DARLING INTERNATIONAL INC
Form 10-K
February 29, 2012
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)
/X/ ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011
OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______

Commission File Number 001-13323

DARLING INTERNATIONAL INC.
(Exact name of registrant as specified in its charter)

Delaware	36-2495346
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
251 O'Connor Ridge Blvd., Suite 300 Irving, Texas	75038
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (972) 717-0300

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock $0.01 par value per share	New York Stock Exchange (“NYSE”)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes X No ____

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No X

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

As of the last day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the shares of common stock held by nonaffiliates of the Registrant was approximately $1,947,238,000 based upon the closing price of the common stock as reported on the NYSE on that day. (In determining the market value of the Registrant’s common stock held by non-affiliates, shares of common stock beneficially owned by directors, officers and holders of more than 10% of the Registrant’s common stock have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.)

There were 117,291,429 shares of common stock, $0.01 par value, outstanding at February 22, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Selected designated portions of the Registrant's definitive Proxy Statement in connection with the Registrant’s 2012 Annual Meeting of stockholders are incorporated by reference into Part III of this Annual Report.

DARLING INTERNATIONAL INC. AND SUBSIDIARIES
FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

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PART I

ITEM 1. BUSINESS

GENERAL

Founded by the Swift meat packing interests and the Darling family in 1882, Darling International Inc. ("Darling", and together with its subsidiaries, the "Company") was incorporated in Delaware in 1962 under the name "Darling-Delaware Company, Inc." On December 28, 1993, Darling changed its name from "Darling-Delaware Company, Inc." to "Darling International Inc." The address of Darling's principal executive office is 251 O'Connor Ridge Boulevard, Suite 300, Irving, Texas, 75038, and its telephone number at this address is (972) 717-0300.

The Company is a leading provider of rendering, cooking oil and bakery waste recycling and recovery solutions to the nation's food industry. The Company collects and recycles animal by-products, bakery waste and used cooking oil from poultry and meat processors, commercial bakeries, grocery stores, butcher shops, and food service establishments and provides grease trap cleaning services to many of the same establishments. On December 17, 2010, Darling completed its acquisition of Griffin Industries, Inc. (which was subsequently converted to a limited liability company) and its subsidiaries ("Griffin") pursuant to the Agreement and Plan of Merger, dated as of November 9, 2010 (the "Merger Agreement"), by and among Darling, DG Acquisition Corp., a wholly-owned subsidiary of Darling ("Merger Sub"), Griffin and Robert A. Griffin, as the Griffin shareholders' representative. Merger Sub was merged with and into Griffin (the "Merger"), and Griffin survived the Merger as a wholly-owned subsidiary of Darling (the "Griffin Transaction"). The Company operates over 120 processing and transfer facilities located throughout the United States to process raw materials into finished products such as protein (primarily meat and bone meal ("MBM") and poultry meal ("PM")), hides, fats (primarily bleachable fancy tallow ("BFT"), poultry grease ("PG") and yellow grease ("YG")) and bakery by-products ("BBP") as well as a range of branded and value-added products. The Company sells these products nationally and internationally, primarily to producers of animal feed, pet food, fertilizer, bio-fuels and other consumer and industrial ingredients, including oleo-chemicals, soaps and leather goods for use as ingredients in their products or for further processing.

Effective January 2, 2011, as a result of the acquisition of Griffin, the Company's business operations were reorganized into two new segments, Rendering and Bakery, in order to better align its business with the underlying markets and customers that the Company serves. All historical periods have been restated for the changes to the segment reporting structure. The Company's fiscal 2011 business and operations include 52 weeks of contribution from the assets acquired in the Griffin Transaction as compared to 2 weeks of contribution from these assets in fiscal 2010. For the financial results of the Company's business segments, see Note 19 of Notes to Consolidated Financial Statements.

The Company’s net external sales from continuing operations by operating segment were as follows (in thousands):

	Fiscal 2011			Fiscal 2010			Fiscal 2009		
Continuing operations:									
Rendering	$1,501,280	83.5	%	$714,685	98.6	%	$597,806	100.0	%
Bakery	295,969	16.5		10,224	1.4		—	—	
Total	$1,797,249	100.0	%	$724,909	100.0	%	$597,806	100.0	%

OPERATIONS

Rendering

The Company's largest business activity is rendering. The Company's rendering operations process poultry, animal by-products and used cooking oil into fats (primarily BFT, PG, YG), protein (primarily MBM and PM (feed grade and pet food)), and hides. The Company's rendering operations also provide grease trap servicing to food service establishments in exchange for a collection fee.

Raw materials

The Company's rendering operations collect two primary types of protein by-products, (i) beef and pork by-products and (ii) poultry by-products, which are collected primarily from independent meat and poultry processors, grocery stores, butcher shops and food service establishments. These rendering materials are collected in one of two manners. Certain large suppliers, such as large meat processors and poultry processors, are furnished with bulk trailers in which the raw material is loaded. The Company provides the remaining suppliers, primarily grocery stores and butcher shops, with containers in which to deposit the raw material. The containers are picked up by or emptied into the Company's trucks on a periodic basis. The type and frequency of service is determined by individual supplier requirements, the volume of raw material generated by the supplier, supplier location and weather, among other factors. The raw materials collected by the Company are transported either directly to a processing plant or to a transfer station where materials from several collection routes are loaded into trailers and transported to a processing plant. Collections of animal processing by-products generally are made during the day, and materials are delivered to plants for processing within 24 hours of collection to deter spoilage.

The Company also collects used cooking oil and trap grease from restaurants, food service establishments and grocery stores. Many of the Company's customers operate stores that are part of national chains. Used cooking oil from food service establishments is placed in various sizes and types of containers which are supplied by the Company. In some instances, these containers are unloaded directly onto the trucks, while in other instances used cooking oil is pumped through a vacuum hose into the truck. The Company sells two types of containers for used cooking oil collection to food service establishments called CleanStar® and BOSS, both of which are proprietary self-contained collection systems that are housed either inside or outside the establishment, with the used cooking oil pumped directly into collection vehicles via an outside valve. The frequency of all forms of used cooking oil and trap grease raw material collection is determined by the volume of oil generated by the food service establishment. The Company either transports trap grease to waste treatment centers or recycles it at its facilities into a host of environmentally safe product streams, including fuel and feed ingredients. The Company provides its customers with a comprehensive set of solutions to their trap grease disposal needs, including manifests for regulatory compliance, computerized routing for consistent cleaning and comprehensive trap cleaning.

Certain of the Company's rendering facilities are highly dependent on one or a few suppliers. During the 2011 fiscal year, the Company's 10 largest raw materials suppliers accounted for approximately 25% of the total raw material processed by the Company with no single supplier accounting for more than 5%. See "Risk factors—A significant percentage of the Company's revenue is attributable to a limited number of suppliers and customers." Should any of these suppliers choose alternate methods of disposal, cease or materially decrease their operations, have their operations interrupted by casualty or otherwise cease using or reduce the use of the Company's collection services, the operating facilities serving those customers could be materially and adversely affected. (See "Risk factors-Certain of the Company's operating facilities are highly dependent upon a single or a few suppliers.") For a discussion of the Company's competition for raw materials, see "Competition."

Processing operations

The Company produces finished products primarily through the grinding, cooking, separating, drying, and blending of various raw materials. The process starts with the collection of animal processing by-products (including fat, bones, feathers, offal and other animal by-products). The animal processing by-products are ground and heated to extract water and separate oils and grease from animal tissue as well as to sterilize and make the material suitable as an ingredient for animal feed. The separated oils, tallows, and greases are then centrifuged and/or refined for purity. The remaining solid product is pressed to remove additional oils to create meals. The meal is then sifted through screens and ground further if necessary to produce an appropriately sized protein meal.

The primary finished products derived from the processing of animal by-products are tallow, PG, MBM, PM, feather meal, and blood meal. In addition, at certain of its facilities, the Company is able to operate multiple process lines simultaneously which provides it with the flexibility and capacity to manufacture a line of premium and value-added products in addition to its principal finished products. Because of these processing controls, the Company is able to blend end products together in order to produce premium products with specific mixes that typically have higher protein and energy content and lower moisture than principal finished products and command premium prices.

The Company's hides and skins operations process hides and skins from hog and beef processors into outputs used in commercial applications such as the leather industry. The Company sells treated hides and skins to external customers, the majority of which are tanneries.

The Company's fertilizer operations utilize finished products from the rendering division to manufacture fertilizers from USDA approved ingredients that contain no waste by-products (i.e., sludge or sewage waste). The Company's primary fertilizer product line is Nature Safe®, an organic, protein based fertilizer which is produced at its blending plant in Henderson, KY. The Company's fertilizer products are predominately sold to golf courses, sports facilities, organic farms and landscaping companies.

Used cooking oil, which is recovered from restaurants, is heated, settled, and purified for use as an animal feed additive or is further processed into biodiesel. Products derived from used cooking oil include YG, biodiesel, and Fat for Fuel®, which uses grease as a fuel source for industrial boilers and driers.

Bakery feed

The Company is a leading processor of bakery waste in the U.S. The bakery feed division collects bakery waste materials and processes the raw materials into BBP, including Cookie Meal®, an animal feed ingredient primarily used in poultry rations.

Raw materials

Bakery products are collected from large commercial bakeries that produce a variety of products, including cookies, crackers, cereal, bread, dough, potato chips, pretzels, sweet goods and biscuits, among others. The Company collects these materials by bulk loading onsite at the bakeries utilizing proprietary equipment, the majority of which is designed, manufactured, and installed by the Company. The Company has specifically engineered bulk collection systems for the handling of bakery waste. All of the bakery waste that the Company collects is bulk loaded which represents a significant advantage over competitors that receive a large percentage of raw materials from less efficient, manual methods. The receipt of bulk-loaded bakery waste allows the Company to significantly streamline its bakery recycling process, reduce personnel, eliminate a significant source of wastewater and maximize freight savings by hauling more tons per load.

Processing operations

The highly automated bakery feed production process involves sorting and separating raw material, mixing it to produce the appropriate nutritional content, drying it to reduce excess moisture, and grinding it to the consistency of animal feed. During the bakery waste process, packaging materials are removed. The packaging material is fed into a combustion chamber, along with sawdust from nearby sawmills and heat is produced. This heat is used in the dryers to remove moisture from the raw materials that have been partially ground. Finally, the dried meal is ground to the specified granularity. The finished product, which is continually tested to ensure that the caloric and nutrient contents meet specifications, is a nutritious additive used in animal feed.

Renewable fuels / Biodiesel

In addition to the rendering and bakery waste services, on January 21, 2011, a wholly-owned subsidiary of the Company entered into a limited liability company agreement (the "JV Agreement") with a wholly-owned subsidiary of Valero Energy Corporation ("Valero") to form Diamond Green Diesel Holdings LLC (the "Joint Venture"). The Joint Venture is owned 50% / 50% with Valero and was formed to design, engineer, construct and operate a renewable diesel plant (the "Facility") capable of producing approximately 9,300 barrels per day of renewable diesel and certain other co-products, to be located adjacent to Valero's refinery in Norco, Louisiana. The Joint Venture is in the process of constructing the Facility. The Facility is expected to convert grease, primarily animal fats and used cooking oil supplied by the Company, and potentially other feed stocks that become economically and commercially viable, into renewable diesel. The Facility will use an advanced hydroprocessing-isomerization process licensed from UOP LLC, known as the Ecofining™ Process, and a pretreatment process developed by the Desmet Ballestra Group designed to convert approximately 1.1 billion pounds per year of recycled animal fats, recycled cooking oils and other feedstocks into renewable diesel product and certain other co-products.

In addition, the Company utilizes a portion of its rendered animal fats, recycled greases and plant oils to produce Bio G-3000TM Premium Diesel Fuel. The Company's biodiesel operations utilize raw material inputs sourced from its rendering operations as well as several third party additives in order to produce Bio G-3000TM. The Company has the annual capacity to produce two million gallons of Bio G-3000TM. The Company's biodiesel product is sold to its internal divisions as well as domestic commercial biodiesel producers to be used as biodiesel fuel, a clean burning additive for diesel fuel or as a biodegradable solvent or cleaning agent. Bio G-3000TM is currently processed at the Company’s facility in Butler, Kentucky.

Raw materials pricing and supply contracts

The Company has two primary pricing arrangements—formula and non-formula arrangements—with its suppliers of poultry, beef, pork and bakery waste products and used cooking oil. Under a "formula" arrangement, the charge or credit for raw materials is tied to published finished product commodity prices after deducting a fixed processing fee. The Company also acquires raw material under "non-formula" arrangements whereby suppliers are either paid a fixed price, are not paid, or are charged a collection fee, depending on various economic and competitive factors. Approximately 78% of the Company's annual volume of raw materials is acquired on a "formula" basis.

The credit received or amount charged for raw material under both formula and non-formula arrangements is based on various factors, including the type of raw materials, demand for the raw materials, the expected value of the finished product to be produced, the anticipated yields, the volume of material generated by the supplier and processing and transportation costs.

Formula prices are generally adjusted on a weekly, monthly or quarterly basis while non-formula prices or charges are adjusted as needed to respond to changes in finished product prices or related operating costs.

Finished products

The Company's finished products are predominantly proteins (primarily MBM and PM), fats (primarily BFT, PG and YG), BBP and hides. MBM, PM and BBP are used primarily as high protein additives in pet food and animal feed. Oils are used as ingredients in the production of pet food, animal feed, soaps and as a substitute for traditional fuels. Oleo-chemical producers use these oils as feed stocks to produce specialty ingredients used in paint, rubber, paper, concrete, plastics and a variety of other consumer and industrial products. Hides are sold to leather distributors and manufacturers for the production of leather goods. The Company's principal finished products are commodities that compete with other commodities such as corn, soybean oil, palm oil complex, soybean meal and heating oil on nutritional and functional values and therefore actual pricing for the Company's finished products, as well as competing products, can be quite volatile. While the Company's finished products are generally sold at prices prevailing at the time of sale, the Company's ability to deliver large quantities of finished products from multiple locations and to coordinate sales from a central location enables the Company to occasionally receive a premium over the then-prevailing market price.

Finished products

The Company's finished products include the following.

Protein Meals

The Company's meal products include MBM, PM, feather meal and blood meal. All of the Company's meal products are protein-rich and contain essential minerals and amino acids which are critically important components of animal feed. MBM, blood meal, PM and feather meal are sold to feed manufacturers while higher grade poultry meal is also sold to pet food manufacturers. Some of the Company’s meals are also used as ingredients in its fertilizer operations.

Animal Fats

The Company produces a range of animal fats from its rendering operations. Animal fats are an additive in livestock and pet foods that contains essential fatty acids and energy and enhances the taste of the foods. Animal fats are also frequently sold to soap and beauty products manufacturers as well as industrial manufacturers of paint, rubber, paper, concrete, plastics and other consumer products. The vast majority of the animal fat that the Company produces is used as a feed additive.

Grease

The Company produces several different types of grease including YG and brown grease. Grease, similar to tallow, is an essential ingredient in livestock and pet foods due to its fatty acid composition and high energy content. Due to its nutritional content, the majority of the Company's YG is sold to meat and poultry producers who use the grease as a feed additive. In addition, some of the grease produced by the Company's rendering operations is burned as Fat for Fuel® or used to manufacture biodiesel.

Hides and skins

The Company processes discarded hides and skins from beef, hog and other animal processing facilities. The hides and skins are trimmed and cured in a brine solution that prepares them for tanneries. Tanneries sell the tanned hides and skins primarily to leather companies that use the products in a variety of consumer goods including apparel and vehicle interiors.

Premium, value-added and branded products

The Company's premium, value-added and branded products command significantly higher pricing relative to its principal finished product lines due to their enhanced nutritional content, which is a function of the Company's proprietary processing techniques.

MARKETING, SALES AND DISTRIBUTION OF FINISHED PRODUCTS

The Company sells its finished products worldwide. Finished product sales are primarily managed through the Company's commodity trading departments which are located at Darling's corporate headquarters in Irving, Texas and in Cold Spring, Kentucky. The Company also maintains sales offices in Des Moines, Iowa, New Orleans, Louisiana, and Memphis, Tennessee for the sale and distribution of selected products. This sales force is in contact with several hundred customers daily and coordinates the sale and assists in the distribution of most finished products produced at the Company's processing plants. The Company sells its finished products internationally through commodities brokers, Company agents and directly to customers in various countries.

The Company sells its finished products primarily to producers of livestock feed, oleo-chemicals, bio-fuels, soaps, pet foods and leather goods for use as ingredients in their products or for further processing. The Company's finished products are commodities that compete with other commodities such as corn, soybean oil, palm oil complex, soybean meal and heating oil on nutritional and functional values and therefore the actual pricing for the Company's finished products, as well a competing products, can be quite volatile. Customers for the Company's premium, value added and branded products include feed mills, pet food manufacturers, integrated poultry producers, the dairy industry and golf courses, among others. Feed mills purchase meals, greases, tallows, and Cookie Meal® for use as feed ingredients. Oleo-chemical producers use oils as feed stocks to produce specialty ingredients used in paint, rubber, paper, concrete, plastics and a variety of other consumer and industrial products. Pet food manufacturers require stringent feed safety certifications and consistently demand premium additives that are high in protein and nutritional content. As a result, pet food manufacturers typically purchase only premium or value-added products. The Company typically enters into long-term supply contracts with pet food manufacturers.

The Company has no material foreign operations, but exports a portion of its products to customers in various foreign countries or regions including Asia, the European Union, Latin America, the Pacific Rim, North Africa, Mexico and South America. Total direct export sales were $270.9 million, $71.0 million and $70.8 million for the years ended December 31, 2011, January 1, 2011 and January 2, 2010, respectively. The Company also sells to third parties that export to various foreign countries. The level of export sales varies from year to year depending on the relative strength of domestic versus overseas markets. The Company obtains payment protection for most of its foreign sales by requiring payment before shipment or by requiring bank letters of credit or guarantees of payment from U.S. government agencies. The Company ordinarily is paid for its products in U.S. dollars and has not experienced any material currency translation losses or any material foreign exchange control difficulties. See Note 19 of Notes to Consolidated Financial Statements for a breakdown of the Company’s sales by domestic and foreign customers.

Following diagnosis of the first U.S. case of bovine spongiform encephalopathy ("BSE") on December 23, 2003, many countries banned imports of U.S.-produced beef and beef products, including MBM and initially BFT, though this initial ban on tallow was relaxed to permit imports of U.S.-produced tallow with less than 0.15%

impurities. Most foreign markets that were closed to U.S. beef following the discovery of the first U.S. case of BSE have been reopened to U.S beef, although some countries only accept boneless beef or beef from cattle less than 30 months of age. Japan is more restrictive and only permits imports of U.S. beef from cattle that are age verified to be 20 months of age or younger at slaughter. Even though the export markets for U.S. beef have rebounded and 2011 export volumes may exceed pre-BSE levels, most of these markets remain closed to MBM derived from U.S. beef.

The Company's management monitors market conditions and prices for its finished products on a daily basis. If market conditions or prices were to significantly change, the Company's management would evaluate and implement any measures that it may deem necessary to respond to the change in market conditions. For larger formula-based pricing suppliers, the indexing of finished product price to raw material cost effectively fixes the gross margin on finished product sales at a stable level, providing some protection to the Company from price declines.

Finished products produced by the Company are shipped primarily FOB plant by truck and rail from the Company's plants shortly following production. While there are some temporary inventory accumulations at various port locations for export shipments, inventories rarely exceed three weeks' production and, therefore, the Company uses limited working capital to carry inventories and reduces its exposure to fluctuations in commodity prices. Other factors that influence competition, markets and the prices that the Company receives for its finished products include the quality of the Company's finished products, consumer health consciousness, worldwide credit conditions and U.S. government foreign aid. From time to time, the Company enters into arrangements with its suppliers of raw materials pursuant to which these suppliers buy back the Company's finished products.

The Company operates a fleet of trucks, trailers and railcars to transport raw materials from suppliers and finished product to customers. It also utilizes third party freight to cost-effectively transfer materials and augment its in-house logistics fleet. Within the Company's bakery feed division, all inbound and outbound freight is handled by third party logistics companies.

COMPETITION

Management of the Company believes that the most challenging aspect of the business is the procurement of raw materials rather than the sale of finished products. Pronounced consolidation within the meat processing industry has resulted in bigger and more efficient slaughtering operations, the majority of which utilize "captive" renderers (rendering operations integrated with the meat or poultry packing operation). Simultaneously, the number of small meat processors, which have historically been a dependable source of supply for non-captive renderers, such as the Company, has decreased significantly. The slaughter rates in the meat processing industry are subject to decline due to economic conditions, and, as a result, during such periods of decline, the availability, quantity and quality of raw materials available to the independent renderers decreases. These factors have been offset, in part, however, by increasing environmental consciousness. The need for food service establishments to comply with environmental regulations concerning the proper disposal of used restaurant cooking oil should continue to provide a growth area for this raw material source. The rendering industry is highly fragmented and very competitive. The Company competes with other rendering and restaurant services businesses, bakery waste and alternative methods of disposal of animal processing by-products and used restaurant cooking oil provided by trash haulers, waste management companies and bio-diesel companies, as well as the alternative of illegal disposal. In addition, food service establishments have increasingly experienced theft of used cooking oil. A number of the Company's competitors for the procurement of raw material are experienced, well-capitalized companies that have significant operating experience and historic supplier relationships. Competition for raw materials is based in large part on price and proximity to the supplier.

In marketing its finished products domestically and abroad, the Company faces competition from other processors and from producers of other suitable commodities. Tallows and greases are, in certain instances, substitutes for soybean oil and palm stearine, while MBM and PM are a substitute for soybean meal. Bakery feed is a substitute for corn in animal feed. Consequently, the prices of BFT, PG, YG, MBM, PM and BBP correlate with these substitute commodities. The markets for finished products are impacted mainly by the worldwide supply of and demand for fats, oils, proteins and grains.

SEASONALITY

Although the amount of raw materials made available to the Company by its suppliers is relatively stable on a weekly basis, it is impacted by seasonal factors, including holidays, during which the availability of raw materials declines because major meat and poultry processors are not operating, and cold weather, which can hinder the collection of raw materials. The amount of bakery raw materials the Company will process generally increases on a seasonal basis during the summer from June to September. Warm weather can also adversely affect the quality of raw materials processed and the Company's yields on production because raw material deteriorates more rapidly in warm weather than in cooler weather. Weather can vary significantly from one year to the next and may impact the comparability of operating results of the Company between periods.

INTELLECTUAL PROPERTY

The Company maintains valuable trademarks, service marks, copyrights, trade names, trade secrets, proprietary technologies and similar intellectual property, and considers its intellectual property to be of material value. The Company has registered or applied for registration of certain of its intellectual property, including the tricolor triangle used in the Company’s signage and logos and the names "Darling," "Darling Restaurant Services," "Griffin Industries," "Nature Safe," "CleanStar" and "Cookie Meal" and certain patents, both domestically and internationally, relating to the process for preparing nutritional supplements and the drying and processing of raw materials. The Company’s policy generally is to pursue intellectual property protection considered necessary or advisable.

EMPLOYEES AND LABOR RELATIONS

As of December 31, 2011, the Company employed approximately 3,320 persons full-time. While the Company has no national or multi-plant union contracts, approximately 25% of the Company's employees are covered by multiple collective bargaining agreements. Management believes that the Company's relations with its employees and their representatives are good. There can be no assurance, however, that new agreements will be reached without union action or will be on terms satisfactory to the Company.

REGULATIONS

The Company is subject to the rules and regulations of various federal, state and local governmental agencies. Material rules and regulations and the applicable agencies include:

- The Food and Drug Administration ("FDA"), which regulates food and feed safety. Effective August 1997, the FDA promulgated a rule prohibiting the use of mammalian proteins, with some exceptions, in feeds for cattle, sheep and other ruminant animals (21 CFR 589.2000, referred to herein as the "BSE Feed Rule") to prevent further spread of BSE, commonly referred to as "mad cow disease." With respect to BSE in the U.S., on October 26, 2009, the FDA began enforcing new regulations intended to further reduce the risk of spreading BSE ("Enhanced BSE Rule"). These new regulations included amending the BSE Feed Rule to prohibit the use of tallow having more than 0.15% insoluble impurities in feed for cattle or other ruminant animals. In addition, the FDA implemented rules that prohibit the use of brain and spinal cord material from cattle aged 30 months and older or the carcasses of such cattle, if the brain and spinal cord are not removed, in the feed or food for all animals. Company management believes the Company is in compliance with the provisions of these rules.

See Item 1A “Risk Factors – The Company’s business may be affected by the impact of BSE and other food safety issues,” for more information regarding certain FDA rules that affect the Company's business, including changes to the BSE Feed Rule.

- The United States Department of Agriculture ("USDA"), which regulates collection and production methods. Within the USDA, two agencies exercise direct regulatory oversight of the Company's activities:

– Animal and Plant Health Inspection Service ("APHIS"), as the competent authority on animal health in the U.S., certifies facilities and claims made for exported materials and establishes and enforces import requirements for live animals and animal products, and

– Food Safety Inspection Service ("FSIS") regulates sanitation and food safety programs.

On December 30, 2003, the Secretary of Agriculture announced new beef slaughter/meat processing regulations to assure consumers of the safety of the meat supply. These regulations prohibit non-ambulatory animals from entering the food chain, require removal of specified risk materials at slaughter and prohibit carcasses from cattle tested for BSE from entering the food chain until the animals are shown negative for BSE.

On November 19, 2007, APHIS implemented revised import regulations that allowed Canadian cattle over 30 months of age and born after March 1, 1999 and bovine products derived from such cattle to be imported into the U.S. for any use. Imports of Canadian cattle younger than 30 months of age have been allowed since March 2005. Imports of SRM from Canadian born cattle slaughtered in Canada are not permitted.

- The U.S. Environmental Protection Agency ("EPA"), which regulates air and water discharge requirements, as well as local and state agencies governing air and water discharge.

- State Departments of Agriculture, which regulate animal by-product collection and transportation procedures and animal feed quality.

- The United States Department of Transportation ("USDOT"), as well as local and state agencies, which regulate the operation of the Company's commercial vehicles.

- Occupational Safety and Health Administration, the main federal agency charged with the enforcement of safety and health legislation.

- The Securities and Exchange Commission ("SEC"), which regulates securities and information required in annual and quarterly reports filed by publicly traded companies.

These material rules and regulations and other rules and regulations promulgated by other agencies may influence the Company’s operating results at one or more facilities.

AVAILABLE INFORMATION

Under the Securities Exchange Act of 1934, the Company is required to file annual, quarterly and special reports, proxy statements and other information with the SEC, which can be read and/or copies made at the SEC's Public Reference Room at 100 F Street N.E., Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the Public Reference Room. The SEC maintains a web site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The Company files electronically with the SEC.

The Company makes available, free of charge, through its investor relations web site, its reports on Forms 10-K, 10-Q and 8-K, and amendments to those reports, as soon as reasonably practicable after they are filed with, or furnished to, the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act.

The Company's website is http://www.darlingii.com and the address for the Company's investor relations web site is http://www.darlingii.com/investors.aspx.

ITEM 1A. RISK FACTORS

Any investment in the Company will be subject to risks inherent to the Company's business. Before making an investment decision in the Company, you should carefully consider the specific risks described below together with all of the other information included in or incorporated by reference into this report before making an investment decision. Each of the risks described below could adversely and materially affect the Company's business, financial condition and operating results. The risks and uncertainties the Company has described are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or those the Company currently deems immaterial may also affect business or operations of the Company. If any of the events described in the following risk factors actually occurs, the Company's business, financial condition, prospects or results of operations could be materially and adversely affected. If any of these events occurs, the trading price of the Company's securities could decline and you may lose all or part of your investment. The risks discussed below also include forward-looking statements and the Company's actual results may differ substantially from those discussed in these forward-looking statements. See "Forward-Looking Statements" in this filing.

The prices of the Company's products are subject to significant volatility associated with commodities markets.

The Company's finished products are, with certain exceptions, commodities, the prices of which are quoted on, or derived from prices quoted on, established commodity markets. Accordingly, the Company's results of operations will be affected by fluctuations in the prevailing market prices of these finished products or of other commodities that may be substituted for the Company's products by the Company's customers. Historically, market prices for commodity grains and food stocks have fluctuated in response to a number of factors, including changes in U.S. government farm support programs or energy policies, changes in international agricultural trading policies, impact of disease outbreaks on protein sources and the potential effect on supply and demand as well as weather conditions during the growing and harvesting seasons. While the Company seeks to mitigate the risk associated with price declines, including through the use of formula pricing tied to commodity prices for a substantial portion of the Company's raw materials, a significant decrease in the market price of the Company's products or of other commodities that may be substituted for the Company's products would have a material adverse effect on the Company's results of operations and cash flow.

In addition, increases in the market prices of raw materials would require the Company to seek increased selling prices for the Company's premium, value-added and branded products to avoid margin deterioration. There can be no assurance as to whether the Company could implement future selling price increases in response to increases in the market prices of raw materials or how any such price increases would affect future sales volumes to the Company's customers. The Company's results of operations would be adversely affected in the future by this volatility.

The Company's business is dependent on the procurement of raw materials, which is the most competitive aspect of the Company business.

Management believes that the most competitive aspect of the Company's business is the procurement of raw materials rather than the sale of finished products. Pronounced consolidation within the meat packing industry has resulted in bigger and more efficient slaughtering operations, the majority of which utilize "captive" renderers. Simultaneously, the number of small meat processors, which have historically been a dependable source of supply for non-captive renderers, such as the Company, has decreased significantly. The slaughter rates in the meat processing industry are subject to decline due to economic conditions, and as a result, during such periods of decline, the availability, quantity and quality of raw materials available to the independent renderers decreases. In addition, the Company has seen an increase in the use of restaurant grease in the production of biodiesel, which has increased competition for the collection of used cooking oil and contributed to an increase in the frequency of theft of used cooking oil. Furthermore, the general performance of the U.S. economy, declining U.S. consumer confidence and the inability of consumers and companies to obtain credit due to the current lack of liquidity in the financial markets has had a negative impact on the Company's raw material volume, such as through the forced closure of certain of the Company’s raw material suppliers. A significant decrease in available raw materials or a closure of a raw material supplier could materially and adversely affect the Company's business and results of operations, including the carrying value of the Company's assets.

The rendering industry is highly fragmented and both the rendering and bakery waste industries are very competitive. The Company competes with other rendering businesses and alternative methods of disposal of animal processing by-products, bakery waste processing and used cooking oil provided by trash haulers, waste management companies and biodiesel companies, as well as the alternative of illegal disposal. See Item 1, "Competition." In addition, restaurants experience theft of used cooking oil, the frequency of which has increased with the rise in value of used cooking oil. Depending on market conditions, the Company either charges a collection fee to offset a portion of the cost incurred in collecting raw material or will pay for the raw material. To the extent suppliers of raw materials look to alternate methods of disposal, whether as a result of the Company's collection fees being deemed too expensive or otherwise, the Company's raw material supply will decrease and the Company’s collection fee revenues will decrease, which could materially and adversely affect the Company's business and results of operations.

A majority of Darling's volume of rendering raw materials, including all of its significant poultry accounts, and all of its bakery feed raw materials are acquired on a "formula basis," which in most cases is set forth in contracts with the Company's suppliers, generally with multi-year terms. These "formulas" allow the Company to manage the risk associated with decreases in commodity prices by adjusting the Company's costs of materials based on changes in the price of the Company's finished products, while also permitting the Company, in certain cases, to benefit from increases in commodity prices. The formulas provided in these contracts are reviewed and modified both during the term of, and in connection with the renewal of, the contracts to maintain an acceptable level of sharing between the Company and the Company's suppliers of the costs and benefits from movements in commodity prices. Changes to these formulas or the inability to renew such contracts could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company is highly dependent on natural gas and diesel fuel.

The Company's operations are highly dependent on the use of natural gas and diesel fuel. The Company consumes significant volumes of natural gas to operate boilers in the Company's plants, which generate steam to heat raw material. Natural gas prices represent a significant cost of facility operations included in cost of sales. The Company also consumes significant volumes of diesel fuel to operate the Company’s fleet of tractors and trucks used to collect raw material. Diesel fuel prices represent a significant component of cost of collection expenses included in cost of sales. Prices for both natural gas and diesel fuel can be volatile and therefore represent an ongoing challenge to the Company's operating results. Although the Company continually manages these costs and hedges the Company's exposure to changes in fuel prices through the Company's formula pricing and derivatives, a material increase in energy prices for natural gas and/or diesel fuel over a sustained period of time could materially adversely affect the Company's business, financial condition and results of operations.

A significant percentage of the Company's revenue is attributable to a limited number of suppliers and customers.

In fiscal 2011, Darling's top ten customers for finished products accounted for approximately 28% of product sales. In addition, its top ten raw material suppliers accounted for approximately 25% of its raw material supply in the same period. A disruption to, termination of, or modifications to the Company's relationships with any of the Company's significant suppliers or customers could cause the Company's businesses to suffer significant financial losses and could have a material adverse impact on the Company's business, earnings, financial condition and/or cash flows.

Certain of the Company's operating facilities are highly dependent upon a single or a few suppliers.

Certain of the Company's rendering facilities are highly dependent on one or a few suppliers. Should any of these suppliers choose alternate methods of disposal, cease their operations, have their operations interrupted by casualty or otherwise cease using the Company's collection services, these operating facilities may be materially and adversely affected, which could materially and adversely affect the Company's business, earnings, financial condition and/or cash flows.

The renewable diesel joint venture with Valero will subject the Company to a number of risks.

The Company announced on January 21, 2011 that a wholly-owned subsidiary of Darling entered into the JV Agreement with a wholly-owned subsidiary of Valero to form the Joint Venture. The Joint Venture is owned 50% / 50% with Valero and was formed to design, engineer, construct and operate the Facility, which will be capable of producing approximately 9,300 barrels per day of renewable diesel fuel and certain other co-products, to be located adjacent to Valero's refinery in Norco, Louisiana. The Joint Venture is in the process of constructing the Facility under an engineering, procurement and construction contract ("EPC Contract") that is intended to fix the Joint Venture's maximum economic exposure for the cost of the Facility.

On May 31, 2011, the Joint Venture and Diamond Green Diesel LLC, a wholly-owned subsidiary of the Joint Venture ("Opco"), entered into (i) a facility agreement (the "Facility Agreement") with Diamond Alternative Energy, LLC, a wholly-owned subsidiary of Valero (the "Lender"), and (ii) a loan agreement (the "Loan Agreement") with the Lender, which will provide the Joint Venture with a 14 year multiple advance term loan facility of approximately $221,300,000 (the "JV Loan") to support the design, engineering and construction of the Facility, which is now under construction. The Facility Agreement and the Loan Agreement prohibit the Lender from assigning all or any portion of the Facility Agreement or the Loan Agreement to unaffiliated third parties. Opco has also pledged substantially all of its assets to the Lender, and the Joint Venture has pledged all of Opco's equity interests to the Lender, until the JV Loan has been paid in full and the JV Loan has terminated in accordance with its terms.

Pursuant to sponsor support agreements executed in connection with the Facility Agreement and the Loan Agreement, each of the Company and Valero are committed to contributing approximately $93.2 million of the estimated aggregate costs of approximately $407.7 million for the completion of the Facility. The Company is also required to pay for 50% of any cost overruns incurred in connection with the construction of the Facility, including relating to any project scope changes. As of December 31, 2011 the Company has an investment in the Joint Venture of approximately $21.7 million included on the consolidated balance sheet.

There is no guarantee that the Facility will be constructed in a timely manner, and any unexpected significant scope changes to the project could require investment of additional significant financial resources by the Company which may require the Company to obtain additional financing. Further, while the two principal technologies to be licensed for the Joint Venture are established technologies, their use together in the manner currently contemplated for the Joint Venture is innovative and has not been previously employed. If the Facility is completed, there is no guarantee that the Joint Venture will be profitable or allow the Company to make a return on the Company's investment, and the Company may lose the Company's entire investment.

The Joint Venture is dependent on governmental energy policies and programs, such as the National Renewable Fuel Standard Program ("RFS2"), which positively impact the demand for and price of renewable diesel. Any changes to, a failure to enforce or a discontinuation of any of these programs could have a material adverse affect on the Joint Venture. See "Risk Factors—The Company's business may be affected by energy policies of U.S. and foreign governments." Similarly, the Joint Venture is subject to the risk that new or changing technologies may be developed that could meet demand for renewable diesel under governmental mandates in a more efficient or less costly manner than the technologies to be used by the Joint Venture, which could negatively affect the price of renewable diesel and have a material adverse affect on the Joint Venture.

In addition, the commencement and operation of a joint venture such as this involve a number of risks that could harm the Company’s business and result in the Joint Venture not performing as expected, such as:

- problems integrating or developing operations, personnel, technologies or products;
- the breakdown or failure of equipment or processes;
- the failure of the end product to perform as anticipated;
- unforeseen engineering and environmental issues;
- the inaccuracy of the Company's assumptions about the timing and amount of anticipated costs and revenues;

- the diversion of management time and resources;
- obtaining permits and other regulatory issues, license revocation and changes in legal requirements;
- insufficient experience with the technologies and markets involved;
- difficulties in establishing relationships with suppliers and end user customers;
- unanticipated cost overruns;
- risks commonly associated with the start-up of "greenfield" projects;
- performance below expected levels of output or efficiency;
- reliance on Valero and its adjacent refinery facility for many services and processes;
- subsequent impairment of the acquired assets, including intangible assets; and
- being bought out and not realizing the benefits of the Joint Venture.

If any of these risks described above were to materialize and the operations of the Joint Venture were significantly disrupted, this could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's business may be affected by energy policies of U.S. and foreign governments.

Pursuant to the requirements established by the Energy Independence and Security Act of 2007 on February 3, 2010, the EPA finalized regulations for RFS2. The regulation mandates the domestic use of biomass-based diesel (biodiesel or renewable diesel) of 1.0 billion gallons in 2012. Beyond 2012 the regulation requires a minimum of 1.0 billion gallons of biomass-based diesel for each year through 2022 and such amount is subject to increase by the EPA Administrator. On June 20, 2011, the EPA issued a proposed rule which would require 1.28 billion gallons for the calendar year 2013. Biomass-based diesel also qualifies to fulfill the non-specified portion of the advanced bio-fuel requirement. In order to qualify as a "renewable fuel" each type of fuel from each type of feed stock is required to lower greenhouse gas emissions ("GHG") by levels specified in the regulation. The EPA has determined that bio-fuels (either biodiesel or renewable diesel) produced from waste oils, fats and greases result in an 86% reduction in GHG emissions, exceeding the 50% requirement established by the regulation. Prices for the Company's finished products may be impacted by worldwide government policies relating to renewable fuels and greenhouse gas emissions. Programs like RFS2 and tax credits for bio-fuels both in the United States and abroad may positively impact the demand for the Company's finished products. Accordingly, changes to, a failure to enforce or discontinuing any of these programs could have a negative impact on the Company's business and results of operations.

The Company may incur material costs and liabilities in complying with government regulations.

The Company is subject to the rules and regulations of various federal, state and local governmental agencies. Material rules and regulations and the applicable agencies include:

- The FDA, which regulates food and feed safety;
- The USDA, including its agencies APHIS and FSIS, which regulates collection and production methods;

- The EPA, which regulates air and water discharge requirements, as well as local and state agencies, which monitor air and water discharges;
- State Departments of Agriculture, which regulate animal by-product collection and transportation procedures and animal feed quality;
- The USDOT, as well as local and state transportation agencies, which regulate the operation of the Company's commercial vehicles;
- The Occupational Safety and Health Administration, which is the main federal agency charged with the enforcement of safety and health legislation; and
- The SEC, which regulates securities and information required in annual and quarterly reports filed by publicly traded companies.

The applicable rules and regulations promulgated by these agencies may influence the Company's operating results at one or more facilities. Furthermore, the loss of or failure to obtain necessary federal, state or local permits and registrations at one or more of the Company's facilities could halt or curtail operations at impacted facilities, which could result in impairment charges related to the affected facility and otherwise adversely affect the Company's operating results. The Company's failure to comply with applicable rules and regulations, including obtaining or maintaining required operating certificates or permits, could subject the Company to: (i) administrative penalties and injunctive relief; (ii) civil remedies, including fines, injunctions and product recalls; and (iii) adverse publicity. There can be no assurance that the Company will not incur material costs and liabilities in connection with these rules and regulations.

Seasonal factors and weather can impact the quality and volume of raw materials that the Company processes.

The quantity of raw materials available to the Company is impacted by seasonal factors, including holidays, when raw material volume declines, and cold weather, which can impact the collection of raw material. In addition, warm weather can adversely affect the quality of raw material processed and the Company's yield on production due to more rapidly degrading raw materials. The quality and volume of finished product that the Company is able to produce could be negatively impacted by unseasonable weather or unexpected declines in the volume of raw material available during holidays, which in turn could have a material adverse impact on the Company's business, results of operations and financial condition.

Downturns and volatility in global economies and commodity and credit markets could materially adversely affect the Company's business and results of operations.

The Company's results of operations are materially affected by the state of the global economies and conditions in the credit, commodities and stock markets. Among other things, the Company may be adversely impacted if the Company's domestic and international customers and suppliers are not able to access sufficient capital to continue to operate their businesses or to operate them at prior levels. A decline in consumer confidence or changing patterns in the availability and use of disposable income by consumers can negatively affect both the Company's suppliers and customers. Declining discretionary consumer spending or the loss or impairment of a meaningful number of the Company's suppliers or customers could lead to a dislocation in either raw material availability or customer demand. Tightened credit supply could negatively affect the Company's customers' ability to pay for the Company’s products on a timely basis or at all and could result in a requirement for additional bad debt reserves. Although many of the Company's customer contracts are formula-based, continued volatility in the commodities markets could negatively impact the Company's revenues and overall profits. Counterparty risk on finished product sales can also impact revenue and operating profits when customers either are unable to obtain credit or refuse to take delivery of finished product due to market price declines.

The Company's business may be affected by the impact of BSE and other food safety issues.

Effective August 1997, the FDA promulgated a rule prohibiting the use of mammalian proteins, with some exceptions, in feeds for cattle, sheep and other ruminant animals (referred to herein as the "BSE Feed Rule") to prevent further spread of BSE, commonly referred to as "mad cow disease." Detection of the first case of BSE in the United States in December 2003 resulted in additional U.S. government regulations, finished product export restrictions by foreign governments, market price fluctuations for the Company's finished products and reduced demand for beef and beef products by consumers. Even though the export markets for U.S. beef have rebounded and 2011 export volumes may exceed pre-BSE levels, most export markets remain closed to MBM derived from U.S. beef. Continued concern about BSE in the United States may result in additional regulatory and market related challenges that may affect the Company's operations or increase the Company's operating costs.

With respect to BSE in the United States, on October 26, 2009, the FDA began enforcing new regulations intended to further reduce the risk of spreading BSE ("Enhanced BSE Rule"). These new regulations included amending the BSE Feed Rule to prohibit the use of tallow having more than 0.15% insoluble impurities in feed for cattle or other ruminant animals. In addition, the FDA implemented rules that prohibit the use of brain and spinal cord material from cattle aged 30 months and older or the carcasses of such cattle, if the brain and spinal cord are not removed, in the feed or food for all animals ("Prohibited Cattle Materials"). Tallow derived from Prohibited Cattle Materials that also contains more than 0.15% insoluble impurities cannot be fed to any animal. The Company has followed the Enhanced BSE Rule since it was first published in 2008 and has made capital expenditures and implemented new processes and procedures to be compliant with the Enhanced BSE Rule at all of the Company's operations. Based on the foregoing, while the Company acknowledges that unanticipated issues may arise as the FDA continues to implement the Enhanced BSE Rule and conducts compliance inspections, the Company does not currently anticipate that the Enhanced BSE Rule will have a significant impact on the Company operations or financial performance. Notwithstanding the foregoing, the Company can provide no assurance that unanticipated costs and/or reductions in raw material volumes related to the Company's compliance with the Enhanced BSE Rule will not negatively impact the Company's operations and financial performance.

With respect to human food, pet food and animal feed safety, the Food and Drug Administration Amendments Act of 2007 (the "FDAAA") was signed into law on September 27, 2007 as a result of Congressional concern for pet and livestock food safety, following the discovery in March 2007 of pet and livestock food that contained adulterated imported ingredients. The FDAAA directs the Secretary of Health and Human Services and the FDA to promulgate significant new requirements for the pet food and animal feed industries. As a prerequisite to new requirements specified by the FDAAA, the FDA was directed to establish a Reportable Food Registry, which was implemented on September 8, 2009. On June 11, 2009, the FDA issued "Guidance for Industry: Questions and Answers Regarding the Reportable Food Registry as Established by the Food and Drug Administration Amendments Act of 2007: Draft Guidance." Stakeholder comments and questions about the Reportable Food Registry that were submitted to the docket or during public meetings were incorporated into a second draft guidance ("RFR Draft Guidance"), which was published on September 8, 2009. In the RFR Draft Guidance, the FDA defined a reportable food, which the manufacturer or distributor would be required to report in the Reportable Food Registry, to include materials used as ingredients in animal feeds and pet foods, if there is reasonable probability that the use of such materials will cause serious adverse health consequences or death to humans or animals. The FDA issued a second version of its RFR Draft Guidance in May 2010 without finalizing it. On July 27, 2010, the FDA released "Compliance Policy guide Sec. 690.800, Salmonella in Animal Feed, Draft Guidance" ("Draft CPG"), which describes differing criteria to determine whether pet food and farmed animal feeds that are contaminated with salmonella will be considered to be adulterated under section 402(a)(1) of the Food Drug and Cosmetic Act. According to the Draft CPG, any finished pet food contaminated with any species of salmonella will be considered adulterated because such feeds have direct human contact. Finished animal feeds intended for pigs, poultry and other farmed animals, however, will be considered to be adulterated only if the feed is contaminated with a species of salmonella that is considered to be pathogenic for the animal species that the feed is intended for. The impact of the FDAAA and implementation of the Reportable Food Registry on the Company, if any, will not be clear until the FDA finalizes its RFR Draft Guidance and the Draft CPG, neither of which were finalized as of the date of this report. The Company believes that it has adequate procedures in place to assure that its finished products are safe to use in animal feed and pet food and the Company does not currently anticipate that the FDAAA will have a significant impact on the Company's operations or financial performance. Any pathogen, such as salmonella, that is correctly or incorrectly associated with the Company's finished products could have a negative impact on the demands for the Company's finished products.

In addition, on January 4, 2011, President Barack Obama signed the Food Safety Modernization Act ("FSMA") into law. As enacted, the FSMA gave the FDA new authorities, which became effective immediately. Included among these is mandatory recall authority for adulterated foods that are likely to cause serious adverse health consequences or death to humans or animals, if the responsible party fails to cease distribution and recall such adulterated foods voluntarily. The FSMA further instructed the FDA to amend existing regulations that define its administrative detention authority so that the criteria needed for detaining human or animal food are lowered. Prior to the FSMA becoming law, FDA had authority to order that an article of food be detained only if there was credible evidence or information indicating that the article of food presented a threat of serious adverse health consequences or death to humans or animals. On May 5, 2011, FDA issued an interim final rule amending its administrative detention authority and lowering both the level of proof and the degree of risk required for detaining an article of food. This interim final rule, which became effective on July 3, 2011, gives the FDA authority to detain an article of food if there is reason to believe the food is adulterated or misbranded. In addition to amending existing regulations, the FSMA requires the FDA to develop new regulations that, among other provisions, place additional registration requirements on food and feed producing firms; require registered facilities to perform hazard analyses and to implement preventive plans to control those hazards identified to be reasonably likely to occur; increase the length of time that records are required to be retained; and regulate the sanitary transportation of food. Such new food safety provisions will require new FDA rule-making. The Company has followed the FSMA throughout its legislative history and implemented hazard prevention controls and other procedures that the Company believes will be needed to comply with the FSMA. Such rule-making could, among other things, require the Company to amend certain of the Company’s other operational policies and procedures. While unforeseen issues and requirements may arise as the FDA promulgates the new regulations provided for by the FSMA, the Company does not anticipate that the costs of compliance with the FSMA will materially impact the Company’s business or operations.

The Company’s business may be negatively impacted by the occurrence of any disease correctly or incorrectly linked to animals.

The emergence of diseases such as 2009 H1N1 flu (initially know as "Swine Flu") and H5N1 avian influenza ("Bird Flu") that are in or associated with animals and have the potential to also threaten humans has created concern that such diseases could spread and cause a global pandemic. Even though such a pandemic has not occurred, governments may be pressured to address these concerns and prohibit imports of animals, meat and animal by-products from countries or regions where the disease is detected. The occurrence of Swine Flu, Bird Flu or any other disease in the United States that is correctly or incorrectly linked to animals and has a negative impact on meat or poultry consumption or animal production could have a material negative impact on the volume of raw materials available to the Company or the demand for the Company's finished products.

If the Company or the Company's customers are the subject of product liability claims or product recalls, the Company may incur significant and unexpected costs and the Company's business reputation could be adversely affected.

The Company and its customers for whom the Company manufactures products may be exposed to product liability claims and adverse public relations if consumption or use of the Company's products is alleged to cause injury or illness to humans or animals. In addition, the Company and its customers may be subject to product recalls resulting from developments relating to the discovery of unauthorized adulterations to food additives. The Company's insurance may not be adequate to cover all liabilities the Company incurs in connection with product liability claims or product recalls. The Company may not be able to maintain its existing insurance or obtain comparable insurance at a reasonable cost, if at all. A product liability judgment against the Company or against one of its customers for whom the Company manufactures products, or the Company's or its customer's agreement to settle a product liability claim or a product recall, could also result in substantial and unexpected expenditures, which would reduce operating income and cash flow. In addition, even if product liability claims against the Company or its customers for whom the Company manufactures products are not successful or are not fully pursued, defending these claims would likely be costly and time-consuming and may require management to spend time defending the claims rather than operating the Company's business and may result in adverse publicity.

Product liability claims, product recalls or any other events that cause consumers to no longer associate the Company's brands or those of the Company's customers for whom the Company manufactures products with high quality and safety, may hurt the value of the Company's and the Company's customers' brands and lead to decreased demand for the Company's products. In addition, as a result of any such claims against the Company or product recalls, the Company may be exposed to claims by the Company's customers for damage to their reputations and brands. Product liability claims and product recalls may also lead to increased scrutiny by federal and state regulatory agencies of the Company's operations and could have a material adverse effect on the Company's brands, business, results of operations and financial condition.

The Company's operations are subject to various laws, rules and regulations relating to the protection of the environment and to health and safety, and the Company could incur significant costs to comply with these requirements or be subject to sanctions or held liable for environmental damages.

The Company's operations subject the Company to various and increasingly stringent federal, state, and local environmental, health and safety requirements, including those governing air emissions, wastewater discharges, the management, storage and disposal of materials in connection with the Company’s facilities and the Company’s handling of hazardous materials and wastes, such as gasoline and diesel fuel used by the Company's trucking fleet and operations. Failure to comply with these requirements could have significant consequences, including penalties, claims for personal injury and property and natural resource damages, and negative publicity. The Company's operations require the control of air emissions and odor and the treatment and discharge of wastewater to municipal sewer systems and the environment. The Company operates boilers at many of the Company's facilities and stores wastewater in lagoons or discharges it to publicly owned wastewater treatment systems, surface waters or through land application. The Company operates and maintains a vehicle fleet to transport products to and from customer locations. The Company has incurred significant capital and operating expenditures to comply with environmental requirements, including for the upgrade of wastewater treatment facilities, and will continue to incur such costs in the future. The Company could be responsible for the remediation of environmental contamination and may be subject to associated liabilities and claims for personal injury and property and natural resource damages. The Company owns or operates numerous properties, has been in business for many years and has acquired and disposed of properties and businesses. During that time, the Company or other owners or operators may have generated or disposed of wastes that are or may be considered hazardous or may have polluted the soil, surface water or groundwater at or around the Company's facilities. Under some environmental laws, such as the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, also known as CERCLA or Superfund, and similar state statutes, responsibility for the cost of cleanup of a contaminated site can be imposed upon any current or former site owners and operators, or upon any party that sent waste to the site, regardless of the lawfulness of the activities that led to the contamination. There can be no assurance that the Company will not face extensive costs or penalties that would have a material adverse effect on the Company's financial condition and results of operations. For example, the Company has been named as a third-party defendant in a lawsuit pending in the Tierra/Maxus Litigation (as defined herein) and has received notice from the EPA with respect to alleged contamination in the Lower Passaic River area. Future developments, such as more aggressive enforcement policies, new laws or discoveries of unknown conditions, may also require expenditures that may have a material adverse effect on the Company’s business and financial condition.

In addition, increasing efforts to control emissions of greenhouse gases, or GHG, are likely to impact the Company's operations. The EPA’s recent rule establishing mandatory GHG reporting for certain activities may apply to some of the Company's facilities if the Company exceeds the applicable thresholds. The EPA has also announced a finding relating to GHG emissions that may result in promulgation of GHG air quality standards. Legislation to regulate GHG emissions has been proposed in the U.S. Congress and a growing number of states are taking action to require reductions in GHG emissions. Future GHG emissions limits may require the Company to incur additional capital and operational expenditures. EPA regulations limiting exhaust emissions also became more restrictive in 2010, and on October 25, 2010, the National Highway Traffic Safety Administration and the EPA proposed new regulations that would govern fuel efficiency and GHG emissions beginning in 2014. Compliance with such regulations could increase the cost of new fleet vehicles and increase the Company's operating expenses. Compliance with future GHG regulations may require expenditures that could affect the Company’s results of operations.

The Company's success is dependent on its key personnel.

The Company's success depends to a significant extent upon a number of key employees, including members of senior management. The loss of the services of one or more of these key employees could have a material adverse effect on the Company's results of operations and prospects. The Company believes that its future success will depend in part on its ability to attract, motivate and retain skilled technical, managerial, marketing and sales personnel. Competition for these types of skilled personnel is intense and there can be no assurance that the Company will be successful in attracting, motivating and retaining key personnel. The failure to hire and retain these personnel could materially adversely affect the Company's business and results of operations.

In certain markets the Company is highly dependent upon a single operating facility and various events beyond the Company's control can cause interruption in the operation of the Company's facilities, which could adversely affect its business in those markets.

The Company's facilities are subject to various federal, state and local environmental and other permitting requirements, depending on their locations. Periodically, these permits may be reviewed and subject to amendment or withdrawal. Applications for an extension or renewal of various permits may be subject to challenge by community and environmental groups and others. In the event of a casualty, condemnation, work stoppage, permitting withdrawal or delay or other unscheduled shutdown involving one of the Company's facilities, in a majority of the Company's markets it would utilize a nearby operating facility to continue to serve its customers. In certain markets, however, the Company does not have alternate operating facilities. In the event of a casualty, condemnation, work stoppage, permitting withdrawal or delay or other unscheduled shutdown in these markets, the Company may experience an interruption in its ability to service its customers and to procure raw materials. This may materially and adversely affect the Company's business and results of operations in those markets. In addition, after an operating facility affected by a casualty, condemnation, work stoppage, permitting withdrawal or delay or other unscheduled shutdown is restored, there could be no assurance that customers who in the interim choose to use alternative disposal services would return to use the Company's services.

The Company's management is required to continue to devote a significant amount of time and effort in integrating Darling's business and Griffin’s business.

The acquisition of Griffin is the largest and most significant acquisition Darling has undertaken. Although significant progress has been made in the integration of the two businesses, the Company's management will continue to be required to devote a significant amount of time and attention to the process of integrating the operations of Darling's business and the business of Griffin, which may decrease the time it will have to develop new services or strategies.

The Company may not realize all of the growth opportunities and cost synergies that the Company anticipated from the Merger.

The benefits that the Company expects to achieve as a result of the Merger will depend, in part, on the Company's ability to realize the remaining anticipated growth opportunities and cost synergies. The Company's success in realizing these growth opportunities and cost synergies, and the timing of this realization, depends on the continued integration of Darling's and Griffin's businesses and operations and the adoption of the Company's respective best practices. Even if the Company is able to fully integrate Darling's and Griffin's businesses and operations successfully, this integration may not result in the realization of the full benefits of the growth opportunities and cost synergies that the Company currently expects from this integration within the anticipated time frame or at all. For example, the combined company may be unable to completely eliminate duplicative costs. Moreover, the combined company may incur substantial expenses in connection with the continued integration of Darling's and Griffin's businesses and operations. While the Company anticipates that certain additional expenses will be incurred, such expenses are difficult to estimate accurately and may exceed current estimates. Accordingly, the benefits from the Merger may be offset by unanticipated costs incurred or unanticipated delays in integrating the companies.

The Company's level of indebtedness as a result of the Merger could adversely affect the Company's ability to operate its business, react to changes in the economy or its industry and make payments on its indebtedness.

As of December 31, 2011, the Company had total indebtedness of approximately $280.0 million, consisting of $250.0 million of 8.5% Senior Notes due 2018 (the "Senior Unsecured Notes") and $30.0 million of revolving and term loan borrowings and undrawn commitments available for additional borrowings under the Company's senior secured credit facilities (the "Senior Secured Credit Facilities"), entered into on December 17, 2010. The Company's level of indebtedness could have important consequences, including the following:

- a portion of the Company's cash flows from operations will be dedicated to the payment of principal and interest on the Company's indebtedness and will not be available for other purposes, including investment in the Company's operations, future business opportunities or strategic acquisitions, capital expenditures and other general corporate purposes;
- it may limit the Company's flexibility in planning for, or reacting to, changes in its business and the industry in which it operates;
- the Company may be more highly leveraged than some of its competitors, which may place the Company at a competitive disadvantage;
- it could make the Company more vulnerable to downturns in general economic or industry conditions or in the Company's business; and
- it may limit, along with the financial and other restrictive covenants in the agreements governing the Company's indebtedness, the Company's ability in the future to obtain financing, the Company's ability to refinance any of its indebtedness, or the Company's ability to dispose of assets or borrow money for its working capital requirements, capital expenditures, acquisitions, debt service requirements and general corporate or other purposes on commercially reasonable terms or at all.

Despite the Company's existing indebtedness, the Company may still incur more debt, which could exacerbate the risks described above.

The Company may be able to incur substantial additional indebtedness in the future. Although the agreements governing the Company's indebtedness, including, without limitation, the agreements governing the Company's Senior Secured Credit Facilities, will limit the Company's ability to incur certain additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness that could be incurred in compliance with these restrictions could be substantial. To the extent that the Company incurs additional indebtedness, the risks associated with the Company's leverage described above, including the Company's possible inability to service its debt, would increase.

If the Company experiences difficulties or a significant disruption in the Company's information systems or if the Company fails to implement new systems and software successfully, the Company's business could be materially adversely affected.

The Company depends on information systems throughout the Company's business to collect and process data that is critical to the Company's operations and accurate SEC reporting. Among other things, these information systems process incoming customer orders and outgoing supplier orders, manage inventory, collect raw materials and distribute products, process and bill shipments to and collect cash from the Company's customers, respond to customer and supplier inquiries, contribute to the Company's overall internal control processes, maintain records of the Company's property, plant and equipment, and record and pay amounts due vendors and other creditors.

If the Company were to experience a disruption in its information systems that involve interactions with suppliers and customers, it could result in a loss of raw material supplies, sales and customers and/or increased costs, which could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, any such disruption could adversely affect the Company's ability to meet its financial reporting obligations. The Company may also encounter difficulties in developing new systems or maintaining and upgrading existing systems. Such difficulties may lead to significant expenses or
losses due to disruption in business operations, loss of sales or profits, or cause the Company to incur significant costs to reimburse third parties for damages, and, as a result, may have a material adverse effect on the Company's results of operations.

In order to enhance its technology, customer service, and business processes, the Company recently began a multi-year project to replace its existing work management, financial, and supply chain software applications with a new suite of systems including a company-wide enterprise resource planning ("ERP") system. The implementation process involves a number of risks that may adversely hinder the Company's business operations and/or affect its financial condition and results of operations, if not implemented successfully. The new ERP system will replace multiple legacy systems, and successful implementation is expected to enhance and provide additional benefits to a variety of important business functions, including customer care and billing, procurement and accounts payable, operational plant logistics, management reporting, and external financial reporting. The ERP implementation is a complex and time-consuming project that involves substantial expenditures for implementation consultants, system hardware, software, and implementation activities, as well as the transformation of business and financial processes.

As with any large software project, there are many factors that may materially affect the schedule, cost, and execution/implementation of this project. Those factors include, among others: problems during the design, implementation, and testing phases; system delays and/or malfunctions; the risk that suppliers and contractors will not perform as required under their contracts; the diversion of management's attention from daily operations to the project; re-works due to changes in business processes or financial reporting standards; and other events beyond the Company's control. These types of issues could disrupt the Company's business operations and/or its ability to timely and accurately process and report key components of its financial results and and/or complete important business processes such as the evaluation of its internal controls and attestation activities pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. Accordingly, material deviations from the project plan or unsuccessful execution of the plan may adversely affect the Company's financial position and results of operations.

The Company could incur a material weakness in the Company's internal control over financial reporting that would require remediation.

The Company's disclosure controls and procedures were deemed to be effective in fiscal 2011. However, any future failures to maintain the effectiveness of the Company's disclosure controls and procedures, including the Company's internal control over financial reporting, could subject the Company to a loss of public confidence in its internal control over financial reporting and in the integrity of its public filings and financial statements and could harm the Company’s operating results or cause the Company to fail to meet its regulatory reporting obligations in a timely manner. The ongoing integration of the operations of Griffin following the Merger could create additional risks to the Company's disclosure controls, including the Company’s internal controls over financial reporting.

An impairment in the carrying value of the Company's goodwill or other intangible assets may have a material adverse effect on the Company's results of operations.

As of December 31, 2011, the Company has approximately $381.4 million of goodwill. The Company is required to annually test goodwill to determine if impairment has occurred. Additionally, impairment of goodwill must be tested whenever events or changes in circumstances indicate that impairment may have occurred. If the testing performed indicates that impairment has occurred, the Company is required to record a non-cash impairment charge for the difference between the carrying value of the goodwill and the implied fair value of the goodwill in the period the determination is made. The testing of goodwill for impairment requires the Company to make significant estimates about its future performance and cash flows, as well as other assumptions. These estimates can be affected by numerous factors, including changes in economic, industry or market conditions, changes in business operations or changes in competition. Changes in these factors, or changes in actual performance compared with estimates of the Company's future performance, may affect the fair value of goodwill, which may result in an impairment charge. For example, a deterioration in demand for, or increases in costs for producing a supplier's principal products could lead to a reduction in the supplier's output of raw materials, thus impacting the fair value of a plant processing that raw material. The Company cannot accurately predict the amount and timing of any impairment of assets. Should the value of goodwill become impaired, there may be a materially adverse effect on the Company's results of operations.

The Company may be subject to work stoppages at its operating facilities which could cause interruptions in the manufacturing of the Company's products.

While the Company has no national or multi-plant union contracts, approximately 25% of the Company's employees are covered by multiple collective bargaining agreements. Labor organizing activities could result in additional employees becoming unionized and higher ongoing labor costs. Darling's collective bargaining agreements expire at varying times over the next five years. There can be no assurance that the Company will be able to negotiate the terms of any expiring or expired agreement in a manner acceptable to the Company. If the Company's unionized workers were to engage in a strike, work stoppage or other slowdown in the future, the Company could experience a significant disruption of its operations, which could have a material adverse effect on the Company's business, results of operations and financial condition.

Litigation may materially adversely affect the Company's businesses, financial condition and results of operations.

The Company is a party to several lawsuits, claims and loss contingencies arising in the ordinary course of our business, including assertions by certain regulatory and governmental agencies related to permitting requirements and air, wastewater and storm water discharges from the Company's processing facilities. The outcome of litigation, particularly class action lawsuits and regulatory actions, is difficult to assess or quantify. Plaintiffs in these types of lawsuits may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may remain unknown for substantial periods of time. The cost to defend future litigation may be significant and any future litigation may divert the attention of management away from the Company's strategic objectives. There may also be adverse publicity associated with litigation that may decrease customer confidence in the Company’s business, regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, litigation may have a material adverse effect on the Company's business, financial condition and results of operations.

Certain multi-employer defined benefit pension plans to which the Company contributes are under-funded.

The Company participates in various multi-employer pension plans which provide defined benefits to certain employees covered by labor contracts. These plans are not administered by the Company and contributions are determined in accordance with provisions of negotiated labor contracts to meet their pension benefit obligations to their participants. Based upon the most currently available information, certain of these multi-employer plans are under-funded due partially to a decline in the value of the assets supporting these plans, a reduction in the number of actively participating members for whom employer contributions are required and the level of benefits provided by the plans. In addition, the Pension Protection Act, which was enacted in August 2006 and went into effect in January 2008, requires under-funded pension plans to improve their funding ratios within prescribed intervals based on the level of their under-funding. As a result, the Company's required contributions to these plans may increase in the future. Furthermore, under current law, a termination of, the Company’s voluntary withdrawal from or a mass withdrawal of all contributing employers from any underfunded multi-employer defined benefit plan to which the Company contributes would require the Company to make payments to the plan for the Company’s proportionate share of such multi-employer plan’s unfunded vested liabilities. Also, if a multi-employer defined benefit plan fails to satisfy certain minimum funding requirements, the Internal Revenue Service ("IRS") may impose a nondeductible excise tax of 5% on the amount of the accumulated funding deficiency for those employers not contributing their allocable share of the minimum funding to the plan. For more information on the mutliemployer pension plans in which the Company participates see Note 14 to the Consolidated Financial Statements. Requirements to pay increased contributions, withdrawal liability and excise taxes could negatively impact the Company’s liquidity and results of operations.

If the number or severity of claims for which the Company is self-insured increases, if the Company is required to accrue or pay additional amounts because the claims prove to be more severe than the Company's recorded liabilities, if the Company's insurance premiums increase, or if the Company is unable to obtain insurance at acceptable rates or at all, the Company's financial condition and results of operations may be materially adversely affected.

The Company's workers compensation, auto and general liability policies contain significant deductibles or self-insured retentions. The Company develops bi-yearly and records quarterly an estimate of the Company's projected insurance-related liabilities. The Company estimates the liabilities associated with the risks retained by the Company, in part, by considering historical claims experience, demographic and severity factors and other actuarial assumptions. Any actuarial projection of losses is subject to a degree of variability. If the number or severity of claims for which the Company is self-insured increases, or the Company is required to accrue or pay additional amounts because the claims prove to be more severe than the Company’s original assessments, the Company's financial condition and results of operations may be materially adversely affected. In addition, in the future the Company's insurance premiums may increase and the Company may not be able to obtain similar levels of insurance on reasonable terms or at all. Any such inadequacy of, or inability to obtain, insurance coverage could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company may not successfully identify and complete acquisitions on favorable terms or achieve anticipated synergies relating to any acquisitions, and such acquisitions could result in unforeseen operating difficulties and expenditures and require significant management resources.

The Company regularly reviews potential acquisitions of complementary businesses, services or products. However, the Company may be unable to identify suitable acquisition candidates in the future. Even if the Company identifies appropriate acquisition candidates, the Company may be unable to complete such acquisitions on favorable terms, if at all. In addition, the process of integrating an acquired business, service or product into the Company's existing business and operations may result in unforeseen operating difficulties and expenditures. Integration of an acquired company also may require significant management resources that otherwise would be available for ongoing development of the Company's business. Moreover, the Company may not realize the anticipated benefits of any acquisition or strategic alliance and such transactions may not generate anticipated financial results. Future acquisitions could also require the Company to incur debt, assume contingent liabilities or amortize expenses related to intangible assets, any of which could harm the Company's business.

Terrorist attacks or acts of war may cause damage or disruption to the Company and the Company's employees, facilities, information systems, security systems, suppliers and customers, which could significantly impact the Company's net sales, costs and expenses and financial condition.

Terrorist attacks, such as those that occurred on September 11, 2001, have contributed to economic instability in the United States, and further acts of terrorism, bioterrorism, violence or war could affect the markets in which the Company operates, the Company's business operations, the Company's expectations and other forward-looking statements contained in this report. The threat of terrorist attacks in the United States since September 11, 2001 continues to create many economic and political uncertainties. The potential for future terrorist attacks, the U.S. and international responses to terrorist attacks and other acts of war or hostility, including the ongoing war in Afghanistan and other conflicts in the Middle East, may cause greater uncertainty and cause the Company's business to suffer in ways that cannot currently be predicted. Events such as those referred to above could cause or contribute to a general decline in investment valuations. In addition, terrorist attacks, particularly acts of bioterrorism, that directly impact the Company's facilities or those of the Company's suppliers or customers could have an impact on the Company's sales, supply chain, production capability and costs and the Company's ability to deliver its finished products.

The Company's products may infringe the intellectual property rights of others, which may cause the Company to incur unexpected costs or prevent the Company from selling its products.

The Company maintains valuable trademarks, service marks, copyrights, trade names, trade secrets, proprietary technologies and similar intellectual property, and considers the Company's intellectual property to be of material value. The Company has in the past and may in the future be subject to legal proceedings and claims in the ordinary course of its business, including claims of alleged infringement of patents, trademarks and other intellectual property rights of third parties by the Company or its customers. Any such claims, whether or not meritorious, could result in costly litigation and divert the efforts of the Company's management. Moreover, should the Company be found liable for infringement, the Company may be required to enter into licensing agreements (if available on acceptable terms or at all) or to pay damages and cease making or selling certain prod. Restructuring and other charges, net for the three months ended March 31, 2017 consisted primarily of severance charges recorded in connection with the closing of our facility in Minden, Germany that was part of the acquisition of certain subsidiaries of Custom Sensors & Technologies Ltd. ("CST") and severance charges related to the termination of a limited number of employees.
Changes to the severance portion of our restructuring liability during the three months ended March 31, 2018 were as follows:

	Severance
Balance at December 31, 2017	$ 7,583
Charges, net of reversals	3,604
Payments	(2,817)
Impact of changes in foreign currency exchange rates	294
Balance at March 31, 2018	$ 8,664

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6. Debt

Our long-term debt and capital lease and other financing obligations as of March 31, 2018 and December 31, 2017 consisted of the following:

	Maturity Date	March 31, 2018	December 31, 2017
Term Loan	October 14, 2021	$917,794	$927,794
4.875% Senior Notes	October 15, 2023	500,000	500,000
5.625% Senior Notes	November 1, 2024	400,000	400,000
5.0% Senior Notes	October 1, 2025	700,000	700,000
6.25% Senior Notes	February 15, 2026	750,000	750,000
Less: discount		(17,233)	(14,424)
Less: deferred financing costs		(26,607)	(27,758)
Less: current portion		(2,278)	(9,802)
Long-term debt, net		$3,221,676	$3,225,810
Capital lease and other financing obligations		$33,635	$34,657
Less: current portion		(5,900)	(5,918)
Capital lease and other financing obligations, less current portion		$27,735	$28,739

In connection with the Merger, we paid $5.8 million of creditor fees and related third party costs in order to obtain consents to the transaction from our existing lenders. We applied the provisions of FASB ASC Subtopic 470-50, Modifications and Extinguishments, in accounting for the amounts paid. As a result, we recorded $3.5 million as an adjustment to the carrying amount of Long term debt, net and a loss of $2.4 million to Other, net.

As of March 31, 2018, there was $415.3 million of availability under our $420.0 million revolving credit facility, net of $4.7 million in letters of credit. Outstanding letters of credit are issued primarily for the benefit of certain operating activities. As of March 31, 2018, no amounts had been drawn against these outstanding letters of credit.

Accrued Interest

Accrued interest associated with our outstanding debt is included as a component of Accrued expenses and other current liabilities in the condensed consolidated balance sheets. As of March 31, 2018 and December 31, 2017, accrued interest totaled $45.8 million and $36.9 million, respectively.

7. Income Taxes

Provision for income taxes for the three months ended March 31, 2018 and 2017 totaled $14.1 million and $14.3 million, respectively. The Provision for income taxes consists of current tax expense, which relates primarily to our profitable operations in non-U.S. tax jurisdictions, and deferred tax expense, which relates to adjustments in book-to-tax basis differences primarily due to the step-up in fair value of fixed and intangible assets, including goodwill, acquired in connection with business combination transactions, and the utilization of net operating losses.

On December 22, 2017, President Trump signed into U.S. law the Tax Cuts and Jobs Act of 2017 ("Tax Reform" or "the Act"). FASB ASC Topic 740, Accounting for Income Taxes, requires companies to recognize the effect of tax law changes in the period of enactment even though the effective date for most provisions is for tax years beginning after December 31, 2017.

Given the significance of the legislation, the U.S. Securities and Exchange Commission (the "SEC") staff issued Staff Accounting Bulletin No.118 ("SAB 118"), which allows registrants to record provisional amounts during a one-year "measurement period" similar to that used when accounting for business combinations. However, the measurement period is deemed to have ended earlier when the registrant has obtained, prepared, and analyzed the information necessary to finalize its accounting. During the measurement period, impacts of the law are expected to be recorded at the time a reasonable estimate for all or a portion of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared, or analyzed. As of March 31, 2018, we have not recorded incremental accounting adjustments related to the Act as we continue to consider interpretations of its application.

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8. Pension and Other Post-Retirement Benefits

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

The components of net periodic benefit cost/(credit) associated with our defined benefit and retiree healthcare plans for the three months ended March 31, 2018 and 2017 were as follows:

	U.S. Plans				Non-U.S. Plans			
	Defined Benefit		Retiree Healthcare		Defined Benefit		Total	
	March 31,		March 31,		March 31,		March 31,	
	2018	2017	2018	2017	2018	2017	2018	2017
Service cost	$—	$—	$ 19	$ 21	$ 831	$ 602	$850	$623
Interest cost	327	420	70	80	342	249	739	749
Expected return on plan assets	(428)	(553)	—	—	(237)	(221)	(665)	(774)
Amortization of net loss	300	285	—	8	25	71	325	364
Amortization of prior service credit	—	—	(334)	(333)	(1)	(1)	(335)	(334)
Loss on settlement	530	472	—	—	—	—	530	472
Gain on curtailment	—	—	—	—	(296)	—	(296)	—
Net periodic benefit cost/(credit)	$729	$624	$ (245)	$ (224)	$ 664	$ 700	$1,148	$1,100

On January 1, 2018, we adopted the guidance in FASB ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Refer to Note 2, "New Accounting Standards," for further discussion. As a result of this adoption, components of net periodic benefit cost other than service cost in the three months ended March 31, 2017 were reclassified from various operating cost and expense line items to Other, net. The table below presents the effects of this adjustment.

	For the three months ended March 31, 2017		
	As reported	ASU No. 2017-07 Adjustment	As Adjusted
Net revenue	$807,271	$ —	$807,271
Operating costs and expenses:			
Cost of revenue	532,726	(307)	532,419
Research and development	31,814	(10)	31,804
Selling, general and administrative	70,274	(160)	70,114
Amortization of intangible assets	40,258	—	40,258
Restructuring and other charges, net	11,050	—	11,050
Total operating costs and expenses	686,122	(477)	685,645
Profit from operations	121,149	477	121,626
Interest expense, net	(40,277)	—	(40,277)
Other, net	5,196	(477)	4,719
Income before taxes	$86,068	$ —	$86,068

9. Share-Based Payment Plans

Share-Based Compensation Expense

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

	For the three months ended March 31, 2018	March 31, 2017
Stock options	$1,289	$ 1,425
Restricted securities	3,801	2,527
Share-based compensation expense	$5,090	$ 3,952

Equity Awards

We grant options and restricted stock units ("RSUs") for which vesting is subject only to continued employment and the passage of time. In addition, we grant performance–based options and performance–based restricted stock units ("PRSUs") for which vesting also depends on the attainment of certain performance criteria.

During the three months ended March 31, 2018, we granted 11 RSUs to various executives and employees with a weighted average grant date fair value of $55.81 that will vest between January and February 2021. We did not grant any other equity awards during the three months ended March 31, 2018.

Option Exercises

During the three months ended March 31, 2018, 58 stock options were exercised, all of which were settled with shares reissued from treasury.

10. Commitments and Contingencies

Legal Proceedings and Claims

We are regularly involved in a number of claims and litigation matters in the ordinary course of business. Most of our litigation matters are third-party claims for property damage allegedly caused by our products but some involve allegations of personal injury or wrongful death. Although it is not feasible to predict the outcome of these matters, based upon our experience and current information known to us, we do not expect the outcome of these matters, either individually or in the aggregate, to have a material adverse effect on our results of operations, financial position, or cash flows.

11. Fair Value Measures

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

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Measured on a Recurring Basis

The fair values of our assets and liabilities measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017 are as follows:

	March 31, 2018			December 31, 2017		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets						
Foreign currency forward contracts	$ —	$ 12,590	$ —	$ —	$ 3,955	$ —
Commodity forward contracts	—	2,906	—	—	6,458	—
Total	$ —	$ 15,496	$ —	$ —	$ 10,413	$ —
Liabilities						
Foreign currency forward contracts	$ —	$ 43,317	$ —	$ —	$ 40,969	$ —
Commodity forward contracts	—	2,067	—	—	1,104	—
Total	$ —	$ 45,384	$ —	$ —	$ 42,073	$ —

Measured on a Nonrecurring Basis

We evaluated our goodwill and other indefinite-lived intangible assets for impairment as of October 1, 2017 and determined that they were not impaired. As of March 31, 2018, no events or changes in circumstances occurred that would have triggered the need for an additional impairment review of these assets.

We periodically re-evaluate the carrying values and estimated useful lives of long-lived assets whenever events or changes in circumstances indicate that the carrying values of these assets may not be recoverable.

On January 1, 2018, we adopted FASB ASU No. 2016-01, which requires that equity investments (except those accounted for under the equity method, those that result in consolidation of the investee, and certain other investments) be measured at either fair value, with changes to fair value recognized in net income, or, in certain instances, by use of a measurement alternative. Under the measurement alternative, such investments are measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. As it relates to our $50.0 million equity investment in Quanergy, we elected to use the measurement alternative. During the quarter, we noted no observable price changes in orderly transactions for an identical or similar investment of the same issuer, nor did we note any indicators of impairment that would require us to measure the fair value of the asset.

Financial Instruments Not Recorded at Fair Value

The following table presents the carrying values and fair values of financial instruments not recorded at fair value in the condensed consolidated balance sheets as of March 31, 2018 and December 31, 2017:

	March 31, 2018				December 31, 2017			
		Fair Value				Fair Value		
	Carrying Value [(1)]	Level 1	Level 2	Level 3	Carrying Value [(1)]	Level 1	Level 2	Level 3
Liabilities								
Term Loan	$917,794	$ —	$923,530	$ —	$927,794	$ —	$930,114	$ —
4.875% Senior Notes	$500,000	$ —	$500,000	$ —	$500,000	$ —	$521,875	$ —
5.625% Senior Notes	$400,000	$ —	$416,000	$ —	$400,000	$ —	$439,000	$ —
5.0% Senior Notes	$700,000	$ —	$691,250	$ —	$700,000	$ —	$741,125	$ —

6.25% Senior Notes	$750,000	$—	$785,625	$	—$750,000	$—$813,750 $ —

(1) Carrying value excludes discounts and deferred financing costs.

The fair values of the Term Loan and senior notes are primarily determined using observable prices in markets where these instruments are generally not traded on a daily basis.

Cash and cash equivalents, accounts receivable, and accounts payable are carried at their cost, which approximates fair value, because of their short-term nature.

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12. Derivative Instruments and Hedging Activities
Hedges of Foreign Currency Risk
We are exposed to fluctuations in various foreign currencies against our functional currency, the U.S. dollar. We use foreign currency forward agreements to manage this exposure. We currently have outstanding foreign currency forward contracts that qualify as cash flow hedges and are intended to offset the effect of exchange rate fluctuations on forecasted sales and certain manufacturing costs. We also have outstanding foreign currency forward contracts, which are not designated for hedge accounting treatment in accordance with FASB ASC Topic 815, Derivatives and Hedging, that are intended to preserve the economic value of foreign currency denominated monetary assets and liabilities.
For the three months ended March 31, 2018 and 2017, amounts excluded from the assessment of effectiveness and the ineffective portion of the changes in the fair value of our foreign currency forward agreements that are designated as cash flows were not material. As of March 31, 2018, we estimate that $27.4 million of net losses will be reclassified from Accumulated other comprehensive loss to earnings during the twelve-month period ending March 31, 2019.
As of March 31, 2018, we had the following outstanding foreign currency forward contracts:

Notional (in millions)	Effective Date(s)	Maturity Date(s)	Index	Weighted-Average Strike Rate	Hedge Designation
52.0 EUR	March 27, 2018	April 30, 2018	Euro to U.S. Dollar Exchange Rate	1.24 USD	Not designated
403.5 EUR	Various from May 2016 to March 2018	Various from April 2018 to February 2020	Euro to U.S. Dollar Exchange Rate	1.17 USD	Designated
772.0 CNY	March 27, 2018	April 27, 2018	U.S. Dollar to Chinese Renminbi Exchange Rate	6.31 CNY	Not designated
811.0 CNY	Various from October 2017 to January 2018	Various from April to December 2018	U.S. Dollar to Chinese Renminbi Exchange Rate	6.71 CNY	Designated
375.0 JPY	March 28, 2018	April 27, 2018	U.S. Dollar to Japanese Yen Exchange Rate	105.99 JPY	Not designated
617.6 JPY	January 25, 2018	Various from April to December 2018	U.S. Dollar to Japanese Yen Exchange Rate	107.23 JPY	Designated
38,245.5 KRW	Various from May 2016 to March 2018	Various from April 2018 to February 2020	U.S. Dollar to Korean Won Exchange Rate	1,115.52 KRW	Designated
9.9 MYR	Various from May to November 2016	Various from April to October 2018	U.S. Dollar to Malaysian Ringgit Exchange Rate	4.25 MYR	Designated
252.0 MXN	March 27, 2018	April 30, 2018	U.S. Dollar to Mexican Peso Exchange Rate	18.46 MXN	Not designated
2,443.3 MXN	Various from May 2016 to March 2018	Various from April 2018 to February 2020	U.S. Dollar to Mexican Peso Exchange Rate	20.29 MXN	Designated
30.2 GBP	Various from May 2016 to March 2018	Various from April 2018 to February 2020	British Pound Sterling to U.S. Dollar Exchange	1.32 USD	Designated

Rate

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

Hedges of Commodity Risk

Our objective in using commodity forward contracts is to offset a portion of our exposure to the potential change in prices associated with certain commodities used in the manufacturing of our products, including silver, gold, nickel, aluminum, copper, platinum, and palladium. The terms of these forward contracts fix the price at a future date for various notional amounts associated with these commodities. These instruments are not designated for hedge accounting treatment in accordance with FASB ASC Topic 815.

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We had the following outstanding commodity forward contracts, none of which were designated as derivatives in qualifying hedging relationships, as of March 31, 2018:

Commodity	Notional	Remaining Contracted Periods	Weighted-Average Strike Price Per Unit
Silver	1,091,710 troy oz.	April 2018 - February 2020	$17.68
Gold	12,410 troy oz.	April 2018 - February 2020	$1,311.87
Nickel	274,872 pounds	April 2018 - February 2020	$5.18
Aluminum	5,552,122 pounds	April 2018 - February 2020	$0.92
Copper	7,407,223 pounds	April 2018 - February 2020	$2.87
Platinum	7,807 troy oz.	April 2018 - February 2020	$988.64
Palladium	1,967 troy oz.	April 2018 - February 2020	$877.97

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

Financial Instrument Presentation

The following table presents the fair values of our derivative financial instruments and their classification in the condensed consolidated balance sheets as of March 31, 2018 and December 31, 2017:

	Asset Derivatives			Liability Derivatives		
		Fair Value			Fair Value	
	Balance Sheet Location	March 31, 2018	December 31, 2017	Balance Sheet Location	March 31, 2018	December 31, 2017
Derivatives designated as hedging instruments						
Foreign currency forward contracts	Prepaid expenses and other current assets	$10,435	$ 3,576	Accrued expenses and other current liabilities	$37,636	$ 32,806
Foreign currency forward contracts	Other assets	1,697	373	Other long-term liabilities	5,329	6,881
Total		$12,132	$ 3,949		$42,965	$ 39,687
Derivatives not designated as hedging instruments						
Commodity forward contracts	Prepaid expenses and other current assets	$2,662	$ 5,403	Accrued expenses and other current liabilities	$1,600	$ 1,006
Commodity forward contracts	Other assets	244	1,055	Other long-term liabilities	467	98
Foreign currency forward contracts	Prepaid expenses and other current assets	458	6	Accrued expenses and other current liabilities	352	1,282
Total		$3,364	$ 6,464		$2,419	$ 2,386

These fair value measurements are all categorized within Level 2 of the fair value hierarchy.

The following tables present the effect of our derivative financial instruments on the condensed consolidated statements of operations for the three months ended March 31, 2018 and 2017:

Derivatives designated as hedging instruments	Amount of Deferred (Loss)/Gain Recognized in Other Comprehensive Loss	Location of Net (Loss)/Gain Reclassified from Accumulated Other Comprehensive Loss into Net Income	Amount of Net (Loss)/Gain Reclassified from Accumulated Other Comprehensive Loss into Net Income

	March 31, 2018	March 31, 2017		March 31, 2018	March 31, 2017
Foreign currency forward contracts	$(17,838)	$(13,311)	Net revenue	$(10,884)	$5,385
Foreign currency forward contracts	$13,471	$12,303	Cost of revenue	$(826)	$(6,568)
Foreign currency forward contracts	$—	$—	Other, net	$(1,376)	$—

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Derivatives not designated as hedging instruments	Amount of (Loss)/Gain Recognized in Net Income		Location of (Loss)/Gain Recognized in Net Income
	March 31, 2018	March 31, 2017	
Commodity forward contracts	$(3,195)	$5,440	Other, net
Foreign currency forward contracts	$(4,950)	$(2,536)	Other, net

Credit Risk Related Contingent Features

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

As of March 31, 2018, the termination value of outstanding derivatives in a liability position, excluding any adjustment for non-performance risk, was $45.6 million. As of March 31, 2018, we have not posted any cash collateral related to these agreements. If we breach any of the default provisions on any of our indebtedness, as described above, we could be required to settle our obligations under the derivative agreements at their termination values.

13. Other, Net

Other, net consisted of the following for the three months ended March 31, 2018 and 2017:

	For the three months ended	
	March 31, 2018	March 31, 2017
Currency remeasurement gain on net monetary assets	$ 6,748	$ 2,191
Loss on foreign currency forward contracts	(6,326)	(2,536)
(Loss)/gain on commodity forward contracts	(3,195)	5,440
Loss on debt financing	(2,350)	—
Net periodic benefit cost, excluding service component [1]	(298)	(477)
Other	788	101
Other, net	$ (4,633)	$ 4,719

(1) On January 1, 2018, we adopted FASB ASU No. 2017-07, which requires the service cost component and other components of net periodic benefit cost to be presented separately on the consolidated statements of operations. Refer to Note 2, "New Accounting Standards," for additional details.

14. Segment Reporting

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

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

Annual Report on Form 10-K for the year ended December 31, 2017.

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The following table presents Net revenue and Segment profit for the reported segments and other operating results not allocated to the reported segments for the three months ended March 31, 2018 and 2017:

	For the three months ended	
	March 31, 2018	March 31, 2017
Net revenue:		
Performance Sensing	$662,829	$600,143
Sensing Solutions	223,464	207,128
Total net revenue	$886,293	$807,271
Segment profit (as defined above):		
Performance Sensing	$169,410	$151,736
Sensing Solutions	71,884	67,438
Total segment profit	241,294	219,174
Corporate and other	(54,781)	(46,240)
Amortization of intangible assets	(35,069)	(40,258)
Restructuring and other charges, net	(3,766)	(11,050)
Profit from operations	147,678	121,626
Interest expense, net	(38,429)	(40,277)
Other, net	(4,633)	4,719
Income before taxes	$104,616	$86,068

15. Net Income per Share

Basic and diluted net income per share are calculated by dividing Net income by the number of basic and diluted weighted-average ordinary shares outstanding during the period. For the three months ended March 31, 2018 and 2017, the weighted-average ordinary shares outstanding for basic and diluted net income per share were as follows:

	For the three months ended	
	March 31, 2018	March 31, 2017
Basic weighted-average ordinary shares outstanding	171,404	170,947
Dilutive effect of stock options	926	567
Dilutive effect of unvested restricted securities	526	391
Diluted weighted-average ordinary shares outstanding	172,856	171,905

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

Certain potential ordinary shares were excluded from our calculation of diluted weighted-average ordinary shares outstanding because either they would have had an anti–dilutive effect on net income per share, or they related to equity awards that were contingently issuable for which the contingency had not been satisfied. These potential ordinary shares are as follows:

	For the three months ended	
	March 31, 2018	March 31, 2017
Anti-dilutive shares excluded	709	1,280
Contingently issuable shares excluded	787	517

16. Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which modifies how all entities recognize revenue, and consolidates into one Accounting Standards Codification Topic (FASB ASC Topic 606, Revenue from Contracts with Customers) the guidance found in FASB ASC Topic 605, Revenue Recognition, and various other revenue accounting standards for specialized transactions and industries.

FASB ASC Topic 606 outlines a comprehensive five-step revenue recognition model based on the principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration the entity expects to be entitled to in exchange for

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those goods or services. We adopted FASB ASC Topic 606 on January 1, 2018 using the modified retrospective transition method.

For the three months ended March 31, 2018 and 2017, the vast majority of our revenue was derived from the sale of tangible products for which we recognize revenue at a point in time. The contracts that relate to these product shipments are purchase orders that have firm purchase commitments generally only for a short period of time. As a result, the adoption of FASB ASC Topic 606 did not have a material effect on our financial statements or results of operations, and no cumulative catch-up adjustment was required. We used the related practical expedients that allow us to not disclose the transaction price allocated to remaining unsatisfied obligations and an explanation of when we expect to recognize the related revenue. In adopting FASB ASC Topic 606, we applied the new guidance only to contracts that were not completed on January 1, 2018.

The following table presents revenue by segment, further disaggregated by end-market:

	For the three months ended March 31, 2018		
	Performance Sensing	Sensing Solutions	Total
Automotive	$529,793	$13,856	$543,649
HVOR	133,036	—	133,036
Appliance and HVAC	—	54,317	54,317
Industrial	—	82,385	82,385
Aerospace	—	41,706	41,706
Other	—	31,200	31,200
Total	$662,829	$223,464	$886,293

Performance Obligations

Our revenue and related cost of revenue are primarily the result of promises to transfer products to our customers. Revenue is recognized when our performance obligation has been met, which is generally 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 value-added tax and similar taxes. Amounts billed to our customers for shipping and handling are recorded in revenue. Shipping and handling costs are included in cost of revenue. Sales to customers generally include a right of return for defective or non-conforming product. Sales returns have not historically been significant in relation to our net revenue and have been within our estimates. Product sales are recorded net of variable consideration, such as trade discounts (including volume and early payment incentives) and sales returns.

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

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

Payment for products is due in accordance with the terms agreed upon with customers, generally within 90 days of shipment to the customer. Accordingly, our contracts with customers do not include a significant financing component.

Contract Assets and Liabilities

We generally invoice the customer and recognize revenue once we have satisfied our performance obligation. Accordingly, our contract assets comprise accounts receivable. In certain cases, we receive payment by customers related to our promise to satisfy performance obligations in the future. Such payments are recorded as contract liabilities, which are not material.

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Cautionary Statements Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q, including any document incorporated by reference herein, includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These forward-looking statements also relate to our future prospects, developments, and business strategies. These forward-looking statements may be identified by terminology such as "may," "will," "could," "should," "expect," "anticipate," "believe," "estimate," "predict," "project," "forecast," "continue," "intend," "plan," and similar terms or phrases, or the negative of such terminology, including references to assumptions. However, these terms are not the exclusive means of identifying such statements.

Forward-looking statements contained herein, or in other statements made by us, are made based on management's expectations and beliefs concerning future events impacting us. These statements are subject to uncertainties and other important factors relating to our operations and business environment, which are difficult to predict and, oftentimes, beyond our control, and could cause our actual results to differ materially from those matters expressed or implied by forward-looking statements. Although we believe that our plans, intentions, and expectations reflected in, or suggested by, such forward-looking statements are reasonable, we can give no assurances that any of the events anticipated by these forward-looking statements will occur or, if any of them do, what impact they will have on our results of operations and financial condition.

We believe that the following important factors, among others (including those described in Item 1A, "Risk Factors," included in our Annual Report on Form 10-K for the year ended December 31, 2017, filed on February 1, 2018), 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:

- instability and changes in the global markets, including regulatory, political, economic, and military matters;
- changes to current policies, such as trade tariffs, by the U.S. government;
- adverse conditions in the automotive industry;
- competition in our industry;
- pressure from customers to reduce prices;
- supplier interruption or non-performance limiting our access to manufactured components or raw materials;
- business disruptions due to natural disasters or other disasters outside our control;
- labor disruptions or increased labor costs;
- difficulties or failures to integrate businesses we acquire;
- disruptions from any future acquisitions dispositions, joint ventures, collaborative arrangements, or other investments that either require significant resources, result in significant unanticipated losses, costs, or liabilities, or a combination thereof;
- market acceptance of new product introductions and product innovations;
- changes to, or our inability to comply with, various regulations, including tax laws, import/export regulations, anti-bribery laws, environmental and safety laws, and other governmental regulations;
- foreign currency risks, changes in socio-economic conditions, or changes to monetary and fiscal policies, including as a result of the impending exit of the U.K. from the European Union;
- losses and costs as a result of intellectual property, product liability, warranty, and recall claims that may be brought against us;
- taxing authorities challenging our historical and future tax positions or our allocation of taxable income among our subsidiaries;
- our level of indebtedness, or our inability to meet debt service obligations or comply with the covenants contained in the credit agreement and indentures; and
- security breaches and other disruptions to our information technology infrastructure.

All forward-looking statements attributable to us or persons acting on our behalf speak only as of the date of this Quarterly Report on Form 10-Q and are expressly qualified in their entirety by the cautionary statements contained in this Quarterly Report on Form 10-Q. We undertake no obligation to update or revise forward-looking statements that may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events. We urge readers to review carefully the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2017 and in the other documents that we file with the U.S. Securities and Exchange Commission. You can read these documents at www.sec.gov or on our website at www.sensata.com.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the U.S. Securities and Exchange Commission on February 1, 2018, and the unaudited condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

Results of Operations

The table below presents our results of operations, in millions of dollars and as a percentage of net revenue, for the three months ended March 31, 2018 compared to the three months ended March 31, 2017. We have derived the results of operations from the condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. Amounts and percentages have been calculated based on unrounded numbers. Accordingly, certain amounts may not sum due to the effect of rounding.

Three Months Ended March 31, 2018 Compared to the Three Months Ended March 31, 2017

	For the three months ended			
	March 31, 2018		March 31, 2017	
($ in millions)	Amount	Percent of Net Revenue	Amount	Percent of Net Revenue
Net revenue:				
Performance Sensing	$662.8	74.8 %	$600.1	74.3 %
Sensing Solutions	223.5	25.2	207.1	25.7
Net revenue	886.3	100.0	807.3	100.0
Operating costs and expenses:				
Cost of revenue	582.5	65.7	532.4	66.0
Research and development	36.0	4.1	31.8	3.9
Selling, general and administrative	81.3	9.2	70.1	8.7
Amortization of intangible assets	35.1	4.0	40.3	5.0
Restructuring and other charges, net	3.8	0.4	11.1	1.4
Total operating costs and expenses	738.6	83.3	685.6	84.9
Profit from operations	147.7	16.7	121.6	15.1
Interest expense, net	(38.4)	(4.3)	(40.3)	(5.0)
Other, net	(4.6)	(0.5)	4.7	0.6
Income before taxes	104.6	11.8	86.1	10.7
Provision for income taxes	14.1	1.6	14.3	1.8
Net income	$90.5	10.2 %	$71.7	8.9 %

Net revenue

Net revenue for the three months ended March 31, 2018 increased $79.0 million, or 9.8%, to $886.3 million from $807.3 million for the three months ended March 31, 2017. This increase in net revenue was composed of a 10.4% increase in Performance Sensing and a 7.9% increase in Sensing Solutions. Excluding a 3.4% increase due to changes in foreign currency exchange rates, primarily the Euro and Chinese Renminbi, organic revenue growth was 6.4% when compared to the three months ended March 31, 2017. Organic revenue growth is a non-GAAP financial measure. Refer to the section entitled Non-GAAP Financial Measures for further information on our use of this measure.

Performance Sensing net revenue for the three months ended March 31, 2018 increased $62.7 million, or 10.4%, to $662.8 million from $600.1 million for the three months ended March 31, 2017. Excluding a 4.0% increase due to changes in foreign currency exchange rates, primarily the Euro and Chinese Renminbi, organic revenue growth was 6.4% when compared to the three months ended March 31, 2017. This organic revenue growth was primarily driven by growth in our automotive business, largely due to content growth, as well as market and content growth in the on-road truck markets in North America and Europe, and market growth in the construction end-market. China was the largest geographic contributor to our automotive growth.

Sensing Solutions net revenue for the three months ended March 31, 2018 increased $16.3 million, or 7.9%, to $223.5 million from $207.1 million for the three months ended March 31, 2017. Excluding a 1.6% increase due to changes in foreign currency

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exchange rates, largely related to the Chinese Renminbi and Euro, organic revenue growth was 6.3% when compared to the three months ended March 31, 2017. Organic revenue growth in Sensing Solutions was primarily due to market strength across all of our key end-markets, particularly in Asia and the Americas.

Cost of revenue

Cost of revenue for the three months ended March 31, 2018 and 2017 was $582.5 million (65.7% of net revenue) and $532.4 million (66.0% of net revenue), respectively. Cost of revenue decreased as a percentage of net revenue primarily due to improved operating efficiencies and synergies from the continued integration of acquired businesses, partially offset by the negative impact of foreign currency exchange rates and higher integration costs.

Research and development expense

Research and development ("R&D") expense for the three months ended March 31, 2018 and 2017 was $36.0 million and $31.8 million, respectively. R&D expense increased primarily due to increased design and development effort to support accelerated new business wins and an increase in foreign exchange rates. We invest in R&D to support new platform and technology developments, both in our recently acquired and existing businesses, in order to drive future revenue growth. The level of R&D expense is related to the number of products in development, the stage of such products in the development process, the complexity of the underlying technology, the potential scale of the product upon successful commercialization, and the level of our exploratory research.

Selling, general and administrative expense

Selling, general and administrative ("SG&A") expense for the three months ended March 31, 2018 and 2017 was $81.3 million and $70.1 million, respectively. SG&A increased primarily due to the impact of foreign exchange rates, costs related to the Merger, higher selling costs, and share-based compensation expense. SG&A expense consists of all expenditures incurred in connection with the sales and marketing of our products, as well as administrative overhead costs. These costs are fixed or variable in nature, and we may at times experience increased or decreased variable costs for reasons other than increased or decreased net revenue. As a result, SG&A expense will not necessarily remain consistent as a percentage of revenue.

Amortization of intangible assets

Amortization expense associated with definite-lived intangible assets for the three months ended March 31, 2018 and 2017 was $35.1 million and $40.3 million, respectively. Definite-lived intangible assets are amortized on an economic benefit basis according to the useful lives of the assets, or on a straight-line basis if a pattern of economic benefits cannot be reliably determined. In general, the economic benefit of an intangible asset is concentrated towards the beginning of that intangible asset's useful life. Accordingly, the decrease in amortization expense is due to the effect of the economic benefit method.

Restructuring and other charges, net

Restructuring and other charges, net for the three months ended March 31, 2018 and 2017 were $3.8 million and $11.1 million, respectively. For the three months ended March 31, 2018, Restructuring and other charges, net consisted primarily of $3.5 million of severance charges related to limited workforce reductions in manufacturing, engineering, and administrative positions as well as the transfer of certain positions to more cost-effective locations. The expected payback period for these actions is approximately two years, and they are expected to generate incremental pre-tax savings of approximately $3 million on an annual basis once fully implemented. Restructuring and other charges, net for the three months ended March 31, 2017 consisted primarily of severance charges recorded in connection with the closing of our facility in Minden, Germany that was part of the acquisition of certain subsidiaries of Custom Sensors & Technologies Ltd. ("CST") and the termination of a limited number of employees.

Interest expense, net

Interest expense, net for the three months ended March 31, 2018 and 2017 was $38.4 million and $40.3 million, respectively. The reduction in interest expense, net relates primarily to higher interest income due to increasing cash balances.

Other, net

Other, net for the three months ended March 31, 2018 and 2017 represented a $(4.6) million net loss and a $4.7 million net gain, respectively. The change in Other, net relates primarily to fluctuations in foreign currency exchange rates, net of any offsetting hedge gain or loss, fluctuations in commodity prices relative to the strike prices on outstanding forward contracts, and a $(2.5) million loss recognized in connection with obtaining creditor consents prior to completing the Merger. Refer to Note 13, "Other, Net," of our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form

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10-Q for a detail of the components of Other, net. Refer to Note 6, "Debt," of our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further discussion summarizing the losses related to obtaining the creditor consents.

Provision for income taxes

Provision for income taxes for the three months ended March 31, 2018 and 2017 was $14.1 million and $14.3 million, respectively. The provision for income taxes consists of current tax expense, which relates primarily to our profitable operations in non-U.S. tax jurisdictions as well as withholding taxes on interest and royalty income, and deferred tax expense, which represents adjustments in book-to-tax basis differences primarily related to the step-up in fair value of fixed and intangible assets, including goodwill, acquired in connection with business combination transactions, and the utilization of net operating losses, and prospective changes in U.S. tax rates due to newly enacted legislation.

On December 22, 2017, President Trump signed into U.S. law the Tax Cuts and Jobs Act of 2017 ("Tax Reform" or "the Act"). Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 740, Accounting for Income Taxes, requires companies to recognize the effect of tax law changes in the period of enactment even though the effective date for most provisions is for tax years beginning after December 31, 2017. Given the significance of the legislation, the U.S. Securities and Exchange Commission (the "SEC") staff issued Staff Accounting Bulletin No.118 ("SAB 118"), which allows registrants to record provisional amounts during a one-year "measurement period" similar to that used when accounting for business combinations. However, the measurement period is deemed to have ended earlier when the registrant has obtained, prepared, and analyzed the information necessary to finalize its accounting. During the measurement period, impacts of the law are expected to be recorded at the time a reasonable estimate for all or a portion of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared, or analyzed. As of March 31, 2018, we have not recorded incremental accounting adjustments related to the Act as we continue to consider interpretations of its application.

Non-GAAP Financial Measures

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

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

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

Liquidity and Capital Resources

We held cash and cash equivalents of $828.3 million and $753.1 million at March 31, 2018 and December 31, 2017, respectively, of which $304.6 million and $260.9 million, respectively, was held in the Netherlands, $14.0 million and $13.7 million, respectively, was held in the United Kingdom, $11.1 million and $9.0 million, respectively, was held by U.S. subsidiaries, and $498.6 million and $469.5 million, respectively, was held by other foreign subsidiaries. The amount of cash and cash equivalents held in the Netherlands, United Kingdom and in our U.S. and other foreign subsidiaries fluctuates throughout the year due to a variety of factors, including timing of cash receipts and disbursements in the normal course of business.

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Cash Flows:

The table below summarizes our primary sources and uses of cash for the three months ended March 31, 2018 and 2017. We have derived the summarized statements of cash flows from the condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. Amounts in the table below have been calculated based on unrounded numbers. Accordingly, certain amounts may not sum due to the effect of rounding.

(in millions)	For the three months ended March 31, 2018	March 31, 2017
Net cash provided by/(used in):		
Operating activities:		
Net income adjusted for non-cash items	$172.1	$ 152.1
Changes in operating assets and liabilities, net of effects of acquisitions	(48.9)	(32.4)
Operating activities	123.3	119.7
Investing activities	(30.9)	(30.1)
Financing activities	(17.1)	(9.3)
Net change	$75.2	$ 80.3

Operating activities. Net cash provided by operating activities for the three months ended March 31, 2018 and 2017 was $123.3 million and $119.7 million, respectively. The increase in cash provided by operating activities relates primarily to improved operating profitability, partially offset by higher cash paid related to severance obligations and timing of customer receipts and supplier payments.

Investing activities. Net cash used in investing activities for the three months ended March 31, 2018 and 2017 was $30.9 million and $30.1 million, respectively, which included $30.9 million and $33.1 million, respectively, in capital expenditures. In 2018, we anticipate capital expenditures of approximately $150 million to $160 million, which we expect to be funded from net cash provided by operating activities.

Financing activities. Net cash used in financing activities for the three months ended March 31, 2018 and 2017 was $17.1 million and $9.3 million, respectively, which included $11.3 million and $11.1 million, respectively, in payments on debt. The three months ended March 31, 2018 also included $5.8 million of payments of creditor fees and related third party costs in order to obtain consents to the Merger from our existing lenders.

Indebtedness and Liquidity:

Our liquidity requirements are significant due to our highly leveraged nature. As of March 31, 2018, we had $3,301.4 million in gross indebtedness, which includes capital lease and other financing obligations and excludes debt discounts and deferred financing costs.

A summary of our indebtedness as of March 31, 2018 is as follows:

(in thousands)	Maturity Date	March 31, 2018
Term Loan	October 14, 2021	$917,794
4.875% Senior Notes	October 15, 2023	500,000
5.625% Senior Notes	November 1, 2024	400,000
5.0% Senior Notes	October 1, 2025	700,000
6.25% Senior Notes	February 15, 2026	750,000
Less: discount		(17,233)
Less: deferred financing costs		(26,607)
Less: current portion		(2,278)
Long-term debt, net		$3,221,676
Capital lease and other financing obligations		$33,635
Less: current portion		(5,900)
Capital lease and other financing obligations, less current portion		$27,735

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As of March 31, 2018, there was $415.3 million of availability under the Revolving Credit Facility, net of $4.7 million in letters of credit. Outstanding letters of credit are issued primarily for the benefit of certain operating activities. As of March 31, 2018, no amounts had been drawn against these outstanding letters of credit, which are scheduled to expire on various dates in 2018.

Capital Resources

Our sources of liquidity include cash on hand, cash flows from operations, and available capacity under the Revolving Credit Facility. In addition, our senior secured credit facilities provide for incremental facilities (the "Accordion"), under which additional term loans may be issued or the capacity of the Revolving Credit Facility may be increased. Pursuant to the Eighth Amendment, the Accordion was increased from $230.0 million to $1,000.0 million, all of which remained available for issuance as of as of March 31, 2018.

We believe, based on our current level of operations as reflected in our results of operations for the three months ended March 31, 2018, and taking into consideration the restrictions and covenants discussed below, that these sources of liquidity will be sufficient to fund our operations, capital expenditures, ordinary share repurchases, and debt service for at least the next twelve months. However, we cannot make assurances that our business will generate sufficient cash flows from operations or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. Further, our highly leveraged nature may limit our ability to procure additional financing in the future.

Upon completion of the Merger, the $250.0 million share repurchase program authorized by the Board of Sensata NV lapsed, and our ability to repurchase shares as a company incorporated in England and Wales became contingent upon the completion of certain court proceedings in the United Kingdom. In addition, we are seeking renewed shareholder approval to repurchase shares at our 2018 Annual General Meeting of Shareholders to be held on May 31, 2018. We expect the court proceedings in the United Kingdom to be completed in the second quarter of 2018.

The Credit Agreement stipulates certain events and conditions that may require us to use excess cash flow, as defined by the terms of the Credit Agreement, generated by operating, investing, or financing activities, to prepay some or all of the outstanding borrowings under the Senior Secured Credit Facilities. The Credit Agreement also requires mandatory prepayments of the outstanding borrowings under the Senior Secured Credit Facilities upon certain asset dispositions and casualty events, in each case subject to certain reinvestment rights, and the incurrence of certain indebtedness (excluding any permitted indebtedness). These provisions were not triggered during the three months ended March 31, 2018.

Our ability to raise additional financing, and our borrowing costs, may be impacted by short- and long-term debt ratings assigned by independent rating agencies, which are based, in significant part, on our performance as measured by certain credit metrics such as interest coverage and leverage ratios. As of April 20, 2018, Moody's Investors Service's corporate credit rating for Sensata Technologies B.V. ("STBV") was Ba2 with a stable outlook and Standard & Poor's corporate credit rating for STBV was BB+ with a stable outlook. Any future downgrades to STBV's credit ratings may increase our borrowing costs, but will not reduce availability under the Credit Agreement.

The Credit Agreement and the indentures under which our senior notes were issued contain restrictions and covenants that limit the ability of STBV and certain of its subsidiaries to, among other things, incur subsequent indebtedness, sell assets, make capital expenditures, pay dividends, and make other restricted payments. For a full discussion of these restrictions and covenants, refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources," included in our Annual Report on Form 10-K for the year ended December 31, 2017.

As of March 31, 2018, we were in compliance with all covenants and default provisions under our credit arrangements.

Recently Issued Accounting Pronouncements

Adopted in the current period

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which modifies how all entities recognize revenue, and consolidates into one ASC Topic (FASB ASC Topic 606, Revenue from Contracts with Customers) the guidance found in FASB ASC Topic 605, Revenue Recognition, and various other revenue accounting standards for specialized transactions and industries.

FASB ASC Topic 606 outlines a comprehensive five-step revenue recognition model based on the principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We adopted FASB ASC Topic 606 on January 1, 2018 using the modified retrospective transition method. Refer to Note 16, "Revenue Recognition," for additional details on this implementation and the required disclosures.

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In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities, which addresses certain aspects of the recognition, measurement, presentation, and disclosure of financial instruments. The new recognition and measurement guidance requires entities to measure equity investments (except those accounted for under the equity method, those that result in consolidation of the investee, and certain other investments) either at fair value, with changes to fair value recognized in net income, or, in certain instances, by use of a measurement alternative. Under the measurement alternative, such investments are measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. We adopted this guidance on January 1, 2018, which resulted in no impact on our consolidated financial position or results of operations. Refer to Note 11, "Fair Value Measures," for further detail regarding the application of the measurement alternative to our $50.0 million equity investment in Series B Preferred Stock of Quanergy, Inc ("Quanergy"), which does not have a readily determinable fair value.

In March 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires a change in the presentation of net periodic benefit cost on the consolidated statements of operations. Specifically, entities must present the service cost component of net periodic benefit cost in the same financial statement line item(s) as other compensation costs arising from services rendered by the related employees during the period, whereas the non-service components of net periodic benefit cost must be presented separately from the financial statement line item(s) that include service cost and outside of operating income. We adopted this guidance on January 1, 2018 and, as a result, we present the service cost component of net periodic benefit cost in the Cost of revenue, Research and development, and Selling, general, and administrative ("SG&A") expense line items, and we present the non-service components of net periodic benefit cost in Other, net. Refer to Note 13, "Other, net," for the total other components of net periodic benefit cost. All prior period amounts have been recast to reflect the revised presentation, and the adjustments made to revise the presentation of our prior year condensed consolidated statement of operations are presented in Note 8, "Pension and Other Post–Retirement Benefits."

To be adopted in a future period

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which establishes new accounting and disclosure requirements for leases. FASB ASU No. 2016-02 requires lessees to classify most leases as either finance or operating leases and to initially recognize a lease liability and right-of-use asset. Entities may elect to account for certain short-term leases (with a term of one year or less) using a method similar to the current operating lease model. The statements of operations will include, for finance leases, separate recognition of interest on the lease liability and amortization of the right-of-use asset and for operating leases, a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a straight-line basis. At December 31, 2017, we were contractually obligated to make future payments of $68.6 million under our operating lease obligations in existence as of that date, primarily related to long-term facility leases. While we are in the early stages of our implementation process for FASB ASU No. 2016-02, and have not yet determined its impact on our consolidated financial position or results of operations, these leases would potentially be required to be presented on the balance sheet in accordance with the requirements of FASB ASU No. 2016-02, which is effective for annual reporting periods beginning after December 15, 2018, including interim periods therein, with early adoption permitted. FASB ASU No. 2016-02 must be applied using a modified retrospective approach, which requires the recognition and measurement of leases at the beginning of the earliest period presented, with certain practical expedients available.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815), which changes both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results, in order to better align an entity’s risk management activities and financial reporting for hedging relationships. The amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. FASB ASU No. 2017-12 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods, with early adoption permitted. The adoption of FASB ASU No. 2017-12 will not have a material impact on our consolidated financial position or results of operations.

Critical Accounting Policies and Estimates

For a discussion of the critical accounting policies that require the use of significant judgments and estimates by management, refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates," included in our Annual Report on Form 10-K for the year ended December 31, 2017.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

No significant changes to our market risk have occurred since December 31, 2017. For a discussion of market risk affecting us, refer to Part II, Item 7A—"Quantitative and Qualitative Disclosures About Market Risk," included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 4. Controls and Procedures.

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

Evaluation of Disclosure Controls and Procedures

With the participation of our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2018. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2018, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the three months ended March 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

As discussed in Part I, Item 3—"Legal Proceedings," in our Annual Report on Form 10-K for the year ended December 31, 2017, we are regularly involved in a number of claims and litigation matters in the ordinary course of business. Most of our litigation matters are third-party claims related to patent infringement allegations or for property damage allegedly caused by our products, but some involve allegations of personal injury or wrongful death. From time to time, we are also involved in disagreements with vendors and customers. Although it is not feasible to predict the outcome of these matters, based upon our experience and current information known to us, we do not expect the outcome of these matters, either individually or in the aggregate, to have a material adverse effect on our results of operations, financial position, or cash flows.

Item 1A. Risk Factors.

Information regarding risk factors appears in Part I, Item 1A—"Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2017. There have been no changes to the risk factors disclosed therein.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 6. Exhibits.

Exhibit No.	Description
2.1	Merger Proposal by the boards of directors of Sensata Technologies Holding N.V. and Sensata Technologies Holding plc (incorporated by reference to Annex A to the registration statement on Form S-4/A (File No. 333-220735) filed by Sensata Technologies Holding plc on December 22, 2017).
3.1	Articles of Association (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on March 28, 2018 (File No. 001-34652)).
10.1	Sensata Technologies Holding plc Second Amended and Restated 2006 Management Option Plan (incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on March 28, 2018 (File No. 001-34652)).
10.2	Sensata Technologies Holding plc First Amended and Restated 2010 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on March 28, 2018 (File No. 001-34652)).
10.3	Employment Agreement, dated January 26, 2017, between Sensata Technologies Germany GmbH and Paul Chawla.†*
10.4	Amendment to Employment Agreement, dated January 13, 2018, between Sensata Technologies Germany GmbH and Paul Chawla.†*
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

101	The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to the Condensed Consolidated Financial Statements.

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

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SIGNATURES

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

Date: April 24, 2018

SENSATA TECHNOLOGIES HOLDING PLC

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

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