporting unit for fiscal years 2010 through 2014, the Discrete Projection Period. We estimated the value of the cash flows beyond fiscal year 2014, or the Terminal Year, by applying a multiple to the projected fiscal year 2014 EBITDA. The cash flows from the Discrete Projection Period and the Terminal Year were discounted at an estimated weighted-average cost of capital appropriate for each reporting unit. The estimated weighted-average cost of capital was derived, in part, from comparable companies appropriate to each reporting unit. For the Interconnection reporting unit, we prepared detailed annual projections of future cash flows and estimated the Terminal Year value by way of capitalizing these cash flows at a discount rate of 16.5%. We believe that our procedures for estimating discounted future cash flows, including the Terminal Year valuation were reasonable, and consistent with accepted valuation practices.

We also estimate the fair value of our reporting units using the guideline company method. For the guideline company method, we performed an analysis to identify a group of publicly-traded companies that were comparable to each reporting unit. We calculated an implied EBITDA multiple (e.g., invested capital/ EBITDA) for each of the guideline companies and selected either the high, low or average multiple depending on various facts and circumstances surrounding the reporting unit and applied it to that reporting units trailing twelve month EBITDA. Although we estimate the fair value of our reporting units using the guideline method, we do so for corroborative purposes, and place primary weight on the discounted cash flow method.

The preparation of the long-range forecasts, the selection of the discount rates and the estimation of the multiples used in valuing the Terminal Year involve significant judgments. Changes to these assumptions could affect the estimated fair value of our reporting units and could result in a goodwill impairment charge in a future period.

Goodwill impairment. During the fourth quarter of 2008, we determined that goodwill associated with the Interconnection reporting unit was impaired and recorded a charge of $13.2 million in the consolidated statements of operations. During the first quarter of 2009, we determined that goodwill associated with the Interconnection reporting unit had become further impaired and recorded a charge of $5.3 million. In addition, we determined that certain intangible assets associated with the Interconnection reporting unit had become impaired during the first quarter of 2009 and recorded a charge of $14.6 million. We believe that the global

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economic crisis, the economic conditions within the semiconductor end-market and an increase in the competitive landscape surrounding suppliers to the semiconductor end-market were all factors that led to the impairment of goodwill and intangible assets. We believe that the global economic crisis and the economic conditions within the semiconductor end-market worsened from the fourth quarter of 2008 to the first quarter of 2009, leading to the second impairment charge.

The fair value and carrying value of the Interconnection reporting unit after the impairment charges in the first quarter of 2009 were $15.1 million and $14.1 million, respectively. The fair value and carrying value of the Interconnection reporting unit as of October 1, 2009 were $26.7 million and $14.7 million, respectively. The carrying values of goodwill and intangible assets associated with the Interconnection reporting unit as of December 31, 2009 were $3.3 million and $9.8 million, respectively.

As of October 1, 2009, we evaluated our goodwill and indefinite-lived intangible assets for impairment at the reporting unit level and determined that the fair values of the reporting units exceeded the carrying values on that date. Should certain assumptions used in the development of the fair value of our reporting units change, we may be required to recognize additional goodwill or intangible assets impairments.

Events that have occurred since the last annual goodwill impairment assessment. Our financial performance changed significantly during 2009. For example, our net revenue during the quarters ended March 31, 2009, June 30, 2009, September 30, 2009 and December 31, 2009 was $239.0 million, $255.4 million, $302.5 million and $338.1 million, respectively. We believe these changes generally follow the pattern of the performance in the various end-markets served by our customers. During the quarter ended December 31, 2009, we prepared our annual goodwill impairment analyses. The estimated fair values of the Sensors, Electrical Protection, Power Protection and Interconnection reporting units used in those analyses exceeded their carrying values by 147.1%, 116.3%, 26.1% and 81.3%, respectively.

We did not prepare updated interim goodwill impairment analyses as of December 31, 2009 for any reporting unit, as we believed, based on our financial performance during the fourth quarter of 2009, the financial forecasts and the improvement in the global economy and the end-markets our customers serve, that there were no indicators of potential impairments.

Since our annual impairment analysis, our net revenue during the quarters ended March 31, 2010, June 30, 2010 and September 30, 2010 was $377.1 million, $391.8 million and $383.3 million, respectively. There were no additional impairment charges recorded in the nine months ended September 30, 2010.

Types of events that could result in a goodwill impairment. As noted above, the preparation of the long-range forecasts, the selection of the discount rates and the estimation of the multiples or long-term growth rates used in valuing the Terminal Year involve significant judgments. Changes to these assumptions could affect the estimated fair value of our reporting units and could result in a goodwill impairment charge in a future period. We believe that a double-dip in the global economy, a scenario in which there is a short period of growth following the bottom of a recession, followed immediately by another sharp decline that results in another recession could require us to revise our long-term projections and could reduce the multiples applied to the Terminal Year value. Such revisions could result in a goodwill impairment charge in the future.

Indefinite-Lived Intangible Assets. We perform an annual impairment review of our indefinite-lived intangible assets unless events occur which trigger the need for an earlier impairment review. The impairment review requires management 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.

Definite-Lived Intangible Assets. Reviews are regularly performed to determine whether facts or circumstances exist that indicate 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 those assets to their respective carrying amounts. 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 amount over the fair value of those assets. Fair value is determined by using the appropriate income approach valuation methodology depending on the nature of the intangible asset.

Impairment of Long-Lived Assets. We periodically re-evaluate carrying values and estimated useful lives of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of the related assets may not be recoverable. We use estimates of undiscounted cash flows from long-lived assets to determine whether the book value of such assets is recoverable over the assets remaining useful lives. These estimates include assumptions about future conditions within the Company and the industry. If an asset is determined to be impaired, the impairment is measured by the amount by which the carrying value of the asset exceeds its fair value. These evaluations are performed at a level where discrete cash flows may be attributed to either an individual asset or a group of assets.

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 on a first-in, first-out basis and includes material, labor and applicable manufacturing overhead as well as transportation and handling costs. We conduct quarterly inventory reviews for salability and obsolescence. Allowances are determined by comparing inventory levels of individual materials and parts to historical usage rates, current backlog and estimated future sales and by analyzing the age of inventory, in order to identify specific components of inventory that are judged unlikely to be sold. Provisions to the inventory allowance are recognized regularly based on the analysis described above and could have a material adverse impact on our financial condition and results of operations.

Income Taxes

As part of the process of preparing our financial statements, we are required to estimate our provision for income taxes in each of the jurisdictions in which we operate. This involves estimating our actual current tax exposure, including assessing the risks associated with tax audits, together with assessing temporary differences resulting from the different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and record a valuation allowance to reduce the deferred tax assets to an amount that, in our judgment, is more likely than not to be recovered.

Management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our deferred tax assets. The valuation allowance is based on our estimates of future taxable income and the period over which we expect the deferred tax assets to be recovered. Our assessment of future taxable income is based on historical experience and current and anticipated market and economic conditions and trends. In the event that actual results differ from these estimates or we adjust our estimates in the future, we may need to adjust our valuation allowance, which could materially impact our consolidated financial position and results of operations.

Pension and Post-Employment Benefit Plans

We sponsor various pension and post-employment benefit plans covering our employees in several countries. The estimates of our obligations and related expense of these plans recorded in our financial statements are based on certain assumptions. The most significant assumptions relate to the 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. These assumptions are updated annually by us. The difference between these assumptions and actual experience results in the recognition of an asset or liability based upon a net actuarial (gain)/loss. If total net actuarial (gain)/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 benefit plan.

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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 our financial statements. In estimating this rate, we consider rates of return on high-quality fixed-income investments included in various published bond indexes, adjusted to eliminate the effect of call provisions and differences in the timing and amounts of cash outflows related to the bonds.

To determine the expected return on plan assets, we considered 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 in healthcare costs directly impacts the estimate of our future obligations in connection with our post-employment 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 plans.

Share-Based Payment Plans

In December 2004, the FASB issued guidance now codified as ASC Topic 718, *Compensation Stock Compensation*, or ASC 718. ASC 718 requires that new, modified and unvested share-based compensation arrangements with employees, such as stock options and restricted stock units, be measured at fair value and recognized as compensation expense over the requisite service period.

Our outstanding option awards are generally divided into three tranches. The first tranche is subject to time vesting. The second and third tranches are subject to time vesting and, additionally, the completion of a liquidity event that results in specified returns on the Sponsors investment. During the three months ended September 30, 2009, Tranche 3 options were converted to Tranche 2 options.

The fair value of the Tranche 1 options are estimated 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, dividend yield, expected volatility, risk-free interest rate and expected term. The expected term of the time vesting options was based on the simplified methodology prescribed by the SAB No. 107 (SAB 107). The expected term is determined by computing the mathematical mean of the average vesting period and the contractual life of the options. We utilize the simplified method for options granted due to the lack of historical exercise data necessary to provide a reasonable basis upon which to estimate the term. We consider the historical and implied volatility of publicly-traded companies within our industry when selecting the appropriate volatility to apply to the options. Ultimately, we utilize the implied volatility to calculate the fair value of the options as it provides a forward-looking indication and may offer insight into expected industry volatility. The risk-free interest rate is based on the yield for a U.S. Treasury security having a maturity similar to the expected life of the related grant. The dividend yield is based on management s judgment with input from our board of directors.

We perform contemporaneous valuations to estimate the fair value of the Company s ordinary shares in connection with the issuance of share-based payment awards. We rely on these valuation analyses in determining the fair value of the share-based payment awards. The assumptions required by these valuation analyses involve the use of significant judgments and estimates on the part of management.

For significant awards granted prior to our initial public offering in March 2010, such as those granted on September 4, 2009 and December 9, 2009, the valuation analysis of the ordinary shares of the Company utilized a combination of the discounted cash flow method and the guideline company method. For less significant awards, we relied solely on the discounted cash flow method. For the discounted cash flow method, we prepared detailed annual projections of future cash flows over a period of five fiscal years, or the Discrete Projection Period. We estimated the total value of the cash flow beyond the final fiscal year by applying a multiple to the final projected fiscal year EBITDA, or the Final Fiscal Year. The cash flows from the Discrete Projection Period and the Final Fiscal Year were discounted at an estimated weighted-average cost of capital. The estimated weighted-average cost of capital was derived, in part, from the median capital structure of comparable companies within similar industries. We believe that our procedures for estimating discounted future cash flows, including the Final Fiscal Year valuation, were reasonable and consistent with accepted valuation practices. For the guideline company method, we performed an analysis to identify a group of publicly-traded companies that were comparable to our company. Many of the companies with whom we compete are smaller, privately-held companies or divisions within large publicly-traded companies. Therefore, in order to develop market-based multiples, we turned to publicly-traded companies that we believed operate in industries similar to our own. We calculated an implied EBITDA multiple (enterprise value/EBITDA) for each of the guideline companies and selected the appropriate multiple to apply to our EBITDA (our fiscal year 2010 projected EBITDA in the case of the awards issued on September 4, 2009 and December 9, 2009) depending on the facts and circumstances. For the awards issued on September 4, 2009 and December 9, 2009, the resulting enterprise value under this guideline company method was within 10% of the enterprise value under the discounted cash flow method. For these grants, we utilized the average of the two methods to determine the fair value of the ordinary shares. In addition, we applied a marketability discount (6.0% for the awards issued on September 4, 2009 and 5.0% for the awards issued on December 9, 2009) to the implied value of equity. We believe that the overall approach is consistent with the principles and guidance set forth in the 2004 AICPA Practice Aid on *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*.

The fair values of the Tranche 2 and 3 options were estimated on the date of grant using the Monte Carlo Simulation Approach. Key assumptions used include those described above for determining the fair value of Tranche 1 options in addition to assumed time to liquidity and probability of an initial public offering versus a disposition. Upon the occurrence of a liquidity event, we recognize compensation expense over the remaining service period of the awards, including a cumulative catch-up adjustment for previously unrecognized compensation expense, regardless of whether or not the Sponsors achieve the specified returns. During the three months ended March 31, 2010, we recognized a cumulative catch-up adjustment for compensation expenses totaling $18.9 million. See Executive Compensation Components of Compensation Equity Compensation.

The forfeiture rate is based on our estimated forfeitures by plan participants due to the lack of historical forfeiture data necessary to provide a reasonable basis upon which to estimate a rate.

We granted the following share-based awards prior to our initial public offering in March 2010:

Grant Date	Number of options	Number of restricted shares	Original Exercise Price	Modified Exercise Price	Fair value of ordinary shares on date of grant	Fair value of ordinary shares on date of most recent modification	Intrinsic value per share based on fair value of ordinary shares as of December 31, 2009	Intrinsic value per share based on fair value of ordinary shares as of September 30, 2010
May 21, 2009[1]	75,000		$ 6.30	$ 14.80	$ 6.30	$ 17.48	$ 5.23	$ 4.96
September 4, 2009[2]	950,000		7.00	14.80	14.80	17.48	5.23	4.96
December 9, 2009	350,000		17.48	NA	17.48	NA	2.55	2.28
December 9, 2009[3]		380,900	NA	NA	17.48	NA	20.03	19.76

(1) The award granted on May 21, 2009 for 75,000 options was cancelled and reissued on September 4, 2009. The exercise price of the reissued award increased from $6.30 to $7.00. On December 8, 2009, the award was again cancelled and reissued. The exercise price of the reissued award increased from $7.00 to $14.80.

(2) On December 8, 2009, the exercise price of the options granted on September 4, 2009 was reset to $14.80, the fair market value of the ordinary shares on September 4, 2009. Our board of directors determined that the exercise price of the options granted on September 4, 2009 was established at less than the fair market value of the underlying shares. All other terms and provisions of the options granted, including the dates of vesting, remained unchanged and in full force and effect.

(3) We measured the fair value of the restricted shares on the date of grant in accordance with ASC 718, based on the date on which we and the grantees reached a mutual understanding as to the key terms and conditions of the share-based awards. We determined the fair value of the restricted shares on December 9, 2009, the date of grant, to be $17.48 per share. The restricted shares were legally issued under Dutch law on February 22, 2010. We believe the fair value and intrinsic value of the restricted shares on February 22, 2010 was $19.00 per share. Had we utilized the fair value of the restricted shares as of February 22, 2010, the aggregate fair value of the restricted share awards would have been $7.2 million compared to an aggregate fair value of $6.7 million using the grant date fair value of the restricted shares as of December 9, 2009, and, as a result, would not have had a material impact on our reported compensation expense in any period.

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During 2009, we amended our First Amended and Restated Sensata Technologies Holding B.V. 2006 Management Option Plan to increase the ordinary shares reserved for issuance and to change the vesting rules by changing the performance measure of Tranche 3 options to equal that of the Tranche 2 options, effectively converting the Tranche 3 options to Tranche 2 options. See Executive Compensation Components of Compensation Equity Compensation for further discussion of our share-based payment plans.

In connection with the completion of our initial public offering in March 2010, we adopted the Sensata Technologies Holding N.V. 2010 Employee Stock Purchase Plan, or 2010 Stock Purchase Plan, and the Sensata Technologies Holding N.V. 2010 Equity Incentive Plan, or 2010 Equity Plan. The purpose of the 2010 Stock Purchase Plan is to provide an incentive for present and future eligible employees to purchase our ordinary shares and acquire a proprietary interest in the Company. The purpose of the 2010 Equity Plan is to promote long-term growth and profitability by providing our eligible present and future directors, officers, employees, consultants and advisors with incentives to contribute to and participate in our success. The maximum number of ordinary shares available for sale under the 2010 Stock Purchase Plan is 500,000 ordinary shares. The maximum number of ordinary shares available under the 2010 Equity Plan is 5,000,000 ordinary shares.

Results of Operations

The table below presents our historical results of operations in millions of dollars and as a percent of net revenue. We have derived the statements of operations for the nine months ended September 30, 2009 and 2010 from the unaudited condensed consolidated financial statements included elsewhere in this prospectus. Amounts and percentages in the table below have been calculated based on unrounded numbers. Accordingly, certain amounts may not add to the totals due to the effect of rounding.

	For the nine months ended September 30,			
	2009		2010	
(Amounts in millions)	**Amount**	**Percent of Revenue**	**Amount**	**Percent of Revenue**
Net revenue				
Sensors Segment	$ 470.2	59.0%	$ 716.8	62.2%
Controls Segment	326.6	41.0	435.5	37.8
Net revenue	796.9	100.0	1,152.2	100.0
Operating costs and expenses:				
Cost of revenue	521.2	65.4	712.0	61.8
Research and development	12.7	1.6	17.3	1.5
Selling, general and administrative	95.3	12.0	156.0	13.5
Amortization of intangible assets and capitalized software	115.1	14.4	108.3	9.4
Impairment of goodwill and intangible assets	19.9	2.5		
Restructuring	18.0	2.3	0.2	0.0
Total operating costs and expenses	782.1	98.1	993.8	86.2
Profit from operations	14.7	1.9	158.4	13.8
Interest expense	(115.4)	(14.5)	(82.2)	(7.1)
Interest income	0.5	0.1	0.6	0.1
Currency translation gain and other, net	94.1	11.8	20.5	1.8

(Loss)/income from continuing operations before taxes	(6.1)	(0.8)	97.4	8.5
Provision for income taxes	35.2	4.4	36.0	3.1
(Loss)/Income from continuing operations	(41.2)	(5.2)	61.4	5.3
Loss from discontinued operations	(0.4)	(0.0)		
Net (loss)/income	$ (41.6)	(5.2)%	$ 61.4	5.3%

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Nine Months Ended September 30, 2010 Compared to the Nine Months Ended September 30, 2009

Net revenue

Net revenue for the nine months ended September 30, 2010 increased $355.4 million, or 44.6%, to $1,152.2 million from $796.9 million for the nine months ended September 30, 2009. Net revenue increased 45.4% due to higher volumes, partially offset by a decrease of 0.7% due to pricing and 0.1% due to unfavorable foreign currency exchange rates, primarily the U.S. dollar to Euro. The increase in volumes was due to an increase in production volumes in our mature markets of 26.1%, growth in content of 11.1% and growth in our emerging markets (primarily China) of 8.8%, partially offset by a 0.6% reduction due to other miscellaneous factors.

Sensors business segment net revenue for the nine months ended September 30, 2010 increased $246.5 million, or 52.4%, to $716.8 million from $470.2 million for the nine months ended September 30, 2009. Sensors net revenue increased 54.2% due to higher volumes, partially offset by a decrease of 1.4% due to pricing and 0.4% due to unfavorable foreign exchange rates, primarily the U.S. dollar to Euro exchange rate.

Controls business segment net revenue for the nine months ended September 30, 2010 increased $108.9 million, or 33.3%, to $435.5 million from $326.6 million for the nine months ended September 30, 2009. Controls net revenue increased 32.6% due to higher volumes, 0.4% due to favorable foreign exchange rates, primarily the U.S. dollar to Euro exchange rate, and 0.3% due to pricing.

Cost of revenue

Cost of revenue for the nine months ended September 30, 2010 and 2009 was $712.0 million, or 61.8% of net revenue, and $521.2 million, or 65.4% of net revenue, respectively. Cost of revenue increased primarily due to the increase in unit volumes sold. Depreciation expense for the nine months ended September 30, 2010 and 2009 was $29.5 million and $34.0 million, respectively, of which $26.7 million and $31.2 million, respectively, was included in cost of revenue. Cost of revenue as a percentage of net revenue decreased primarily due to cost savings initiatives discussed above the leverage effect of higher revenue on certain fixed manufacturing costs, and the reduction in depreciation expense.

Research and development expense

R&D expense for the nine months ended September 30, 2010 and 2009 was $17.3 million and $12.7 million, respectively. R&D expense as a percentage of net revenue for the nine months ended September 30, 2010 and 2009 was 1.5% and 1.6%, respectively.

Selling, general and administrative expense

SG&A expense for the nine months ended September 30, 2010 and 2009 was $156.0 million, or 13.5% of net revenue, and $95.3 million, or 12.0%, of net revenue, respectively. Selling, general and administrative expenses increased primarily due to expenses of $22.4 million associated with the termination of the advisory agreement with the Sponsors at their election upon completion of the initial public offering, and $18.9 million of stock compensation expense associated with the performance vesting of the Tranche 2 and 3 option awards, both of which occurred in March 2010. See Certain Relationships and Related Party Transactions Advisory Agreement. SG&A expense as a percentage of net revenue increased due to the reasons described above, but were partially offset by the leverage effect of higher revenue on certain fixed costs and our cost savings initiatives resulting from the restructuring plans implemented in 2008 and 2009.

Amortization of intangible assets and capitalized software

Amortization expense associated with definite-lived intangible assets and capitalized software for the nine months ended September 30, 2010 and 2009 was $108.3 million and $115.1 million, respectively. The decrease resulted from recognition of amortization expense on an accelerated basis to appropriately reflect the pattern in which the economic benefits of the intangible assets are being realized.

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Impairment of goodwill and intangible assets

During the three months ended March 31, 2009, we performed a review of goodwill and definite-lived intangible assets for potential impairment. As a result of this analysis, we determined that goodwill and definite-lived intangible assets associated with our Interconnection reporting unit were impaired and recorded a charge of $19.9 million, of which $5.3 million related to goodwill and $14.6 million related to definite-lived intangible assets. We attributed the impairment charge to the deterioration in the global economy, including capital spending in the semiconductor market, which occurred during the first quarter of 2009.

Restructuring

Restructuring expense for the nine months ended September 30, 2010 and 2009 was $0.2 million and $18.0 million, respectively. Restructuring expense for the nine months ended September 30, 2009 related to the continuation in 2009 of restructuring activities that started in the second half of 2008, including reducing the workforce in our business centers and manufacturing facilities throughout the world and moving certain manufacturing operations to low-cost countries. This expense consisted of $12.7 million related to severance, $4.7 million related to pension settlement, curtailment, and other related charges, and $0.6 million related to other exit costs.

Interest expense

Interest expense for the nine months ended September 30, 2010 and 2009 was $82.2 million and $115.4 million, respectively. Interest expense for the nine months ended September 30, 2010 consisted primarily of $62.3 million of interest expense on our outstanding debt, $9.4 million of interest associated with our outstanding derivative instruments, $6.5 million of amortization of deferred financing costs and $2.7 million of interest associated with our capital lease and other financing obligations. Interest expense for the nine months ended September 30, 2009 consisted primarily of $93.3 million of interest expense on our outstanding debt, $10.4 million of interest associated with our outstanding derivative instruments, $6.8 million of amortization of deferred financing costs and $2.8 million of interest associated with our capital lease and other financing obligations. The decrease in interest expense on the outstanding debt of our subsidiary, Sensata Technologies B.V., was due primarily to the tender and redemption of the Senior Notes and Senior Subordinated Notes during the six months ended June 30, 2010.

Currency translation (loss) / gain and other, net

Currency translation gain and other, net for the nine months ended September 30, 2010 and 2009 was $20.5 million and $94.1 million, respectively. Currency translation gain and other, net for the nine months ended September 30, 2010 consisted primarily of currency gains of $53.8 million resulting from the re-measurement of our foreign currency denominated debt and a net gain of $2.6 million associated with our commodity forward contracts, partially offset by losses of $23.5 million resulting from the tender and redemption of the Senior Notes and Senior Subordinated Notes, net currency losses of $6.5 million resulting from the re-measurement of net monetary assets denominated in foreign currencies and a loss of $5.2 million related to the reversal of indemnification assets and other non-cash tax items as discussed elsewhere. Currency translation gain and other, net for the nine months ended September 30, 2009 consisted primarily of the gain of $120.1 million resulting from the tender of certain Senior Notes and Senior Subordinated Notes, a net gain of $2.4 million associated with our commodity forward contracts, $2.2 million of net currency gains due to the re-measurement of net-monetary assets denominated in foreign currencies partially offset by net currency losses of $28.5 million resulting from the re-measurement of our foreign currency denominated debt, and an impairment loss of $1.6 million associated with our manufacturing facilities classified as held for sale.

Provision for income taxes

Provision for income taxes for the nine months ended September 30, 2010 and 2009 totaled $36.0 million and $35.2 million, respectively. Our tax provision consisted of current tax expense which related primarily to our profitable operations in foreign tax jurisdictions and deferred tax expense which related primarily to amortization of tax deductible goodwill.

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

Results of Operations

The table below presents our historical results of operations in millions of dollars and as a percent of net revenue. We have derived the statements of operations for the years ended December 31, 2007, 2008 and 2009 from the audited consolidated financial statements included elsewhere in this prospectus. Amounts and percentages in the table below have been calculated based on unrounded numbers. Accordingly, certain amounts may not add to the totals due to the effect of rounding.

	For the year ended December 31,					
	2007		2008		2009	
(Amounts in millions)	**Amount**	**Percent of Revenue**	**Amount**	**Percent of Revenue**	**Amount**	**Percent of Revenue**
Net revenue:						
Sensors segment	$ 882.5	62.9%	$ 867.4	61.0%	$ 685.1	60.4%
Controls segment	520.8	37.1	555.3	39.0	449.9	39.6
Net revenue	1,403.3	100.0	1,422.7	100.0	1,134.9	100.0
Operating costs and expenses:						
Cost of revenue	944.8	67.3	951.8	66.9	742.1	65.4
Research and development	33.9	2.4	38.3	2.7	16.8	1.5
Selling, general and administrative	166.1	11.8	166.6	11.7	127.0	11.2
Amortization of intangible assets and capitalized software	131.1	9.3	148.8	10.5	153.1	13.5
Impairment of goodwill and intangible assets			13.2	0.9	19.9	1.8
Restructuring	5.2	0.4	24.1	1.7	18.1	1.6
Total operating costs and expenses	1,281.0	91.3	1,342.7	94.4	1,076.9	94.9
Profit from operations	122.3	8.7	80.0	5.6	58.1	5.1
Interest expense	(191.2)	(13.6)	(197.8)	(13.9)	(150.6)	(13.3)
Interest income	2.6	0.2	1.5	0.1	0.6	0.1
Currency translation gain/(loss) and other, net	(105.4)	(7.5)	55.5	3.9	107.7	9.5
(Loss)/income from continuing operations before income taxes	(171.7)	(12.2)	(60.9)	(4.3)	15.8	1.4
Provision for income taxes	62.5	4.5	53.5	3.8	43.0	3.8
Loss from continuing operations	(234.2)	(16.7)	(114.4)	(8.0)	(27.3)	(2.4)
Loss from discontinued operations	(18.3)	(1.3)	(20.1)	(1.4)	(0.4)	

Net loss	$	(252.5)	(18.0)%	$ (134.5)	(9.5)%	$ (27.7)	(2.4)%

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Year Ended December 31, 2009 (fiscal year 2009) Compared to the Year Ended December 31, 2008 (fiscal year 2008)

Net revenue

Net revenue for fiscal year 2009 decreased $287.7 million, or 20.2%, to $1,134.9 million from $1,422.7 million for fiscal year 2008. Net revenue decreased 18.5% due to a reduction in volume, 1.1% due to unfavorable foreign currency exchange rates, primarily the U.S. dollar to Euro exchange rate, and 0.6% due to pricing. Sales during fiscal year 2009 benefited from government incentive programs, such as the Car Allowance Rebate System in the U.S. and the New Countryside Initiative in China.

Sensors business segment net revenue for fiscal year 2009 decreased $182.3 million, or 21.0%, to $685.1 million from $867.4 million for fiscal year 2008. Sensors net revenue decreased 18.2% due to lower volumes, 1.3% due to unfavorable foreign exchange rates, primarily the U.S. dollar to Euro exchange rate, and 1.5% due to pricing. The decrease in volumes was due to the deterioration in the global economy and the automotive end-market, which began during the second half of fiscal year 2008 and continued during fiscal year 2009.

Controls business segment net revenue for fiscal year 2009 decreased $105.4 million, or 19.0%, to $449.9 million from $555.3 million for fiscal year 2008. Controls net revenue decreased 19.1% due to lower volumes and 0.7% due to unfavorable foreign exchange rates, primarily the U.S. dollar to Euro exchange rate, partially offset by an increase of 0.8% due to higher pricing. The decrease in volumes was also due to the deterioration in the global economy and certain end-markets, such as HVAC, lighting and appliances, which began during the second half of fiscal year 2008 and continued during fiscal year 2009.

Cost of revenue

Cost of revenue for fiscal years 2009 and 2008 was $742.1 million and $951.8 million, respectively. Cost of revenue decreased primarily due to lower revenue and cost savings initiatives resulting from the various restructuring activities implemented during the second half of fiscal year 2008 and continuing into fiscal year 2009. Depreciation expense for fiscal years 2009 and 2008 was $48.4 million and $51.4 million, respectively, of which $44.7 million and $47.7 million, respectively, was included in cost of revenue. Cost of revenue as a percentage of net revenue for fiscal years 2009 and 2008 was 65.4% and 66.9%, respectively. Cost of revenue as a percentage of net revenue decreased due primarily to the cost saving initiatives described above.

Research and development expense

Research and development, or R&D, expense for fiscal years 2009 and 2008 was $16.8 million and $38.3 million, respectively. R&D expense as a percentage of net revenue for fiscal years 2009 and 2008 was 1.5% and 2.7%, respectively. The decrease in R&D expense and as a percentage of net revenue was due to a reduction in headcount and other spending resulting from various restructuring and other cost reduction activities.

Selling, general and administrative expense

SG&A expense for fiscal years 2009 and 2008 was $127.0 million and $166.6 million, respectively. SG&A expenses decreased primarily due to the cost savings resulting from the restructuring activities that were implemented during the second half of fiscal year 2008 and in fiscal year 2009, as well as other cost reduction measures in response to global economic conditions. SG&A expense as a percentage of net revenue for fiscal years 2009 and 2008 was 11.2% and 11.7%, respectively. SG&A expense as a percentage of net revenue decreased primarily due to the cost saving measures described above.

Amortization of intangible assets and capitalized software

Amortization expense associated with definite-lived intangible assets and capitalized software for fiscal years 2009 and 2008 was $153.1 million and $148.8 million, respectively. The increase in amortization expense reflects the pattern in which the economic benefits of the intangible assets are being realized. Amortization expense as a percentage of net revenue was 13.5% and 10.5% for fiscal years 2009 and 2008, respectively. The increase in amortization expense as a percentage of net revenue was due to the increase in amortization expense described above, combined with the decrease in net revenue.

Impairment of goodwill and intangible assets

During the three months ended March 31, 2009, we performed a review of goodwill and intangible assets for potential impairment. As a result of this analysis, we determined that goodwill and definite-lived intangible assets associated with our Interconnection reporting unit were impaired and recorded a charge of $19.9 million, of which $5.3 million related to goodwill and $14.6 million related to definite-lived intangible assets. We attribute the impairment charge to the deterioration in the global economy, including capital spending in the semiconductor market, which occurred during the three months ended March 31, 2009. We utilized a discounted cash flow analysis to estimate the fair value of the Interconnection reporting unit. Key assumptions that were used in the development of the fair value of the Interconnection reporting unit are described in Critical Accounting Policies and Estimates Impairment of Goodwill and Intangible Assets. Our revenue and earnings forecasts for this business depend on many factors, including our ability to project customer spending, particularly within the semiconductor industry. Changes in the level of spending in the industry and/or by our customers could result in a change to our forecasts, which, in turn, could result in a future impairment of goodwill and/or intangible assets.

As of October 1, 2009, we evaluated our goodwill and indefinite-lived intangible assets for impairment at the reporting unit level and determined that the fair value exceeded the carrying value on that date. The estimated fair values of the Sensors, Electrical Protection, Power Protection and Interconnection reporting units used in these analyses exceeded their carrying value by 147.1%, 116.3%, 26.1%, and 81.3%, respectively. Should certain assumptions used in the development of the fair value of our reporting units change, we may be required to recognize additional goodwill or intangible assets impairments.

Restructuring

Restructuring charges related to all of our restructuring programs for fiscal years 2009 and 2008 were $18.1 million and $24.1 million, respectively. Beginning in the second half of fiscal year 2008 and continuing into fiscal year 2009, we implemented several restructuring activities in order to reduce costs given the decline in our net revenue; these restructuring activities are referred to as the 2008 Plan. These restructuring activities consisted of reducing the workforce in our business centers and manufacturing facilities throughout the world and moving certain manufacturing operations to low-cost countries. Restructuring charges associated with the 2008 Plan totaled $18.3 million for fiscal year 2009 and consists of $12.9 million related to severance, $4.8 million related to pension settlement, curtailment and other related charges, and $0.6 million related to other exit costs. The total cost of the restructuring activities related to the 2008 Plan is expected to be $41.6 million, excluding the impact of changes in foreign currency exchange rates, of which $41.3 million has been incurred through fiscal year 2009. In addition, in fiscal year 2009, we recognized a credit of $0.2 million in our consolidated statement of operations associated with certain facility exit costs related to the First Technology Automotive Plan.

Interest expense

Interest expense for fiscal years 2009 and 2008 was $150.6 million and $197.8 million, respectively. Interest expense for fiscal year 2009 consists primarily of interest expense of $120.8 million on our outstanding debt, amortization of deferred financing costs of $9.1 million, $14.6 million of interest associated with our outstanding derivative instruments, $1.6 million of interest on line of credit and revolving credit facility fees and $3.7 million of interest associated with our capital lease and other financing obligations.

Interest expense for fiscal year 2008 consists primarily of interest expense of $177.1 million on our outstanding debt, amortization of deferred financing costs of $10.7 million, $4.9 million of interest associated

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with our outstanding derivative instruments, $1.3 million of interest on line of credit and revolving credit facility fees and $3.3 million of interest associated with our capital lease and other financing obligations.

Interest income

Interest income for fiscal years 2009 and 2008 was $0.6 million and $1.5 million, respectively.

Currency translation gain/(loss) and other, net

Currency translation gain/(loss) and other, net for fiscal years 2009 and 2008 was $107.7 million and $55.5 million, respectively. Currency translation gain/(loss) and other, net for fiscal year 2009 consists primarily of gains of $120.1 million resulting from the extinguishment of debt, net gains of $2.6 million associated with our commodity forward contracts and net currency gains of $0.3 million resulting from the re-measurement of net monetary assets denominated in foreign currencies. Currency translation gain/(loss) and other, net for fiscal year 2009 also includes currency losses of $(13.6) million resulting from the re-measurement of our foreign currency denominated debt and an impairment loss of $(1.7) million associated with our manufacturing facilities classified as held for sale.

Currency translation gain/(loss) and other, net for fiscal year 2008 consists primarily of currency gains of $53.2 million resulting from the re-measurement of our foreign currency denominated debt and gains of $15.0 million resulting from the extinguishment of debt, offset by losses of $(8.3) million associated with our commodity forward contracts and net currency losses of $(5.0) million resulting from the re-measurement of net monetary assets denominated in foreign currencies.

Provision for income taxes

Provision for income taxes for fiscal years 2009 and 2008 totaled $43.0 million and $53.5 million, respectively. Our tax provision consists of current tax expense which relates primarily to our profitable operations in foreign tax jurisdictions and deferred tax expense which relates primarily to amortization of tax deductible goodwill. Several factors contributed to the decrease in our income tax provision for fiscal year 2009 as compared to fiscal year 2008 including the composition of income and loss among jurisdictions, year-to-date earnings and a tax benefit related to the goodwill impairment recorded during the three months ended March 31, 2009.

Loss from discontinued operations

Loss from discontinued operations for fiscal years 2009 and 2008 totaled $0.4 million and $20.1 million, respectively.

Year Ended December 31, 2008 (fiscal year 2008) Compared to the Year Ended December 31, 2007 (fiscal year 2007)

Net revenue

Net revenue for fiscal year 2008 increased $19.4 million, or 1.4%, to $1,422.7 million from $1,403.3 million for fiscal year 2007. Net revenue increased 6.5% due to the acquisition of Airpax and 1.7% due to the favorable foreign currency exchange rates, primarily the U.S. dollar to Euro exchange rate. The increase in net revenue was partially offset by a 4.5% reduction due to volume, primarily in the controls business, pricing declines of 1.3% that are customary in our industry and a 1.0% reduction in net revenue associated with a settlement with a customer as described below. Net revenue excluding the effect of the Airpax acquisition would have decreased $72.0 million, or 5.1%.

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Sensors business segment net revenue for fiscal year 2008 decreased $15.1 million, or 1.7%, to $867.4 million from $882.5 million for fiscal year 2007. Net revenue decreased due to a 2.1% reduction in pricing, a 1.6% reduction due to a charge associated with a settlement with a customer, and 1.2% due to lower volumes. The decline in net revenue was partially offset by an increase in revenue of 2.1% due to favorable foreign currency exchange rates, primarily the U.S. dollar to Euro exchange rate, and 1.1% due to the acquisition of Airpax. The volume declined in the Americas primarily due to weakness in the U.S. automotive end-market and the economy overall. In the fourth quarter of 2008, the declining economies in Europe and Asia also began to have an impact. The reduction in pricing is primarily due to incentives inherent in long-term customer agreements. A significant automotive customer alleged defects in certain of our pressure sensor products used in its product which is installed in automobiles. The customer claimed to have incurred costs to recall and repair certain of the systems in these automobiles. We contested its allegations believing the issue was caused by the customer s failure to apply our product in accordance with product specifications. In 2008, however, we decided to settle this claim in an effort to ensure a continuing positive relationship with this customer. As a result, we recognized a charge to earnings during 2008 in the amount of 9.5 million. The settlement has not had a significant effect on the sales of any of our products. In addition, we believe that we still have a good relationship with this customer and continue to conduct business with them.

Controls business segment net revenue for fiscal year 2008 increased $34.5 million, or 6.6%, to $555.3 million from $520.8 million for fiscal year 2007. Controls net revenue increased 15.8% due to the acquisition of Airpax, 1.0% due to favorable foreign currency exchange rates, primarily the U.S. dollar to Euro exchange rate, and 0.1% due to an increase in pricing. The increase in net revenue was partially offset by a 10.3% decline in volume. The decline in unit volume was due to overall softness in certain of the controls business segment s end-markets.

Cost of revenue

Cost of revenue for fiscal year 2008 and 2007 was $951.8 million and $944.8 million, respectively. Cost of revenue increased due primarily to the acquisition of Airpax. Excluding the impact of the Airpax acquisition, cost of revenue decreased primarily due to lower volumes and several cost savings measures announced to offset the impact of lower sales. Cost of revenue for fiscal year 2007 increased approximately $4.5 million due to the sale of inventory acquired in connection with the First Technology Automotive and Airpax acquisitions. Upon the acquisition of these businesses, we recorded the acquired assets, including inventory, at fair value in accordance with ASC 805. This resulted in a higher carrying value for this inventory and a corresponding increase in cost of sales when it was subsequently sold. There was no similar charge recognized during fiscal year 2008. Depreciation expense for fiscal years 2008 and 2007 totaled $51.4 million and $58.2 million, respectively. For the fiscal years 2008 and 2007, $47.7 million and $55.7 million, respectively, of total depreciation expense incurred was included in cost of revenue.

Cost of revenue as a percentage of net revenue for fiscal years 2008 and 2007 was 66.9% and 67.3%, respectively. As a percentage of net revenue, cost of revenue decreased due to the absence of any charges associated with acquired inventory as described above and the cost savings measures noted above.

Research and development expense

R&D expense for fiscal years 2008 and 2007 totaled $38.3 million and $33.9 million, respectively. R&D expense as a percentage of net revenue for fiscal years 2008 and 2007 was 2.7% and 2.4%, respectively. R&D expense and R&D expense as a percentage of net revenue increased primarily due to our continued focus on development activities to accelerate long-term revenue growth.

Selling, general and administrative expense

SG&A expense for fiscal years 2008 and 2007 totaled $166.6 million and $166.1 million, respectively. SG&A expense as a percentage of net revenue for fiscal years 2008 and 2007 was 11.7% and 11.8%, respectively.

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Amortization of intangible assets and capitalized software

Amortization expense associated with definite-lived intangible assets and capitalized software for fiscal years 2008 and 2007 was $148.8 million and $131.1 million, respectively. The increase in amortization expense is primarily due to the inclusion of a full year of amortization expense related to Airpax in fiscal year 2008. We completed the acquisition of Airpax in July 2007. Amortization expense as a percentage of net revenue was 10.5% and 9.3% for fiscal years 2008 and 2007, respectively. The increase in amortization expense as a percentage of net revenue is due to the increase in amortization expense described above.

Impairment of goodwill

In 2008, in connection with our annual impairment review of goodwill, we determined that a portion of our goodwill associated with the Interconnection reporting unit was impaired. As a result, we recorded a goodwill impairment charge of $13.2 million. We believe that the current global economic crisis, economic conditions within the semiconductor end-market and an increase in the competitive landscape surrounding suppliers to the semiconductor end-market were all factors that led to the impairment of goodwill. We utilized a discounted cash flow analysis to estimate the fair value of the Interconnection reporting unit. Given the volatility in the end-markets in which we serve and our financial results during the fourth quarter of fiscal year 2008, we updated our goodwill impairment analysis to reflect information and projections available to us as of December 31, 2008. No additional goodwill impairment charges were necessary. However, if certain assumptions, such as projections regarding the end-markets in which we serve, our financial projections, customer bankruptcies or any other factors discussed in Critical Accounting Policies and Estimates Impairment of Goodwill and Intangible Assets were to change, we may be required to recognize charges in connection with goodwill and/or indefinite-lived intangibles of some or all of our reporting units.

Restructuring

Restructuring during fiscal year 2008 and 2007 totaled $24.1 million and $5.2 million, respectively. During fiscal year 2008, we announced plans to reduce the workforce in several of our business centers and manufacturing facilities. As a result of these actions, we recognized charges totaling $23.0 million, of which $16.2 million relates to severance, $1.3 million relates to a pension enhancement provided to certain eligible employees under a voluntary retirement program, $3.6 million relates to pension curtailment and settlement charges and $1.9 million relates to other exit costs. We expect the cost of these restructuring activities, when complete, to total approximately $41.6 million, when combined with actions taken in fiscal year 2009. In addition, we incurred a charge of $1.1 million associated with certain facility exit costs related to First Technology Automotive Plan.

During fiscal year 2007, we implemented voluntary early retirement programs in certain of our foreign operations. These programs offered eligible employees special termination benefits in exchange for their early retirement from the Company. As a result of these programs, 64 employees chose to leave the Company, opting for voluntary early retirement during fiscal year 2007.

Interest expense

Interest expense for fiscal years 2008 and 2007 totaled $197.8 million and $191.2 million, respectively. Interest expense for fiscal year 2008 consists primarily of interest expense of $177.1 million on our outstanding debt, amortization of deferred financing costs of $10.7 million, $4.9 million of interest associated with our outstanding derivative instruments, $1.3 million of interest on line of credit and revolving credit facility fees and $3.3 million of interest associated with our capital lease and other financing obligations. Interest expense for fiscal year 2007 consists primarily of interest expense of $175.1 million on the outstanding debt, amortization of deferred financing costs of $9.6 million and interest associated with our capital lease obligation of $2.8 million.

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Interest income

Interest income for fiscal years 2008 and 2007 totaled $1.5 million and $2.6 million, respectively.

Currency translation gain/(loss) and other, net

Currency translation gain/(loss) and other, net for fiscal years 2008 and 2007 totaled $55.5 million and $(105.4) million, respectively. Currency translation gain and other, net for fiscal year 2008 consists primarily of the currency gains resulting from the re-measurement of our foreign currency denominated debt, which totaled $53.2 million, and gains on the extinguishment of debt of $15.0 million, offset by losses on forward of commodity contracts of $(8.3) million and net currency losses due to the re-measurement of net monetary assets denominated in foreign currencies of $(5.0) million.

Currency translation loss and other for fiscal year 2007 consists primarily of the currency losses of $(111.9) million resulting from the re-measurement of our foreign currency denominated debt, offset by net currency gains of $6.9 million resulting from the re-measurement of our net monetary assets denominated in foreign currencies.

Provision for income taxes

Provision for income taxes for fiscal years 2008 and 2007 totaled $53.5 million and $62.5 million, respectively. Our tax provision consists of current tax expense, which relates primarily to our profitable operations in foreign tax jurisdictions and deferred tax expense, which primarily relates to amortization of tax-deductible goodwill.

Loss from discontinued operations

Loss from discontinued operations for fiscal years 2008 and 2007 was $20.1 million and $18.3 million, respectively. Fiscal year 2008 includes a loss from operations of our Vision business of $12.2 million and a loss of $7.9 million associated with measuring the net assets of the business at fair value less cost to sell and other exit costs. The loss from operations of our Vision business incurred during fiscal year 2007 was $18.3 million, which includes a charge associated with acquired in-process research and development expense of $5.7 million. On March 14, 2007, we acquired SMaL Camera for $12.0 million plus fees and expenses. We allocated $5.7 million of the purchase price to acquired in-process research and development projects. There was no acquired in-process research and development expenses during fiscal year 2008.

Quarterly Results of Operations

The following tables set forth unaudited quarterly consolidated statement of operations data and other financial data for fiscal years 2008 and 2009 and the nine months ended September 30, 2010. We have prepared the statement of operations for each of these quarters on the same basis as the audited consolidated financial statements included elsewhere in this prospectus and, in the opinion of our management, each statement of operations includes all adjustments, consisting solely of normal recurring adjustments, necessary for the fair statement of the results of operations for these periods. This information should be read in conjunction with the audited consolidated financial statements and related notes included elsewhere in this prospectus and our unaudited condensed consolidated financial statements and related notes included elsewhere in this prospectus. These quarterly operating results are not necessarily indicative of our operating results for any future period.

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	For the three months ended									
n thousands)	Mar 31, 2008	June 30, 2008	Sept 30, 2008	Dec 31, 2008	Mar 31, 2009	June 30, 2009	Sept 30, 2009	Dec 31, 2009	Mar 31, 2010	June 30, 2010
of Data:										
	$ 387,844	$ 406,221	$ 361,005	$ 267,585	$ 239,016	$ 255,371	$ 302,468	$ 338,089	$ 377,137	$ 391,806
nue	269,916	263,059	241,370	177,418	161,344	168,902	190,908	220,926	232,783	240,590
d t	10,802	10,417	10,142	6,895	5,163	3,960	3,569	4,104	4,930	6,211
eral and ve	47,158	45,068								

	8,000	—		27.89	2/1/2021	—	—	—		—
	8,000	—		29.77	1/31/2022	—	—	—		—
	8,000	—		33.45	2/4/2023	—	—	—		—
	6,000	2,000	(7)	36.47	2/4/2024	—	—	—		—
	4,000	4,000	(8)	36.17	2/4/2025	—	—	—		—
	2,677	8,034	(2)	27.71	3/1/2026	—	—	—		—
	—	13,501	(16)	43.45	2/5/2018	—	—	—		—
	—	—		—	—	—	—	800	(10)	35,440
	—	—		—	—	—	—	3,200	(11)	141,760
	—	—		—	—	—	—	2,678	(3)	118,635
	—	—		—	—	—	—	1,339	(4)	59,318
Sodaro	6,000	—		49.79	2/6/2017	—	—	—		—

(1) These options are scheduled to vest ratably in equal increments on 5/19/2017, 5/19/2018 and 5/19/2019.
(2) These options are scheduled to vest ratably in equal increments on 9/1/2017, 9/1/2018 and 9/1/2019.

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(3) These performance-based RSUs are scheduled to vest on the date that performance results are certified following completion of the three-year performance period based on Relative TSR. The number shown represents the maximum number of RSUs that would be earned because the estimated performance results were above the target levels for the portion of the three-year performance period ending on February 28, 2019 that was completed as of December 31, 2016. Market value of these RSUs was determined using the closing price of $44.30 per share of Common Stock on December 31, 2016.

(4) These performance-based RSUs are scheduled to vest on the date that performance results are certified based on the Three-Year Adjusted ROE. The number shown represents the target number of RSUs that would be earned because the estimated performance results were above the threshold levels for the portion of the three-year performance period ending on December 31, 2018 that was completed as of December 31, 2016. The market values were determined using the closing price of $44.30 per share of Common Stock on December 31, 2016.

(5) These time-based RSUs are scheduled to vest in equal increments on 4/1/2018, 4/1/2019 and 4/1/2020. The market value was determined using the closing price of $44.30 per share of Common Stock on December 31, 2016.

(6) These options are scheduled to vest ratably in equal increments on 5/17/2017, 5/17/2018, 5/17/2019 and 5/17/2020.

(7) These options are scheduled to vest on 8/4/2017.

(8) These options are scheduled to vest ratably in equal increments on 8/4/2017 and 8/4/2018.

(9) These options are scheduled to vest on 6/6/2017.

(10) These performance-based RSUs were scheduled to vest on 2/4/17 but were forfeited as of the vesting date as described under the caption Performance Results for 2014 Performance-Based RSU Awards on page 34. The number of shares shown represents the threshold number of shares that were granted because the actual performance results were below the threshold level. Market value of these shares was determined using the closing price of $44.30 per share of Common Stock on December 31, 2016.

(11) These performance-based RSUs are scheduled to vest on 2/4/2018. The number shown represents the maximum number of RSUs that were granted because the estimated performance results were at the target levels for the portion of the three-year performance period ending on December 31, 2017 that was completed as of December 31, 2016. Market value of these RSUs was determined using the closing price of $44.30 per share of Common Stock on December 31, 2016.

(12) These are time-based RSUs scheduled to vest in equal increments on 7/21/2017 and 7/21/2018. The market value was determined using the closing price of $44.30 per share of Common Stock on December 31, 2016.

(13) These options are scheduled to vest ratably in equal increments on 1/21/2017, 1/21/2018, 1/21/2019 and 1/21/2020.

(14) These options are scheduled to vest ratably in equal increments on 12/3/2017, 12/3/2018 and 12/3/2019.

(15) These options are scheduled to vest ratably in equal increments on 12/15/2017, 12/15/2018 and 12/15/2019.

(16) These options are scheduled to vest on 6/7/2017.

(17) These are vested options that were not forfeited upon Mr. Sodaro’s departure from the Company on December 31, 2016, in accordance with the provision on exercise rights following termination included in the award agreement.

OPTION EXERCISES AND STOCK VESTED IN 2016

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)(1)	Value Realized on Exercise ($)(2)	Number of Shares Acquired on Vesting (#)(3)	Value Realized on Vesting ($)(4)
Joseph P. Lacher, Jr.	—	—	—	—
James J. McKinney	—	—	—	—
John M. Boschelli	20,000	170,000	—	—
George “Chip” D. Dufala, Jr.	—	—	—	—
Mark A. Green	—	—	—	—
Richard Roeske	15,000	94,500	—	—
Frank J. Sodaro	34,278	174,507	375	12,866

(1) This is the gross number of shares subject to the exercise transactions without deduction of any shares surrendered or withheld to satisfy the exercise price and/or tax withholding obligations related thereto.

(2) This is the difference between the exercise price of the shares acquired and the market price of such shares on the date of exercise, without regard to any related tax obligations.

(3) This is the gross number of shares that vested without deduction for any shares withheld to satisfy tax withholding obligations.

(4) This is the market value on the vesting date of the shares that vested, without regard to any related tax obligations. Market value was determined using the closing price per share of Common Stock on the vesting date.

Retirement Plans

The Company sponsors two tax-qualified retirement plans, the Pension Plan and the 401(k) and Retirement Plan (as defined on page 38 above). In addition to other requirements, eligibility for the Pension Plan had required a hire date prior to January 1, 2006, and those employees hired on or after January 1, 2006 instead are eligible to participate in the retirement portion of the 401(k) and Retirement Plan. Effective June 30, 2016, the Pension Plan was frozen and its participants became eligible for the retirement portion of the 401(k) and Retirement Plan. In general, eligibility under the 401(k) and Retirement Plan requires employees to be at least 21 years old with at least one year of service with the Company (as defined in the plan). Based on their hire dates, Messrs. Boschelli, Roeske and Sodaro were participants in the Pension Plan through June 30, 2016 when their benefits were frozen and they became eligible for the retirement portion of the 401(k) and Retirement Plan. Mr. Lacher became a participant in the retirement portion of the 401(k) and Retirement Plan in November 2016, and the other NEOs will be eligible to participate after completing one year of service with the Company. The NEOs are also eligible to defer on a voluntary basis a portion of their salaries under the 401(k) portion of the 401(k) and Retirement Plan that includes a Company-matching contribution feature offered to all employees meeting the age and service-based eligibility requirements.

Under the Pension Plan, a participant earned a benefit in an amount equal to a specified percentage of “Average Monthly Compensation” plus an additional specified percentage of “Average Monthly Compensation” above the monthly “Social Security Covered Compensation,” multiplied by the participant’s eligible years of service, up to a maximum of 30 years. “Average Monthly Compensation” is generally equal to the average of a participant’s highest monthly compensation over a 60-consecutive-month period during the 120-month period that ends three calendar months prior to a participant’s termination date, or for 2016, the date that the Pension Plan was frozen. The “Social Security Covered Compensation” amount is determined from tables published by the Internal Revenue Service and changes each year. Messrs. Boschelli, Roeske and Sodaro are vested in the Pension Plan, as participants are vested after completing five years of service with the Company.

Executive Compensation

Under the retirement portion of the 401(k) and Retirement Plan, the Company will make an annual contribution, generally in February of the following year, on behalf of a participant in an amount equal to the participant's "Annual Compensation" multiplied by a specified contribution percentage based on the participant's years of vesting service with the Company (as such terms are defined in the plan). The first contribution on behalf of the Pension Plan participants who became eligible for the retirement portion of the 401(k) and Retirement Plan as of June 30, 2016 was made in February 2017, and is based on a half-year of service for 2016. Messrs. Boschelli, Roeske and Sodaro are vested under the retirement portion of the 401(k) and Retirement Plan, as participants are vested after completing three years of service with the Company.

Compensation covered by both the Pension Plan and retirement portion of the 401(k) and Retirement Plan includes the participant's base salary and annual bonus. The normal retirement age under the qualified retirement plans is age 65. The normal form of distribution under the Pension Plan is a life annuity for a single retiree, or a joint and fifty-percent survivor annuity for a married retiree. Other forms of annuity are available to participants, but all forms of payment are actuarially equivalent in value. The normal form of distribution under the retirement portion of the 401(k) and Retirement Plan is a lump-sum payout.

Mr. Roeske is currently eligible for early retirement under the Pension Plan. A participant is eligible for early retirement benefits upon attaining age 55 with five years of service with the Company. The early retirement benefit payable to a participant under the Pension Plan is the retirement benefit that would have been payable at the normal retirement age of 65 actuarially reduced to give effect to the participant's age at the time of early retirement.

The Pension SERP and Retirement SERP (as defined on page 38 above) were established to provide benefits to certain individuals in excess of the limitations imposed on the Pension Plan and the retirement portion of the 401(k) and Retirement Plan, respectively, under the Internal Revenue Code. The Pension SERP was effectively frozen as of June 30, 2016 when the Pension Plan was frozen. The Retirement SERP benefit is, and the Pension SERP benefit previously was, computed using the same formula used for the respective tax-qualified retirement plan, without regard to the limits imposed under the Internal Revenue Code. An employee who earns compensation over the qualified plan limitation may be eligible to participate in the Retirement SERP, or previously the Pension SERP, by designation of the Board of Directors. For 2016, compensation to determine the benefit under the Pension Plan and the retirement portion of the 401(k) and Retirement Plan was limited to $265,000.

As noted above, only Messrs. Boschelli, Roeske and Sodaro were eligible to participate in the Pension Plan and Pension SERP due to their dates of hire. The following table shows the years of credited service and the present values of the accumulated benefits under the Pension Plan and Pension SERP for each participating NEO as of December 31, 2016:

PENSION BENEFITS

Name	Plan Name	Number of Years Credited Service (#)(1)	Present Value of Accumulated Benefit ($)(2)	Payments During Last Fiscal Year ($)
Joseph P. Lacher, Jr.	Pension Plan	—	—	—
	Pension SERP	—	—	—
James J. McKinney	Pension Plan	—	—	—
	Pension SERP	—	—	—
John M. Boschelli	Pension Plan	18.5	487,430	—
	Pension SERP	18.5	540,327	—
George "Chip" D. Dufala, Jr.	Pension Plan	—	—	—
	Pension SERP	—	—	—
Mark A. Green	Pension Plan	—	—	—

	Pension SERP	—	—	—
Richard Roeske	Pension Plan	24.5	946,343	—
	Pension SERP	24.5	759,244	—
Frank J. Sodaro	Pension Plan	19.5	518,169	—
	Pension SERP	19.5	460,853	—

(1) A participant's initial year of service as an employee is not used to determine credited service under the Pension Plan and Pension SERP. In addition, benefits for all participants under the Pension Plan were frozen as of June 30, 2016.

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As a result, the numbers shown differ from each participant's actual years of service by one year and six months. For Mr. Boschelli, the number shown also differs from his actual years of service by an additional six years because of a lump-sum payout of accrued benefits that he received in connection with a break in his service with the Company in 1997. For Mr. Roeske, the number shown also differs from his actual years of service by an additional six months due to the initial effective date of the plan that was six months after he joined the Company.

(2) These accumulated benefit values are based on the years of credited service shown and the Average Monthly Compensation as of June 30, 2016, as described above in the narrative preceding this table. These present value amounts were determined on the assumption that distribution of benefits under the plans will not begin until age 65, the age at which retirement may occur under the Pension Plan and Pension SERP without any reduction in benefits, using the same measurement date, discount rate and actuarial assumptions described in Note 16, "Pension Benefits," to the consolidated financial statements included in the Company's 2016 Annual Report. The discount rate assumption was derived from the AON Hewitt AA Bond Universe Curve as of 12/31/2016 with a single equivalent rate of 4.08% and the mortality assumptions were based on the RP-2006 Table for Employees and Healthy Annuitants, Projected Generationally with Scale MP-2016.

Nonqualified Deferred Compensation

Deferred Compensation Plan

The Deferred Compensation Plan was established to allow certain executives who are designated by the Board of Directors, as well as the non-employee members of the Board of Directors, to elect to defer a portion of their current-year compensation to a future period. The Deferred Compensation Plan is unfunded and exempt from certain provisions of the Employee Retirement Income Security Act of 1974, as amended. The Company does not fund or make profit-sharing or matching contributions under the Deferred Compensation Plan, and participants have an unsecured contractual commitment by the Company to pay the amounts deferred, adjusted to recognize earnings or losses determined in accordance with their elections under the plan.

To participate in the Deferred Compensation Plan, an eligible individual must make an annual irrevocable election. The form and timing of the distribution of deferrals made during a particular year is chosen when a participant elects to participate for that year and generally cannot be altered or revoked. The distribution for a particular year may be in the form of annual or quarterly installments payable up to a maximum of ten years or a single lump-sum payment. All payments begin on January 1 of the year chosen by the participant when the election is made. A participant may elect to defer up to 60 percent of his or her regular annual base salary and up to 85 percent of each award earned under any annual or multi-year incentive plan award or annual discretionary bonus regardless of amount. Withdrawals are not permitted under the Deferred Compensation Plan other than regularly scheduled distributions or upon Death or Disability if so chosen by the participant at the time of the annual election.

Each participant's bookkeeping account is deemed to be invested in the hypothetical investment choice(s) selected by the participant from the choices made available by the Company. Investment choices may be changed by participants on a daily basis. Generally, the hypothetical investment alternatives offered by the Company include a range of retail mutual funds selected by the Plan Administrator, which is the Compensation Committee of the Company's Board of Directors. Investment choices selected by a participant are used only to determine the value of the participant's account. The Company is not required to follow these investment selections in making actual investments of amounts deferred under the plan.

As employees designated by the Board of Directors, the NEOs are eligible to elect deferral of their cash salary and bonus under the Deferred Compensation Plan. Mr. Roeske is the only current NEO participant in the Deferred Compensation Plan, and he did not elect to defer any 2016 compensation under the plan. The fund selected for hypothetical investments in 2016 that would apply to Mr. Roeske's balance under the Deferred Compensation Plan from prior deferrals (and the 2016 annual gain on investment) was the Wells Fargo Index Admin Fund (11.71 percent).

Retirement SERP

The Retirement SERP is discussed above in the narrative captioned Retirement Plans beginning on page 38. Messrs. Boschelli, Roeske and Sodaro became eligible participants in the Retirement SERP effective upon the Pension Plan freeze June 30, 2016, and initial contribution credits for 2016 were made to their Retirement SERP accounts in February 2017. The amounts of these contributions are shown in the table below. Mr. Lacher became an eligible participant in November 2016 and will be eligible for an initial contribution in February 2018 for 2017. The other NEOs will be eligible to participate after completing one year of service with the Company.

The following table shows the aggregate earnings in 2016 and the balances as of December 31, 2016 under the Retirement SERP and Deferred Compensation Plan.

NONQUALIFIED DEFERRED COMPENSATION

Name	Plan Name	Registrant Contributions in Last Fiscal Year	Aggregate Earnings in Last Fiscal Year ($)	Aggregate Balance at Last Fiscal Year End ($)(1)
Joseph P. Lacher, Jr.	Deferred Compensation Plan	—	—	—
	Retirement SERP	—	—	—
James J. McKinney	Deferred Compensation Plan	—	—	—
	Retirement SERP	—	—	—
John M. Boschelli	Deferred Compensation Plan	—	—	—
	Retirement SERP	5,787	—	5,787
George “Chip” D. Dufala, Jr.	Deferred Compensation Plan	—	—	—
	Retirement SERP	—	—	—
Mark A. Green	Deferred Compensation Plan	—	—	—
	Retirement SERP	—	—	—
Richard Roeske	Deferred Compensation Plan	—	16,539	157,842
	Retirement SERP	2,998	—	2,998
Frank J. Sodaro	Deferred Compensation Plan	—	—	—
	Retirement SERP	4,534	—	4,534

(1) The amounts shown represent the aggregate balance for Mr. Roeske in the Deferred Compensation Plan, and is based on prior deferrals plus earnings or losses accrued through December 31, 2016, and the Company’s contributions to the respective officer’s Retirement SERP account for 2016.

Potential Payments Upon Termination or Change in Control

The following narrative describes the applicable terms of the agreements or plans that would provide benefits to the NEOs if their employment had terminated on December 31, 2016. The table below shows benefits that would have been payable to the NEOs as a direct result of either a change in control of the Company or the death or disability of the individual officer, had such an event occurred on December 31, 2016. The amounts shown in the table would have been payable pursuant to individual severance agreements (“Severance Agreements”) between the NEOs and the Company in connection with a “change in control” of the Company, as described below, or individual grant agreements executed with the Company in connection with cash bonus, stock option and/or RSU awards they received. Except for Mr. Sodaro, none of the NEOs is a party to any other agreement with the Company that would have entitled him or her to receive any severance payments or other termination benefits from the Company as of December 31, 2016 . As previously noted, Mr. Sodaro entered into a separation agreement with the Company that provided for certain severance benefits described in the Compensation Discussion and Analysis section above under the heading Changes to NEO Compensation for 2017 on page 37, and subsequently left the Company effective December 31, 2016. As a result, the amounts shown for Mr. Sodaro in the table below are limited to the actual termination event that occurred and do not include a potential termination in connection with a change in control.

Executive Compensation

Retirement Plans

In addition to the amounts shown in the table on page 53 below, the NEOs would have been entitled to receive benefits to which they have vested rights upon retirement under the Pension Plan and Pension SERP (or 401(k) and Retirement Plan and Retirement SERP), as described and/or quantified above under the heading Retirement Plans and in the Pension Benefits and Nonqualified Deferred Compensation tables and corresponding footnotes, as applicable. Any NEOs who had participated in the Deferred Compensation Plan might have been entitled to receive distributions in accordance with their previously chosen elections under the plan, as described above under the caption Nonqualified Deferred Compensation. In addition, the NEOs would have been entitled to receive benefits that are generally available to employees of the Company and do not discriminate in scope, terms or operation in favor of executive officers. These include benefits payable: (a) upon termination of employment, such as payments of 401(k) and Retirement Plan distributions and accrued paid time off; and (b) upon death or disability, under life, business travel or long-term disability insurance.

Messrs. Lacher, Boschelli and Sodaro had not reached early retirement age as of December 31, 2016 and so would not have been eligible to begin receiving retirement benefits as of December 31, 2016. Messrs. McKinney, Dufala and Green were not eligible to participate in the retirement portion of the 401(k) and Retirement Plan or Retirement SERP as of December 31, 2016 because they had not completed one year of service with the Company.

Severance Agreements

The Severance Agreements would provide various severance benefits to the NEOs in the event their employment terminates under certain circumstances within two years after a “change in control.” Such benefits are also payable to such officers in the event their employment is involuntarily terminated (other than for cause, disability or death) or voluntarily terminated with “good reason,” in either case in anticipation of a change in control. Under the Severance Agreements, a “change in control” is deemed to occur if any person (excluding certain defined persons) is or becomes, directly or indirectly, the beneficial owner of 25% or more of the voting power of the Common Stock, or the individuals who comprised the Company’s Board of Directors on the date of the Severance Agreement, or any of the individuals they nominate, cease to comprise a majority of the Board, or if, under the circumstances specified in the Severance Agreements, a merger or consolidation of the Company or sale of substantially all of the Company’s assets is consummated or a liquidation or dissolution plan is approved by the Company’s shareholders.

If applicable, each NEO other than Mr. Sodaro would be entitled under the Severance Agreements to receive the following, subject to execution of a release and other specified requirements:

- a lump-sum severance payment based on a multiple of three (for Mr. Lacher) or two (for the other NEOs) of such officer’s annualized salary and bonus, determined as of the higher of such officer’s prior-year annual bonus or a percentage of such officer’s base salary (150% for Mr. Lacher or 110% for the other NEOs) (“Annual Bonus”) plus a pro-rata portion of the Annual Bonus based on the number of months that such officer was employed during the year in which the change in control occurred;
- continuation for three years (for Mr. Lacher) or two years (for the other NEOs) of the life insurance benefits that were being provided by the Company to such NEO and his family immediately prior to termination;
- a lump-sum payment equal to the excess of cost for COBRA coverage over the employee-cost for health insurance benefits for thirty-six months (for Mr. Lacher) or twenty-four months (for the other NEOs) that were being provided by the Company to such NEO and his family immediately prior to termination, regardless of whether COBRA coverage is actually elected; and
- outplacement services at the Company’s expense for up to fifty-two weeks.

The Severance Agreements include a provision related to potential excise taxes payable by the NEOs under Sections 4999 and 280G of the Internal Revenue Code that would entitle them to receive either (a) the full benefits payable as a result of a qualifying termination related to a change of control, whether under the Severance Agreements, equity award agreements or other applicable provisions (subject to such potential excise taxes), or (b) a reduced amount that falls below the applicable safe harbor provided under Section 280G, whichever amount provides the greater after-tax value.

Performance Incentive Plan Awards

If the employment of one of the NEOs had terminated as of December 31, 2016 due to a change in control of the Company (as defined under the applicable award agreements), the applicable performance period for any outstanding Multi-Year PIP Award would have ended on such date. The amount of the payout due under each such award would have been the greater of the payout due: (a) based on the actual results for the revised performance period relative to the applicable performance goal(s) for the award; or (b) at the target performance level for the award.

If the employment of one of the NEOs had terminated as of December 31, 2016 due to death or disability, the applicable performance period for any outstanding Multi-Year PIP Award would have ended on such date. The amount of the payout due under each such award would have been the amount due at the target performance level for such award, reduced pro-rata based on the number of months remaining in the performance period as of the date of termination.

If the employment of one of the NEOs had terminated as of December 31, 2016 and, as of such date, such officer was Retirement Eligible, the determination of any payouts under any outstanding Multi-Year PIP Award would have been based on the actual performance results determined at the end of the original performance period for the award, but the amount due would have been prorated based on the ratio of the number of months that such officer was employed during the performance period to the total number months in the performance period. The amount due would have been paid at the same time as the payouts under the respective Multi-Year PIP Awards to active plan participants.

If the employment of an NEO had terminated as of December 31, 2016 for any other reason, any outstanding Multi-Year PIP Award would have been forfeited on the termination date.

Equity-Based Awards

Stock Option Awards

If the employment of an NEO had terminated as of December 31, 2016 due to death or disability or due to a change in control of the Company, any outstanding unvested stock option would have vested on the termination date. For awards granted beginning in 2014, if the employment of an NEO had terminated as of December 31, 2016 and, as of such date, such officer was Retirement Eligible, any outstanding unvested stock option would remain outstanding and continue to vest in accordance with the original vesting terms. If the employment of an NEO had terminated as of December 31, 2016 for any other reason, such outstanding unvested stock option awards would have been forfeited on the termination date.

Time-Based RSU Awards

If the employment of an NEO had terminated as of December 31, 2016 due to death or disability or due to a change in control of the Company, any outstanding unvested time-based RSU awards would have vested on the termination date. For awards granted beginning in 2014, if the employment of an NEO had terminated as of December 31, 2016 and, as of such date, such officer was Retirement Eligible, any outstanding unvested time-based RSU awards would remain outstanding and continue to vest in accordance with the original vesting terms. If the employment of an NEO had terminated as of December 31, 2016 for any other reason, such outstanding unvested time-based RSU awards would have been forfeited on the termination date.

Performance-Based RSU Awards

If the employment of an NEO had terminated as of December 31, 2016 due to a change in control of the Company, the performance period for any outstanding performance-based RSU awards held by such officer would have ended on the termination date. The shares granted under each award would have vested in an amount equal to the number of shares that would vest based on the greater of the target performance level or actual performance results for the truncated performance period.

If the employment of an NEO had terminated as of December 31, 2016 due to death or disability, the performance period for any outstanding performance-based RSU awards held by such officer would have ended on the termination date. The shares granted under each award would have vested in an amount equal to the number of shares that would vest at the target performance level, reduced pro-rata based on the ratio of the number of months in the truncated performance period to the total number months in the original performance period.

Executive Compensation

If the employment of an NEO had terminated as of December 31, 2016 and, as of such date, such officer was Retirement Eligible, any outstanding performance-based RSU awards would remain outstanding until the end of the original performance period and then vest or be forfeited as determined based on actual performance results, but reduced pro-rata based on the ratio of the number of months that such officer was employed during the performance period to the total number months in the performance period. If, as of such termination date, such officer was not Retirement Eligible, any outstanding unvested performance-based RSU awards would have been forfeited on the termination date.

The following table shows amounts that would have become payable to the NEOs in connection with their termination of employment as of December 31, 2016 resulting from a change in control of the Company or the death or disability of the individual officer.

POTENTIAL PAYMENTS UPON TERMINATION
FROM A CHANGE IN CONTROL ("CIC") OR DEATH/DISABILITY AT DECEMBER 31, 2016

Name	Lump-Sum Severance Payments(1)	Accelerated Stock Options (2)	Accelerated Time-Based RSUs (2)(3)	Accelerated Performance-Based RSUs (2)(4)(5)	Accelerated Multi-Year PIP Awards (6)(7)	Services and Payments related to Welfare Benefits and Out-placement(8)	Total
Joseph P. Lacher, Jr.							
Termination due to CIC	6,750,000	1,462,772	—	3,197,441	—	83,059	11,493,272
Death or Disability	—	1,462,772	—	710,542	—	—	2,173,314
Other Termination	—	—	—	—	—	—	—
James J. McKinney							
Termination due to CIC	1,972,500	82,615	708,800	334,775	—	64,297	3,162,987
Death or Disability		82,615	708,800	12,399	—	—	803,814
Other Termination	—	—	—	—	—	—	—
John M. Boschelli							
Termination due to CIC	2,120,000	337,475	—	577,583	245,280	71,337	3,351,675
Death or Disability	—	337,475	—	290,785	344,240	—	972,500
Other Termination	—	—	—	—	—	—	—
George "Chip" D. Dufala, Jr.							
Termination due to CIC	2,303,750	415,584	2,215,000	425,679	—	69,641	5,429,654
Death or Disability	—	415,584	2,215,000	39,415	—	—	2,669,999
	—	—	—	—	—	—	—

Other Termination							
Mark A. Green							
Termination due to CIC	2,072,000	358,266	—	394,580	—	52,879	2,877,725
Death or Disability	—	358,266	—	51,149	—	—	409,415
Other Termination	—	—	—	—	—	—	—
Richard Roeske							
Termination due to CIC	1,961,000	192,940	—	319,713	295,400	48,327	2,817,380
Death or Disability	—	192,940	—	157,678	245,283	—	595,901
Other Termination	—	—	—	—	—	—	—
Frank J. Sodaro (9)							
Termination due to CIC	—	—	—	—	—	—	—
Death or Disability	—	—	—	—	—	—	—
Other Termination	450,000	—	—	—	—	14,400	464,400

(1) The amounts shown represent cash severance payable under the Severance Agreements assuming that no reduction would be made under the provision in the agreements related to potential excise taxes payable by the NEOs under Sections 4999 and 280G of the Internal Revenue Code. Any such reduction would have been determined based on the specific facts of the actual termination event.

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Executive Compensation

(2) The amounts shown for a hypothetical termination due to a change in control assume that the Board of Directors elected to accelerate the vesting of outstanding stock options and RSU shares as of December 31, 2016. Acceleration of the vesting of stock options and RSUs would occur automatically upon the death or disability of the NEO pursuant to the terms of the applicable plans and grant agreements. The amounts shown represent the "in-the-money" value of the stock options and market value of RSUs that would have been subject to accelerated vesting as of December 31, 2016. The value shown for accelerated "underwater" stock options is zero. The total numbers and market values of unvested RSU awards and of shares subject to unvested stock options, and the exercise prices thereof, are set forth in the Outstanding Equity Awards at 2016 Fiscal Year-End table on page 45. The accelerated stock option and RSU values shown were calculated using the closing price of $44.30 per share of Common Stock on December 31, 2016.

(3) The amounts shown represent the values of outstanding time-based RSUs that would automatically vest from the hypothetical termination event.

(4) The amounts shown for a hypothetical termination due to a change in control represent estimated values of payouts under the 2014, 2015 and 2016 performance-based RSUs resulting from such event as of December 31, 2016. In such event, the payout under outstanding performance-based RSUs would be based on the greater of performance at the target level or actual performance results for a truncated performance period ending on the date of the change in control. Except for the 2016 performance-based RSUs based on Relative TSR, the values included in the table represent a payout at the target performance level because the actual performance for the truncated period were below the target performance level. For the 2016 performance-based RSUs based on Relative TSR, the values included in the table represent a payout at the maximum performance level because the actual performance for the truncated period exceeded the performance level necessary to obtain a maximum payout.

(5) The amounts shown for a hypothetical death or disability represent estimated values of payouts under the 2014, 2015 and 2016 PBRSU awards resulting from such event as of December 31, 2016. In such event, the amount of the payout for each award would have been determined at the target level but reduced pro-rata based on the number of months in the Performance Period during which the NEO was an active employee for at least fifteen days divided by the total number of months in the original Performance Period.

(6) The amounts shown for a hypothetical termination due to a change in control represent estimated values of payouts under the 2014 and 2015 Multi-Year PIP Awards resulting from such event as of December 31, 2016. In such event, the amount of the payout for each award would have been the greater of the payout due based on the actual performance results or at the target performance level. For the 2014 Multi-Year PIP Awards, for Messrs. Boschelli, Roeske and Sodaro, the payout due based on actual performance results was lower than the payout at the target performance level. Accordingly, the excess of the payout at the target performance level over the payout due based on actual performance results is included in the table for such NEOs. For Messrs. Boschelli, Roeske and Sodaro, the payout due based on actual performance results was lower than the payout at the target performance level. Accordingly, the amounts included in the table for the 2015 Multi-Year PIP Awards represent the amount of the payout for such awards at the target performance level for the truncated performance period ending on December 31, 2016. The processes for determining Multi-Year PIP Award payouts under possible termination events are described in the narrative preceding this table.

(7) The amounts shown for a hypothetical death or disability represent estimated values of payouts under the 2014 and 2015 Multi-Year PIP Awards resulting from such event as of December 31, 2016. In such event, the amount of the payout for each award would have been determined at the target level but reduced pro-rata based on the number of full months in the Performance Period during which the NEO was an active employee divided by the total number of months in the original Performance Period. For the three-year performance period ending on December 31, 2016, the value included in the table represents 100 percent of a payout at the target performance level. For the three-year performance period ending on December 31, 2017, the value included in the table represents two-thirds of a payout at the target performance level. The processes for determining Multi-Year PIP Award payouts under possible termination events are described in the narrative preceding this table.

(8) The amount shown for Mr. Sodaro was incurred by the Company for outplacement services. The amounts shown for the other NEOs other are the estimated costs to the Company to provide continuation of life insurance benefits

for up to three years (in the case of Mr. Lacher) or two years (for the other NEOs), lump-sum payments related to health insurance, and outplacement services for fifty-two weeks pursuant to the Severance Agreements, as described in the narrative preceding this table. The lump-sum payment related to health insurance is equal to the amount that the COBRA-rate would exceed the active-employee rate for the officer's coverage for 36 months for Mr. Lacher and 24 months for all other NEOs regardless of whether such officer would elect to continue coverage under COBRA.

(9) Because Mr. Sodaro was not serving as an executive officer on December 31, 2016, the amounts shown for him in this table are limited to his actual termination event on December 31, 2016 and were incurred pursuant to his letter agreement and related separation agreement with the Company as described on page 37 under the heading Changes Made to NEO Compensation for 2017.

Proposal 3: Advisory Vote to Approve the Compensation of the Named Executive Officers

Overview

This proposal provides you with the opportunity to vote, on a non-binding, advisory basis, to approve the compensation of the NEOs as disclosed in this Proxy Statement in accordance with the applicable compensation disclosure rules (“Say-On-Pay Vote”). At the Company’s 2011 Annual Meeting, the Company’s shareholders approved the Company’s first Say-On-Pay Vote by over 97% of the votes cast on the proposal, and voted in favor of having the Company provide future Say-On-Pay Votes every three years. At the Company’s 2014 Annual Meeting, the Company’s shareholders approved the Company’s second Say-On-Pay Vote by over 97% of the votes cast on the proposal.

In voting on Proposal 3, you will be voting whether to approve the following resolution:

“RESOLVED, that, the Company’s shareholders approve the compensation paid to the Company’s Named Executive Officers, as disclosed pursuant to Item 402 of SEC Regulation S-K in the Proxy Statement for the 2017 Annual Meeting of Shareholders, including the section captioned Compensation Discussion and Analysis, the compensation tables and related narrative discussions.”

This proposal is not intended to address any specific element of compensation; rather, the vote relates to the compensation of the NEOs as described in this Proxy Statement in accordance with the compensation disclosure rules of the SEC. The vote is advisory, which means that the vote is not binding on the Company, the Board of Directors or the Compensation Committee. However, the Compensation Committee will take into account the outcome of the vote when considering future executive compensation arrangements.

The Compensation Discussion and Analysis section of this Proxy Statement that begins on page 21 above provides an Executive Summary and detailed information on the executive compensation program and amounts paid to the Company’s NEOs for 2016. The Company encourages you to review the Compensation Discussion and Analysis in considering whether to vote in favor of this proposal. The Company believes that the 2016 executive compensation program has served as an effective means of attracting the new members of its leadership team and that the program’s components, including the Company’s Annual Incentive Program, will serve as a key supporting mechanism to drive the Company’s improved financial performance.

Recommendation of the Board of Directors

The Board of Directors recommends that you vote “For” Proposal 3.

Proposal 4: Advisory Vote to Approve the Frequency of Future Advisory Votes on the Compensation of the Named Executive Officers

SEC regulations that took effect in 2011 require companies to provide shareholders with the opportunity every six years to vote on a non-binding, advisory basis for their preference about the frequency of future Say-On-Pay Votes. By voting with respect to this Proposal 4, shareholders may indicate whether they would prefer that the Company conduct future Say-On-Pay Votes once every one, two or three years. Shareholders may instead abstain from voting on this proposal.

The Board of Directors recommends that shareholders vote for a one-year frequency for future Say-On-Pay Votes. The Board considered factors in favor of longer intervals, including their focus on long-term business results instead of short-term aberrations and variations, and the alignment of three-year voting intervals with the three-year performance cycles in the Company’s equity-based compensation program. However, the Board believes that an annual Say-On-Pay Vote is the appropriate approach for the Company to adopt at this time, primarily due to the fact that annual Say-On-Pay Votes have become the practice of a majority of public companies over the past six years and are considered by a majority of institutions and other shareholder groups to be a preferred method for providing timely feedback on executive compensation.

This vote is advisory and not binding on the Company or the Board of Directors. The proxy card will provide shareholders with the opportunity to choose among three options as to their preferred frequency for future Say-On-Pay Votes. Shareholders may cast a vote on the voting frequency by selecting the option of one year, two years or three years, or may abstain from voting.

Recommendation of the Board of Directors

The Board of Directors recommends that you vote for the option of a “One Year” frequency in Proposal 4.

Ownership of Kemper Stock

Ownership of Kemper Common Stock
Directors and Executive Officers
On March 9, 2017, there were approximately 51,295,980 shares of the Company’s Common Stock outstanding. The following table shows the beneficial ownership of the Common Stock as of March 9, 2017 (unless otherwise indicated) by: (a) each director; (b) each Named Executive Officer; and (c) all directors and executive officers as a group.

Name of Beneficial Owner	Common Shares at March 9, 2017(1)	Stock Options Exercisable On or Before May 8, 2017(2)	Total Shares Beneficially Owned	Percent of Class(3)
Directors:				
George N. Cochran	4,628	9,179	13,807	*
Kathleen M. Cronin	2,920	8,000	10,920	*
Douglas G. Geoga	11,750	37,965	49,715	*
Thomas M. Goldstein	—	—	—	*
Lacy M. Johnson	—	—	—	*
Robert J. Joyce	5,920	17,179	23,099	*
Joseph P. Lacher, Jr.	—	48,628	48,628	*
Christopher B. Sarofim	3,920	16,000	19,920	*
David P. Storch	8,920	29,179	38,099	*
NEOs (other than Mr. Lacher who is listed above):				
James J. McKinney	—	—	—	*
John M. Boschelli	23,305	23,441	46,746	*
George "Chip" D. Dufala, Jr.	—	10,156	10,156	*
Mark A. Green	1,000	9,688	10,688	*
Richard Roeske	48,172	44,177	92,349	*
Frank J. Sodaro (4)	2,270	—	2,270	*
Directors, NEOs and Executive Officers as a Group (18 persons)	198,935	273,293	472,228	*

(1) The shares shown for non-employee directors (i.e, the directors other than Mr. Lacher) include outstanding DSUs, and the numbers of shares for NEOs and other executive officers include any shares of Common Stock indirectly held in the Company’s 401(k) and Retirement Plan. The shares shown for the non-employee directors include 2,920 DSUs for Mr. Cochran and Ms. Cronin and 3,920 DSUs for Messrs. Geoga, Joyce, Sarofim and Storch outstanding on March 9, 2017. RSUs held by officers are not included in the amounts shown in this table because they are not deemed beneficially owned shares of Common Stock under SEC rules applicable to this table unless they will vest within 60 days. Accordingly, the shares shown for the NEOs and the Executive Officers as a Group do not include the following outstanding performance-based RSUs: Lacher (62,553); McKinney (11,274); Boschelli (13,235); Dufala (13,127); Green (11,758); Roeske (5,992); and for all NEOs and Executive Officers as a Group (143,241); and the shares shown also do not include the following outstanding time-based RSUs: McKinney (16,000); Dufala (50,000); and for all the NEOs and Executive Officers as a Group (66,200). To the Company’s knowledge, the beneficial owner has sole voting and sole dispositive power with respect to the shares listed opposite his or her name, unless otherwise indicated.
(2) The shares shown include stock options outstanding as of March 9, 2017 that will be vested as of May 8, 2017.
(3) The percentages shown for any individual and for the directors and executive officers as a group are based on the 51,295,980 shares of the Company’s Common Stock outstanding on March 9, 2017, plus shares that the respective individual or group has the right to acquire through DSU, RSU or stock option awards outstanding on March 9, 2017 that will be vested as of May 8, 2017. An asterisk in this column indicates a percentage of less than 1 percent.
(4) The shares shown are based on information provided to the Company by Mr. Sodaro.

Ownership of Kemper Stock

Certain Beneficial Owners

The following table sets forth information about persons, other than the Company's directors and executive officers shown above, known by the Company to be the beneficial owner of more than five percent of the Company's Common Stock. To the Company's knowledge, the beneficial owner has sole voting and sole dispositive power with respect to the shares listed opposite the beneficial owner's name, unless otherwise indicated.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class (1)	
Singleton Group LLC 3419 Via Lido, #630 Newport Beach, California 92663	8,334,520(2)	16.2	%
BlackRock, Inc. 55 East 52nd Street New York, New York 10055	4,492,486(3)	8.8	%
Dimensional Fund Advisors LP Building One 6300 Bee Cave Road Austin, Texas 78746	4,327,451(4)	8.4	%
Fayez Sarofim and Fayez S. Sarofim & Co. Two Houston Center, Suite 2907 909 Fannin Street Houston, Texas 77010	3,517,757(5)	6.9	%
Vanguard 100 Vanguard Boulevard Malvern, Pennsylvania 19355	3,273,845(6)	6.4	%
T. Rowe Price Associates, Inc. 100 East Pratt Street Baltimore, Maryland 21202	2,655,551(7)	5.2	%

(1) The percentages shown are based on the 51,295,980 shares outstanding on March 9, 2017.

(2) Based on information reported in a Schedule 13D/A filed jointly with the SEC on December 31, 2015, the Singleton Group LLC ("LLC"), William W. Singleton, Christina Singleton Mednick and Donald E. Rugg, as managers of the LLC, the LLC directly owns 8,334,520 shares of Common Stock. William W. Singleton, Christina Singleton Mednick and Donald E. Rugg, as managers of the LLC, share voting and dispositive power with respect to the shares of Common Stock held by the LLC, and so may be deemed beneficial owners of all such shares, and Donald E. Rugg has sole voting and dispositive power with respect to 412 shares of Common Stock. As a result of these shares beneficially owned outside of the LLC and his role as a manager of the LLC, Donald E. Rugg may be deemed a beneficial owner of 8,334,932 shares of Common Stock. In a Form 4 filed with the SEC on May 8, 2014, William W. Singleton and Christina Singleton Mednick reported having indirect interests in these shares as trustees and beneficiaries of certain trusts holding membership interests in the LLC and as managers of the LLC and disclaimed beneficial interest of the shares of Common Stock held by the LLC except to the extent of their respective pecuniary interests therein.

(3) Based on information reported in a Schedule 13G/A filed with the SEC on January 25, 2017, BlackRock, Inc. ("BlackRock") beneficially owns an aggregate of 4,492,486 shares of Common Stock as of December 31, 2016, as to which BlackRock has sole dispositive power and which includes 4,398,387 shares as to which it has sole voting power. BlackRock also reported that it was filing as the parent holding company or control person of certain subsidiaries listed in an exhibit to the Schedule 13G/A.

(4)

Based on information reported in a Schedule 13G/A filed with the SEC on February 9, 2017, Dimensional Fund Advisors LP (“Dimensional”) beneficially owns an aggregate of 4,327,451 shares of Common Stock as of December 31, 2016, as to which Dimensional has sole dispositive power and which includes 4,285,678 shares as to which it has sole voting

Ownership of Kemper Stock

power. According to the Schedule 13G/A, these shares are held by four investment companies to which Dimensional furnishes investment advice, and certain other commingled funds, group trusts and separate accounts for which Dimensional serves as investment manager or sub-adviser. Dimensional disclaimed beneficial ownership of these shares.

(5) Based on information reported in a Schedule 13G/A filed jointly with the SEC on February 10, 2017 by Fayez Sarofim, Fayez Sarofim & Co., Sarofim Trust Co. and Sarofim International Management Co., Fayez Sarofim may be deemed to be the beneficial owner of 3,517,757 shares of Common Stock as of December 31, 2016. Of such shares, Fayez Sarofim reported sole voting and dispositive power as to 2,469,070 shares, shared voting power as to 1,041,985 shares and shared dispositive power as to 1,048,687 shares.

Fayez Sarofim & Co. (of which Fayez Sarofim is the Chairman of the Board, Chief Executive Officer, a director, and the majority shareholder) may be deemed to be the beneficial owner of 1,048,687 shares of Common Stock as of December 31, 2016 as to which Fayez Sarofim & Co. has shared dispositive power, and which includes 1,041,985 shares as to which it has shared voting power. According to the Schedule 13G/A, 308,567 shares are held in investment accounts that are managed by Fayez Sarofim & Co. for numerous clients as to which Fayez Sarofim & Co. has full investment discretion.

Sarofim Trust Co., a wholly-owned subsidiary of Fayez Sarofim & Co., may be deemed to be the beneficial owner of 15,100 shares of Common Stock as of December 31, 2016 as to which it has shared voting and dispositive power. According to the Schedule 13G/A, all 15,100 shares are held in investment advisory accounts managed by Sarofim Trust & Co.

Sarofim International Management Co., a wholly-owned subsidiary of Fayez Sarofim & Co., directly owns 725,020 shares of Common Stock as of December 31, 2016 as to which it has shared voting and dispositive power.

(6) Based on information reported in a Schedule 13G/A filed with the SEC by The Vanguard Group (“Vanguard”) on February 10, 2016, Vanguard may be deemed to be the beneficial owner of 3,273,845 shares of Common Stock as of December 31, 2016. Of such shares, Vanguard reported sole voting power as to 50,426 shares, sole dispositive power as to 3,220,106 shares, shared voting power as to 5,500 shares and shared dispositive power as to 53,739 shares.

According to the Schedule 13G/A, Vanguard’s wholly-owned subsidiary, Vanguard Fiduciary Trust Company, is the beneficial owner of 48,239 shares of Common Stock as a result of its serving as the investment manager of collective trust accounts. Additionally, Vanguard’s wholly-owned subsidiary, Vanguard Investments Australia, Ltd. is the beneficial owner of 7,687 shares of Common Stock as a result of its serving as an investment manager of Australian investment offerings.

(7) Based on information reported in a Schedule 13G/A filed with the SEC on February 7, 2017 by T. Rowe Price Associates, Inc. (“T. Rowe Price”), T. Rowe Price may be deemed to be the beneficial owner of 2,655,551 shares of Common Stock as of December 31, 2016 as to which T. Rowe Price has sole voting power as to 564,772 shares and sole dispositive power as to 2,655,551 shares. According to information provided to the Company by T. Rowe Price, these shares are owned by various individual and institutional investors to which T. Rowe Price serves as an investment adviser. T. Rowe Price disclaimed beneficial ownership of these shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company’s directors and executive officers and persons who beneficially own more than 10 percent of the registered class of the Company’s equity securities to file with the SEC reports of ownership and reports of changes in ownership of such securities. Based on the Company’s knowledge of stock transactions, its review of copies of reports filed under Section 16(a) and written representations furnished to the Company, the Company believes that all filing requirements applicable to its directors, executive officers and more than ten percent beneficial owners were complied with for the fiscal year ended December 31, 2016.

Frequently Asked Questions

Proxy and Proxy Statement

What is a Proxy?

A proxy is your legal appointment of another person to vote the stock you own. That other person is called a proxy. If you appoint someone as your proxy in a written document, that document is also called a proxy or a proxy card. We have designated Joseph P. Lacher, Jr., our President and Chief Executive Officer, and C. Thomas Evans, Jr., our Senior Vice President, Secretary and General Counsel, to act as proxies for the Annual Meeting. You do not need to attend the Annual Meeting to vote your shares if you provide a proxy in the manner described in this Proxy Statement.

What is a Proxy Statement?

A Proxy Statement is a document that sets forth the information required by the federal securities laws and regulations administered by the SEC which is intended to allow you to vote on an informed basis at the Annual Meeting.

Voting and Record Date

Who can vote at the Annual Meeting?

You are entitled to vote at the Annual Meeting if you owned Common Stock at the close of business on the Record Date.

How many votes do I have?

Each share of Common Stock that you owned on the Record Date entitles you to one vote. Your proxy card indicates the number of shares of Common Stock that you owned on the Record Date that may be voted at the Annual Meeting.

How many shares of Kemper stock are eligible to be voted at the Annual Meeting?

At the close of business on the Record Date, there were 51,295,980 shares of Common Stock issued and outstanding. Accordingly, 51,295,980 shares of Common Stock are eligible to be voted at the Annual Meeting. Kemper had no other voting securities outstanding on the Record Date.

What is a quorum?

To conduct business at the Annual Meeting, a quorum must be present; that is, a majority of the shares of Common Stock outstanding and entitled to vote as of the Record Date must be represented in person or by proxy at the Annual Meeting. If you properly submit a proxy, your shares covered by that proxy will be counted toward a quorum.

On what am I being asked to vote on?

Shareholders are being asked to vote on the following proposals at the Annual Meeting:

Proposal 1:	Election of the director Nominees listed beginning on page 10;
Proposal 2:	Consider and vote on an advisory proposal on the ratification of the selection of Deloitte & Touche LLP as the Company's Independent Registered Public Accountant for 2017;
Proposal 3:	Consider and vote on an advisory proposal on the compensation of the Company's Named Executive Officers, as disclosed in this Proxy Statement; and
Proposal 4:	Consider and vote on an advisory proposal on the frequency of future advisory proposals on the compensation of the Company's Named Executive Officers.

Frequently Asked Questions

What is the difference between a shareholder that holds shares as a "registered shareholder" or in "street name"?
The shares of a registered shareholder are registered with the Company's transfer agent, Computershare Trust Company, N.A. ("Computershare"), in the shareholder's own name. Shares held in street name are registered with Computershare in the name of the stock brokerage firm or other institution (or the name of its nominee), but not in the shareholder's own name. In this case, the institution maintains its own internal records showing the shareholder as the actual beneficial owner of the shares.
What are the different methods that I can use to vote my shares of Common Stock?

Shares held by registered shareholders:
If you hold your shares of Common Stock as a registered shareholder, you may give a proxy to vote your shares by one of the following methods:

- Complete, sign and date your proxy card and return it no later than the commencement of the Annual Meeting in the postage-paid envelope provided;
- Call the toll-free telephone number on your proxy card and follow the recorded instructions no later than 10:59 p.m. Central Daylight Time on Tuesday, May 2, 2017;
- Access the proxy voting website identified on your proxy card and follow the instructions no later than 10:59 p.m. Central Daylight Time on Tuesday, May 2, 2017; or
- Attend the Annual Meeting in person and deliver your proxy card or ballot to one of the ushers when requested to do so.

Shares held in street name:
If you hold your shares of Common Stock in street name, your broker (or other institution holding your shares of Common Stock in street name) generally will supply you with its own form of proxy card requesting you to provide your voting instructions in writing or, in some cases, by telephone or over the Internet. Following its receipt of your voting instructions, the institution will be authorized to provide a proxy to the Company to vote your shares in accordance with any instructions you provide.

Shares held through 401(k) and Retirement Plan:
If you hold your shares of Common Stock through the Company's 401(k) and Retirement Plan, you may give a proxy to vote your shares by one of the following methods:

- Complete, sign and date your proxy card and return it by 1:00 a.m. Central Daylight Time on Monday, May 1, 2017 ("401(k) Deadline"), for your voting instructions to be effective;
- Call the toll-free telephone number on your proxy card and follow the recorded instructions by the 401(k) Deadline, for your voting instructions to be effective; or
- Access the proxy voting website identified on your proxy card and follow the instructions by the 401(k) Deadline, for your voting instructions to be effective.

If you provide timely voting instructions for your 401(k) and Retirement Plan shares, the plan trustee will confidentially vote your shares in accordance with your voting instructions. In accordance with the terms of the 401(k) and Retirement Plan, if you do not vote your plan shares before the voting deadline, the plan trustee will vote your shares in the same proportion as all other shares were voted in accordance with timely voting instructions provided to the trustee by all other plan participants.
The telephone and Internet voting procedures are designed to authenticate shareholders' identities, to allow shareholders to give their voting instructions, and to confirm that shareholders' instructions have been recorded properly. Shareholders who wish to give proxy voting instructions over the Internet should be aware that there may be costs associated with

electronic access, such as usage charges from Internet service providers and telephone companies. In addition, in choosing among the available alternatives for proxy voting, shareholders should be aware that there may be some risk that a vote either by telephone or over the Internet might not be properly recorded or counted because of an unanticipated electronic malfunction. As described above, please note that the ability of shareholders of record to submit voting instructions by telephone and over the Internet ends at 10:59 p.m. Central Daylight Time on the day before the Annual Meeting, and, for 401(k) and Retirement Plan shares, by the 401(k) Deadline. The reason for this cut-off is to allow for the timely assembly and tabulation of voting instruction data.

How do I vote my Common Stock in person?

If you owned Common Stock in your own name on the Record Date, your name will appear on the list of registered shareholders of the Company and, if you wish to attend in person, you will be admitted to the Annual Meeting and may vote by written ballot or by delivering a signed proxy card. However, note that: (a) shares held through the 401(k) and Retirement Plan must be voted by the 401(k) Deadline and, accordingly, may not be voted in person at the Annual Meeting; and (b) if your shares are held in the name of a broker, bank or other institution, you must present written evidence at the Annual Meeting from the institution indicating that you were the beneficial owner of the shares on the Record Date and that you have been authorized by that institution to vote your shares in person. This written evidence is generally called a “Legal Proxy” and should be submitted to the Company’s Secretary, C. Thomas Evans, Jr., prior to the commencement of the Annual Meeting.

If I plan to attend the Annual Meeting, should I give my proxy?

Regardless of whether you plan to attend the Annual Meeting, we urge you to give a proxy. Returning your proxy card or giving voting instructions by telephone or over the Internet will not affect your right to attend the Annual Meeting and vote in person. However, giving a proxy will ensure that your shares are represented at the Annual Meeting in the event that you are unable to attend.

How will my proxy be voted?

If you (or your broker or other institution holding your shares held in street name) properly sign and timely return your proxy card, or timely deliver your voting instruction by telephone or over the Internet, the individuals designated as proxies on the proxy card will vote your shares as you have directed. With respect to Proposal 1, you may choose to vote “FOR” or “AGAINST” or to “ABSTAIN” from voting for each director Nominee. With respect to Proposals 2 and 3, you may choose to vote “FOR” or “AGAINST” or to “ABSTAIN” from voting. With respect to Proposal 4, you are given the choice of voting for a frequency of “ONE YEAR,” “TWO YEARS” or “THREE YEARS” or to “ABSTAIN” from voting. For specific information about a particular proposal, please refer to the section of this Proxy Statement that pertains to such proposal as indicated in the Table of Contents.

For shares held as a registered shareholder, if you sign the proxy card but do not make specific choices, the designated proxies will vote your shares as recommended by the Company’s Board of Directors. For shares held in street name, you should contact your broker (or other institution) to determine the method by which your shares will be voted if you sign the proxy card but do not make specific choices. The Board of Directors recommends that you vote “FOR” all of the director Nominees in Proposal 1, “FOR” Proposals 2 and 3 and for a vote frequency of “ONE YEAR” in Proposal 4.

What does it mean if I receive more than one proxy card?

If your Kemper shares are held under different names or in more than one account, you will receive more than one proxy card. Each proxy card will indicate the number of shares you are entitled to vote on that particular proxy card.

Frequently Asked Questions

What are broker non-votes and how might they affect voting?
The applicable NYSE rules allow a stockbroker holding securities in street name for its customer to exercise discretionary voting power for those securities with respect to some matters (called "discretionary" matters) but not others (called "non-discretionary" matters), depending on the subject matter of the proposal being voted on. Broker non-votes can occur when a stockbroker does not receive voting instructions from its customer on a non-discretionary matter. Under the current NYSE rules, director elections and all matters related to executive compensation are considered non-discretionary matters for which brokers cannot vote undirected shares. Any shares you hold in street name will not be voted with regard to Proposals 1, 3 and 4 unless you provide timely voting instructions to your broker. Under the NYSE rules, Proposal 2 is considered a discretionary matter for brokers, and a broker not receiving voting instructions from a customer will be free to cast a vote in its discretion as to this matter.
How will voting on any other business be conducted?
As of the date hereof, the Company's management is aware of no business that will come before the Annual Meeting other than Proposals 1 through 4 as described in this Proxy Statement, and only the Board of Directors may introduce any additional business. However, if any other business should properly come before the Annual Meeting, your proxy card will authorize the persons designated as proxies to vote on any such matters in their discretion.
Who will tabulate the votes, and how do I find out the voting results after the Annual Meeting?
Representatives of Broadridge Financial Solutions, Inc. will tabulate the votes and act as inspectors of election. The Company will report the voting results in a Current Report on Form 8-K that it will file with the SEC within four business days after the Annual Meeting.
May I revoke my proxy or change my voting instructions?

Shares held as a registered shareholder:
You may revoke your proxy or change your voting instructions for registered shares as follows:

- Deliver another signed proxy card with a later date anytime prior to the commencement of the Annual Meeting;
- Notify the Company's Secretary, C. Thomas Evans, Jr., in writing prior the commencement of the Annual Meeting that you have revoked your proxy;
- Call the toll-free telephone number, or access the proxy voting website, identified on the proxy card and re-vote any time prior to 10:59 p.m. Central Daylight Time on Tuesday, May 2, 2017; or
- Attend the Annual Meeting in person and deliver a new, signed proxy card or ballot to one of the ushers when requested to do so.

Shares held through the 401(k) and Retirement Plan:
You may revoke your proxy or change your voting instructions for shares held through the 401(k) and Retirement Plan by completing any of the following:

- Deliver another signed proxy card with a later date prior to the 401(k) Deadline; or
- Call the toll-free telephone number, or access the proxy voting website, identified on the proxy card and re-vote anytime prior to the 401(k) Deadline.

Shares held in street name:
You should contact your stockbroker (or other institution holding your shares) to determine the procedures, if any, for revoking or changing your voting instructions for shares held in street name.

Shareholder Proposals, Nominations and Communications

May a shareholder nominate someone at the Annual Meeting to be a director of Kemper or bring any other business before the 2017 Annual Meeting?

The Company's Bylaws require advance notice to the Company if a shareholder intends to attend an annual meeting of shareholders in person and to nominate someone for election as a director or to bring other business before the meeting. Such a notice may be made only by a shareholder of record who meets the requirements set forth in Section 14 of the Company's Bylaws and provides the required information in the notice within the time period described therein. Each year's proxy statement states the applicable time period for providing such a notice for the next year's annual meeting. The deadline for notices in relation to the 2017 Annual Meeting has expired, and the Company did not receive any such notices that complied with the Bylaws requirements during the prescribed notice period. Accordingly, no such director nominations or other business proposed by shareholders from the floor of the 2017 Annual Meeting will be in order. The procedures for shareholders to nominate directors or make other proposals relating to the 2018 Annual Meeting are summarized below in the answers to the following two questions.

How may a shareholder nominate someone to be a director of Kemper or bring any other business before the 2018 Annual Meeting?

In accordance with the advance notice requirements of the Bylaws described above, if a shareholder of record wishes to nominate one or more directors or bring other business to be considered by shareholders at the 2018 Annual Meeting, such proposals must be made in writing to the Company no earlier than February 2, 2018 and no later than March 5, 2018. However, if the date of the 2018 Annual Meeting is advanced by more than 30 days or delayed by more than 60 days from the anniversary of the 2017 Annual Meeting date (i.e., May 3, 2017), then such nominations and proposals must be delivered in writing to the Company no earlier than 90 days prior to the 2018 Annual Meeting and no later than the close of business on the later of (a) the 60th day prior to the 2018 Annual Meeting, or (b) the 10th day following the day on which public announcement of the date of the 2018 Annual Meeting is first made.

All shareholder proposals and notices should be submitted to the Secretary of Kemper Corporation, at One East Wacker Drive, Chicago, Illinois 60601.

Please note that these requirements relate only to matters intended to be proposed from the floor of the 2018 Annual Meeting. They are separate from certain SEC requirements that must be met to have shareholder proposals included in the Company's Proxy Statement, as described immediately below.

When are shareholder proposals due so that they may be included in Kemper's Proxy Statement for the 2018 Annual Meeting?

Pursuant to the regulations of the SEC that are currently in effect, shareholders who intend to submit proposals for inclusion in the Company's proxy materials for the 2018 Annual Meeting must do so no later than November 22, 2017. Certain other SEC requirements must also be met to have a shareholder proposal included in the Company's Proxy Statement. These requirements are independent of the advance notice requirements of the Company's Bylaws described immediately above. Under SEC rules in effect on the date of this Proxy Statement, shareholder nominations of persons for election to the Board of Directors are not eligible for inclusion in the Company's proxy materials. All shareholder proposals and notices should be submitted to the Secretary of Kemper Corporation, at One East Wacker Drive, Chicago, Illinois 60601.

How may a shareholder or other interested party communicate with the Board of Directors?

Shareholders and other interested parties may communicate with the Board of Directors, or with the non-management directors as a group, by calling the Kemper Corporate Responsibility Hotline at 888.695.3359 or by submitting a report or inquiry online at MyComplianceReport.com (enter access code KEMP).

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The hotline and the online reporting function are managed by an independent company, and reports can be made anonymously or confidentially. Communications will be directed to the Chair of the Nominating & Corporate Governance Committee if addressed to the non-management or independent directors as a group.

Cost of Proxy Solicitation

What are the costs of soliciting these proxies and who pays them?

The Company has retained the services of Innisfree M&A Incorporated (“Innisfree”) to aid in the solicitation of proxies and will pay Innisfree a base fee of $15,000 for these services, plus its related costs and expenses. The Company will bear the total expense of the solicitation that will include, in addition to the amounts paid to Innisfree, amounts paid for printing and postage and to reimburse banks, brokerage firms and others for their expenses in forwarding proxy solicitation material. Although the principal distribution of proxy materials will be through the Internet, solicitation of proxies will also be made by mail. Additional proxy solicitation may be made by telephone or other direct communication with certain shareholders or their representatives by directors, officers and employees of the Company and its subsidiaries, who will receive no additional compensation for such solicitation.

Additional Information about Kemper and Householding Requests

Where can I find more information about Kemper?

The Company’s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments thereto are accessible free of charge through its website, kemper.com, as soon as reasonably practicable after such materials are filed with or furnished to the SEC. You may also obtain at no charge a copy of the Company’s most recent Annual Report on Form 10-K, other materials filed with the SEC and additional information regarding Kemper as follows:

- Contact Kemper Investor Relations by telephone at 312.661.4930, or by e-mail at investors@kemper.com; or
- Write to Kemper at One East Wacker Drive, Chicago, Illinois 60601, Attention: Investor Relations.

How may shareholders with the same address request delivery of either single or multiple copies of the Company’s Proxy Statement?

If you and another shareholder who shares your address received multiple copies of this Proxy Statement, you may contact the Company as described above and request that a single copy be sent to your address for future deliveries of Company communications. This is commonly referred to as “householding.” If your proxy statement was “householded” but you prefer to receive separate copies, you may contact the Company as described above to request separate copies now or for future deliveries of Company communications.

Incorporation by Reference

Notwithstanding any general statement to the contrary set forth in any of the Company's previous or future filings under the Securities Act of 1933, as amended, or the Exchange Act that might incorporate this Proxy Statement into such filings, the Audit Committee Report and the Compensation Committee Report contained in this Proxy Statement are not to be incorporated by reference into any such filings, nor are they to be deemed soliciting material or deemed to be filed under such Acts.

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This Proxy Statement and the form of proxy are being mailed and delivered to the Company's shareholders by the authority of the Board of Directors.

C. Thomas Evans, Jr.
Secretary

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Appendix A

Supplement to Compensation Discussion and Analysis

The information in this Appendix supplements the disclosures in the Compensation Discussion and Analysis section of the Proxy Statement.

The following table supplements the information in the table captioned Net Income Comparisons under the heading 2016 Annual Incentive Program on page 28:

Non-GAAP Reconciliation
($ in Millions)

	2016 Actual	2016 Target	2015 Actual
Net Income - As Reported	16.8	110.8	85.7
Adjustments, After-tax:			
Normalize Catastrophe Losses and LAE including Development, from Reported to Expected	27.5	—	2.3
Normalize Realized Gains and Losses on Sales of Investments and Other-than-temporary Impairment Losses, from Reported to Expected	6.2	—	(9.7)
Remove: Initial Impact of Voluntarily Using Death Verification Databases (1)	50.6	—	—
Total Adjustments, After-tax	84.4	—	(7.4)
Adjusted Net Income	101.2	110.8	78.3

(1) Discussed in the Summary of Results section of Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's 2016 Annual Report.

Appendix A

The following supplements the information included in the section about the 2014 Multi-Year Awards under 2009 Performance Incentive Plan under the subheading Performance Results and Payouts, beginning on page 31:

Company Performance Criteria under 2014 Multi-Year PIP Awards to Messrs. Roeske and Sodaro:

The Performance Criteria are the three-year average of Kemper's consolidated (1) Revenue Growth (weighted 20%); and (2) Return on Equity (weighted 80%), as defined below. The Performance Criteria are subject to a Catastrophe Loss Collar as defined below:

Revenue Growth is defined as the three-year compound annual growth rate, calculated as [(A/B)^(1/3)-1], where A = Total Revenues excluding Net Realized Gains on Sales of Investments and Net Impairment Losses Recognized in Earnings as reported in the Company's 2016 Annual Report and B = Total Revenues excluding Net Realized Gains on Sales of Investments and Net Impairment Losses Recognized in Earnings as reported in the Company's 2013 Annual Report.

Return on Equity is defined as the return on average shareholders' equity, which shall be computed by dividing the sum of GAAP Net Income, subject to the Catastrophe Loss Collar, as reported in the Company's Annual Reports for each of the three years in the Performance Period by the sum of the Average Shareholders' Equity for each of the three years.

Average Shareholders' Equity is defined as the simple average of Total Shareholders' Equity as reported in the Company's Annual Reports, subject to the Catastrophe Loss Collar, for the beginning and end of year for each year.

The Catastrophe Loss Collar shall be computed as follows:

(a) If Catastrophe Losses and Loss Adjustment Expenses ("LAE") (including Catastrophe reserve development) reported by the Property & Casualty Insurance segment ("Reported Catastrophe Losses and LAE") are greater than 1.5 times the "Expected Catastrophe Losses and LAE" (as defined below) for the Property & Casualty Insurance segment ("Maximum Catastrophe Losses and LAE"), Net Income shall be increased by an amount equal to the after-tax difference between the Reported Catastrophe Losses and LAE and the Maximum Catastrophe Losses and LAE;

(b) If Reported Catastrophe Losses and LAE are less than 0.5 times the Expected Catastrophe Losses and LAE for the Property & Casualty Insurance segment ("Minimum Catastrophe Losses and LAE"), Net Income shall be reduced by an amount equal to the after-tax difference between the Minimum Catastrophe Losses and LAE and the Reported Catastrophe Losses and LAE; or

(c) If Reported Catastrophe Losses and LAE are less than the Maximum Catastrophe Losses and LAE and greater than the Minimum Catastrophe Loss and LAE, no adjustment shall be made to Net Income.

Expected Catastrophe Losses means the amounts specified in the Company's management reports as "Planned" or "Expected" for the performance period for Catastrophe Losses and associated Loss Adjustment Expenses, including catastrophe reserve development.

Appendix A

Definitions of Company Performance Criteria under 2014 Multi-Year PIP Award for Mr. Boschelli:

The Target Multiplier applicable to the 2014 Multi-Year PIP Award to Mr. Boschelli was determined by computing a weighted average of the Target Multipliers derived for the following four performance criteria for the three-year performance period ending December 31, 2016 (“Performance Period”):

Performance Criterion 1	3-Year Excess Return from Corporate Investments (v. WAPR) (weighted 20%). This is determined by comparing the 3-year Kemper Total Investment Return to the results of a “Weighted Average Peer Return” (“WAPR”) for the Performance Period. Excess Return is expressed in basis points. A simple average was calculated of the return for each year in the Performance Period.
Performance Criterion 2	3-Year Excess Return from Pension Investments (v. Benchmark) (weighted 5%). This was determined by comparing the 3-year Kemper Total Pension Return for Kemper’s Pension Portfolio to the 3-Year Strategic Portfolio Return for the Performance Period. Excess Return is expressed in basis points. A simple average was calculated of the return for each year in the Performance Period.
Performance Criterion 3	3-Year Pre-Tax Equivalent Net Investment Income Yield (weighted 50%) was computed by taking a simple average of the Pre-Tax Equivalent Net Investment Income Yield for the Performance Period. The calculation was determined as follows: (a) Pre-Tax Equivalent Net Investment Income, divided by (b) an average of Total Investments for the Performance Period. Pre-Tax Equivalent Net Investment Income was computed by dividing: (a) Net Investment Income on an after-tax basis taking into consideration tax deductions for tax-preferenced net investment income by (b) the sum of 100% minus Kemper's federal income tax rate.
Performance Criterion 4	3-Year Kemper Consolidated Revenue Growth (20%) and Return on Equity (80%) (collectively weighted 25%). See definitions of key performance criteria under 2014 Multi-Year PIP Awards for Messrs. Roeske and Sodaro.

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Kemper Corporation
Notice of 2017 Annual Meeting and Proxy Statement
kemper.com