

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

KNOWLES ELECTRONICS HOLDINGS INC

CIK: **1099373** | IRS No.: **362270096** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **333-40076** | Film No.: **04971148**
SIC: **3845** Electromedical & electrotherapeutic apparatus

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2004

or

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

Commission file number 333-40076

Knowles Electronics Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction
of incorporation or organization)*

36-2270096
*(I.R.S. Employer
Identification No.)*

1151 Maplewood Drive
Itasca, Illinois
(Address of principal executive offices)

60143
(Zip Code)

Registrant's telephone number, including area code:
(630) 250-5100

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

Indicate by check mark whether the Registrant is an accelerated filer(as defined in Rule 12b-2 of the Exchange Act). Yes No

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	<u>Certification Pursuant to Section 302</u>	

Part I – Financial Information**KNOWLES ELECTRONICS HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)**

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
	(In thousands)		(In thousands)	
Net sales	\$44,774	\$38,906	\$90,102	\$76,410
Cost of sales	25,001	18,928	49,045	37,874
Gross margin	19,773	19,978	41,057	38,536
Research and development expenses	2,857	2,880	5,579	5,170
Selling and marketing expenses	2,840	2,279	5,330	4,422
General and administrative expenses	6,047	4,840	11,386	10,527
Impairment of assets held for sale	850	–	850	–
Restructuring activities	16	–	(70)	–
Operating income	7,163	9,979	17,982	18,417
Other income (expense):				
Interest income	15	15	31	40
Interest expense	(8,188)	(9,680)	(16,804)	(17,855)
Loss on extinguishment of debt	(2,256)	–	(2,256)	(1,100)
Income (loss) from continuing operations before income taxes	(3,266)	314	(1,047)	(498)
Income taxes	276	1,044	1,218	1,287
Loss from continuing operations	(3,542)	(730)	(2,265)	(1,785)
Income from discontinued operations:				
Income from discontinued operations	–	25,625	–	26,734
Net income (loss)	<u>\$(3,542)</u>	<u>\$24,895</u>	<u>\$(2,265)</u>	<u>\$24,949</u>

Knowles Electronics Holdings, Inc.
Consolidated Balance Sheets

	June 30 2004 (unaudited)	December 31 2003
	(in thousands, except share data)	
Assets		
Cash & cash equivalents	\$ 14,316	\$ 11,227
Accounts receivable, net	22,877	23,128
Inventories, net	21,478	17,373
Prepaid expenses and other	7,108	5,023
Total current assets	65,779	56,751
Property, plant and equipment, at cost:		
Land	2,688	2,787
Building and improvements	12,615	19,273
Machinery and equipment	56,307	48,750
Furniture and fixtures	25,593	24,104
Construction in progress	9,490	11,743
Subtotal	106,693	106,657
Accumulated depreciation	(61,093)	(61,152)
Net	45,600	45,505
Assets held for sale, net of impairment	3,263	-
Other assets, net	1,416	3,149
Deferred finance costs, net	6,750	7,168
Total assets	\$ 122,808	\$ 112,573
Liabilities and stockholders' deficit		
Accounts payable	\$ 14,377	\$ 11,272
Accrued compensation and employee benefits	6,787	8,681
Accrued interest payable	4,852	4,868
Accrued warranty and rebates	5,015	5,902
Accrued restructuring costs	1,389	1,490
Other liabilities	2,040	2,645
Income taxes	2,986	3,784
Deferred income taxes	570	968
Total current liabilities	38,016	39,610
Accrued pension liability	13,041	12,350
Other noncurrent liabilities	1,502	407
Notes payable	300,648	288,180
Preferred stock mandatorily redeemable in 2019 including accumulating dividends of: \$112,944 June 2004; \$99,401 December 2003	297,944	284,401
Stockholders' equity (deficit):		
Common stock, Class A, \$0.001 par value, 1,052,632 shares authorized, outstanding: 952,500 June 2004; 957,500 December 2003	1	1
Common stock, Class B, \$0.001 par value, 52,632 shares authorized: none ever issued	-	-
Capital in excess of par value	16,337	16,487
Accumulated deficit	(536,634)	(520,826)
Accumulated other comprehensive loss	(8,047)	(8,037)
Total stockholders' deficit	(528,343)	(512,375)
Total liabilities and stockholders' deficit	\$ 122,808	\$ 112,573

Knowles Electronics Holdings, Inc.
Consolidated Statements of Cash Flows
(unaudited)

	Six Months Ended June 30,	
	2004	2003
(in thousands)		
Operating Activities		
Net loss from continuing operations	(\$2,265)	(\$1,785)
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	4,058	4,144
Restructuring costs	(101)	(868)
Amortization of deferred financing fees and debt discount	937	1,030
Loss on extinguishment of debt	2,256	1,100
Impairment of assets held for sale	850	-
Inventory obsolescence provision	800	418
Deferred income taxes	(398)	(1,039)
Loss on disposal of assets	236	160
Change in assets and liabilities:		
Accounts receivable	251	(977)
Inventories	(4,905)	2,988
Other assets	(352)	1,451
Accounts payable	3,105	(1,447)
Accrued interest payable	(16)	(2,376)
Accrued compensation and benefits	(1,894)	(638)
Other current liabilities	(1,492)	(4,307)
Other noncurrent liabilities	1,786	555
Income taxes payable	(798)	631
Net cash provided by discontinued operating activities	-	3,823
Net cash provided by operating activities	2,058	2,863
Investing Activities		
Proceeds from sale of Synchro-Start operations	-	45,786
Purchases of property, plant, and equipment, net	(8,502)	(4,443)
Net cash provided by (used in) investing activities	(8,502)	41,343
Financing Activities		
Debt payments – long term	(35,667)	(83,802)
Debt proceeds – long term	48,000	35,000
Costs associated with debt	(1,560)	(1,749)
Premium on early retirement of debt	(1,080)	-
Repurchase of common stock	(150)	(350)
Net cash provided by (used in) financing activities	9,543	(50,901)
Effect of exchange rate changes on cash	(10)	(31)
Net change in cash and cash equivalents	3,089	(6,726)
Cash and cash equivalents at beginning of period	11,227	23,879
Cash and cash equivalents at end of period	\$ 14,316	\$ 17,153

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands)

June 30, 2004 and 2003

(unaudited)

1. Basis of Recapitalization and Presentation

The unaudited consolidated financial statements include the accounts of Knowles Electronics Holdings, Inc. and its subsidiaries (Company). All material intercompany accounts, transaction and profits are eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of our management, all adjustments, consisting of normal recurring accruals, necessary for a fair presentation have been included. Certain prior year amounts have been reclassified to conform to current year presentation. The results for the period ended June 30, 2004 do not necessarily indicate the results that may be expected for the full year ending December 31, 2004. For further information, refer to the Company's consolidated financial statements and notes thereto included in the Company's Form 10-K dated for the year ended December 31, 2003.

On June 23, 1999, the Company entered into a recapitalization agreement with Key Acquisition L.L.C. (the Investor), and the preexisting common stockholders' of the Company. All of the membership interests of Key Acquisition LLC are held by limited partnerships for which Doughty Hanson & Co. Limited or its affiliates ("Doughty Hanson") act as general partner. The recapitalization transaction (the Recapitalization) closed on June 30, 1999.

The Recapitalization was treated as a leveraged recapitalization in which the issuance of the debt has been accounted for as a financing transaction, the sales and purchases of the Company's stock have been accounted for as capital transactions at amounts paid or received, and no changes were made to the carrying values of the Company's assets and liabilities.

2. Discontinued Operations

The Company's consolidated financial statements and related footnote disclosures reflect the Synchro-Start and Infrared (Ruwido) businesses as discontinued operations, net of applicable income taxes, for all periods presented in accordance with SFAS No. 144 – *Accounting for the Impairment or Disposal of Long-Lived Assets*. As such, discontinued operations includes the January 2003 through May 2003 operating results of the Synchro-Start business, the sale of which was completed May 30, 2003. Discontinued operations also includes the January 2003 through June 2003 operating results of the Infrared business, the sale of which was completed July 29, 2003.

The Synchro-Start division was part of the Company's Automotive Components reporting segment. The Infrared business was part of the Company's Acoustic and Infrared Technology reporting segment. The Company has subsequently modified its segment reporting, see Footnote 7. Segment Information.

Operating results of the discontinued business for the three and six months ended June 30, 2004 and 2003, respectively, are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Sales	\$ –	\$ 11,214	\$ –	\$ 25,306
Income from discontinued operations	\$ –	\$ 303	\$ –	\$ 1,563
Income tax expense	–	(18)	–	(169)
Income from discontinued operations, net of tax	\$ –	\$ 285	\$ –	\$ 1,394
Gain on disposal of Synchro-Start division	\$ –	\$ 35,173	\$ –	\$ 35,173
Income tax expense	–	(1,000)	–	(1,000)
Gain on disposal of Synchro-Start division, net of tax	\$ –	\$ 34,173	\$ –	\$ 34,173
Loss on disposal of Infrared division	\$ –	\$ (8,833)	\$ –	\$ (8,833)
Income tax benefit	–	–	–	–
Loss on disposal of Infrared division, net of tax	\$ –	\$ (8,833)	\$ –	\$ (8,833)

The Company sold Synchro-Start for \$49.7 million May 30, 2003. The Company retained pension liabilities of \$3.5 million associated with the pension plan covering U.S. employees. As of December 2003, the Company recorded a pre-tax gain on the sale of Synchro-Start of \$36.3 million. The tax on the gain was \$0.7 million which reflects an alternative minimum tax created by the transaction. The benefit of the carryforward of the alternative minimum tax credit has not been recognized due to the uncertainty of the realization of this benefit. The tax on the gain was limited to the alternative minimum tax due to the utilization of net operating loss carryforwards that had previously not been benefited.

The Company sold the Infrared business for \$0.1 million on July 29, 2003 and the buyer retained debt of \$4.0 million. As of December 2003, the Company recorded a pre-tax loss on the sale of \$8.6 million. No tax benefit from the loss was recorded because the loss is netted against the gain on the Synchro-Start sale and the tax on that net gain is offset by the utilization of net operating loss carryforwards that had previously not been benefited.

3. Accumulated Other Comprehensive Income (Loss)

For the six months ended June 30, 2004 and 2003, total comprehensive income (loss) amounted to (\$2,275) and \$26,427, respectively. For the three months ended June 30, 2004 and 2003, total comprehensive income (loss) amounted to (\$3,568) and \$26,012, respectively. The difference between net income (loss) and comprehensive income (loss) is related to the Company's foreign currency translation.

4. New Accounting Standards

In May 2003, the FASB issued SFAS No 150 – *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS 150 requires certain obligations including mandatorily redeemable preferred stock to be reflected as liabilities in the balance sheet. Additionally, dividends paid or accrued on mandatorily redeemable preferred stock will be presented as interest expense in the income statement. We adopted the provisions of SFAS 150 on January 1, 2004. Since the Company's preferred stock contains provisions whereby the preferred stock and accumulated dividends may be converted to common stock, the preferred stock and its dividends continue to be reflected as such. There was no material impact on our financial position or results of operations as a result of the adoption of SFAS 150.

5. Inventory

Inventories are as follows:

	June 30, 2004	December 31, 2003
Raw materials	\$11,358	\$9,211
Work in process	2,129	1,341
Finished goods	12,743	10,969
	26,230	21,521
Less allowances for :		
Obsolescence and net realizable value	(4,752)	(4,148)
	\$21,478	\$17,373

6. Notes Payable

As part of the Recapitalization transaction, the Company entered into a Credit Agreement dated June 28, 1999 and amended and restated as of July 21, 1999, and further amended and otherwise modified from time to time, most recently as of April 14, 2004, with certain lenders (“Credit Agreement”).

Knowles Electronics Holdings, Inc. obtained a Seventh Amendment to Credit Agreement and Second Amendment to Security Agreement as of April 14, 2004, amending the (i) Credit Agreement and (ii) the Security Agreement dated as of June 30, 1999 (as amended, restated, supplemented or otherwise modified from time to time), among Knowles Electronics Holdings, Inc., its U.S. subsidiaries and JPMorgan Chase Bank (successor to The Chase Manhattan Bank) as Administrative Agent (the “Seventh Amendment”). The Seventh Amendment, which became effective April 14, 2004, provides for Tranche D Term Loans due June 2007 in a principal amount of \$48 million, the repayment in full of Tranche C Term Loans with part of the proceeds of Tranche D Term Loans and an amendment to the Credit Agreement’s interest coverage ratio and leverage ratio requirements, among other changes. Pursuant to the Seventh Amendment, the Company has repaid the outstanding principal balance under the Tranche C Term Loans, (which had an 18.5% interest rate) together with accrued interest thereon, together totaling approximately \$36.0 million. The Company also paid a related prepayment penalty of \$1.1 million and certain other fees to the lenders in connection with the Seventh Amendment.

The Credit Agreement as amended consists of approximately \$155 million, which provides for revolving loans of \$15 million (“Revolving Credit Facility”) through June 30, 2006 (unless the Tranche B Facility is paid in full prior to such date in which case the Revolving Credit Facility will cease to exist and any amounts outstanding thereunder shall become due and payable), a Tranche B Facility of \$92 million (“Tranche B Facility”), which matures on June 29, 2007, and a Tranche D Facility of \$48 million (“Tranche D Facility”), which matures on June 29, 2007. The Revolving Credit Facility bears interest, at the Company’s option, at either: (1) one-, two-, three-, or six-month LIBOR plus 4.0%, or (2) the greater of the prime rate, a base certificate of deposit rate plus 1.00%, or the federal funds effective rate plus 0.50% (the Alternate Base Rate), in each case plus an initial margin of 3%. The Tranche B Facility bears interest, at the Company’s option, at

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either: (1) one-, two-, three-, or six-month LIBOR plus 5.00%, or (2) Alternate Base Rate plus an initial margin of 4.00%. The Tranche D Term Loans bear currently payable interest, at the Company's option, at either: (1) one-, two-, three-, or six-month LIBOR plus 7.25%, or (2) the greatest of the prime rate, a base certificate of deposit rate plus 1.0% or the federal funds effective rate plus 0.50%, in each case plus an initial margin of 6.25%. At June 30, 2004, the weighted average interest rate was 6.1875% for the Tranche B Facility and 8.625% for the Tranche D Facility.

The balance under the Tranche B, C and D Facilities, the 13 1/8% Senior Subordinated Notes ("13 1/8% Notes"), and the 10% Senior Subordinated Notes ("10% Notes") is as follows:

	June 30, 2004	December 31, 2003
Tranche B Facility	\$91,600	\$91,600
Tranche C Facility	-	35,668
Tranche D Facility	48,000	-
13 1/8% Senior Subordinated Notes, net of discount	151,048	150,912
10% Senior Subordinated Notes	10,000	10,000
Total long-term notes payable	<u>\$300,648</u>	<u>\$288,180</u>

The 13 1/8% Notes were issued in a private placement on October 1, 1999 and are due October 15, 2009 with interest payable semiannually at 13 1/8% commencing April 15, 2000. The Company subsequently exchanged all of the privately placed 13 1/8% Notes for a like amount of identical 13 1/8% Notes registered with the Securities and Exchange Commission on October 20, 2000. The 13 1/8% Notes rank equally with all other unsecured senior subordinated indebtedness of the Company. The 13 1/8% Notes are junior to all of the Company's current and future indebtedness, except indebtedness which is expressly not senior to the 13 1/8% Notes.

The 10% Notes were issued in a private placement on August 29, 2002 and are due October 15, 2009 with interest payable semiannually at 10% commencing April 15, 2003. The 10% Notes rank equally with all other unsecured senior subordinated indebtedness of the Company. The 10% Notes were purchased by an affiliate of Doughty Hanson & Co., Ltd., a private equity concern which controls the equity of Knowles.

The Company's Credit Agreement requires that the Company comply with certain covenants and restrictions, including specific financial ratios that must be maintained. As of June 30, 2004, the Company is in compliance with these covenants. If future actual results are lower than planned the Company may be unable to comply with the debt covenants or make required debt service payments. Such inability could have a material adverse impact on the Company's financial condition, results of operations or liquidity. There are no assurances that the Company could favorably resolve such a situation.

As security for the obligations under the Credit Agreement the Company has pledged all of the shares of its U.S. subsidiaries and 65% of the shares of its non-U.S. subsidiaries and has granted the lenders a security interest in substantially all of its assets and the assets of its U.S. subsidiaries.

The 13 1/8% Notes and 10% Notes (collectively "Subordinated Notes") are unconditionally guaranteed, on a joint and several basis, by the following wholly owned U.S. subsidiaries of the Company: Knowles Electronics LLC, Knowles Intermediate Holding, Inc., Emkay Innovative Products, Inc. and Knowles Manufacturing Ltd. The following tables present summarized balance sheet information of the Company as of June 30, 2004 and December 31, 2003, summarized income statements for the three and six months ended June 30, 2004 and 2003, and summarized cash flow information for the six months ended June 30, 2004 and 2003. The column labeled "Parent Company" represents the holding company for each of the Company's direct subsidiaries, which are guarantors of the Subordinated Notes, all of which are wholly owned by the parent company; and the column labeled "Non-guarantors" represents wholly owned subsidiaries of the Guarantors, which are not guarantors of the Subordinated Notes. Pursuant to a contribution agreement effective August 30, 1999, Knowles Electronics, Inc., recognized in prior periods as the parent company,

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contributed substantially all of its operating assets and liabilities (other than the capital stock of Knowles Intermediate Holding, Inc. and certain foreign subsidiaries and Knowles Electronics, Inc.'s liabilities under the Senior Credit Agreement and Subordinated Notes) to Knowles Electronics, LLC, a newly created Delaware limited liability company. As a result of this reorganization, Knowles Electronics, Inc., which changed its name to Knowles Electronics Holdings, Inc., is now a holding company that does not conduct any significant operations. The Company believes that separate financial statements and other disclosures regarding the Guarantors, except as otherwise required under Regulation S-X, are not material to investors.

Summarized balance sheet information as of June 30, 2004 and December 31, 2003, summarized income statement for the three and six months ended June 30, 2004 and 2003, and summarized cash flow information for the six months ended June 30, 2004 and 2003 is as follows:

	June 30, 2004				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash	\$543	\$5,269	\$8,504	\$-	\$14,316
Accounts receivable	-	32,350	70,105	(79,578)	22,877
Inventories	-	10,029	11,449	-	21,478
Other current assets	-	3,938	3,170	-	7,108
Net property, plant and equipment	-	19,703	25,897	-	45,600
Assets held for sale, net of impairment	-	3,263	-	-	3,263
Investment in and advances to subsidiaries	101,347	364,988	1,421	(467,756)	-
Deferred finance costs, net	6,750	-	-	-	6,750
Other non-current assets	-	1,088	328	-	1,416
Total assets	<u>\$108,640</u>	<u>\$440,628</u>	<u>\$120,874</u>	<u>\$(547,334)</u>	<u>\$122,808</u>
Accounts payable	\$-	\$37,009	\$56,946	\$(79,578)	\$14,377
Accrued restructuring costs	-	1,389	-	-	1,389
Advances from parent	223,593	85,553	343	(309,489)	-
Other current liabilities	4,852	13,210	3,618	-	21,680
Deferred income taxes	-	(7)	577	-	570
Noncurrent liabilities	-	10,654	3,889	-	14,543
Notes payable	300,648	-	-	-	300,648
Preferred stock	297,944	-	-	-	297,944
Stockholders' equity (deficit)	(718,397)	292,820	55,501	(158,267)	(528,343)
Total liabilities and stockholders' equity (deficit)	<u>\$108,640</u>	<u>\$440,628</u>	<u>\$120,874</u>	<u>\$(547,334)</u>	<u>\$122,808</u>

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	December 31, 2003				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash	\$866	\$5,627	\$4,734	\$-	\$11,227
Accounts receivable	-	29,333	60,541	(66,746)	23,128
Inventories	-	6,047	11,326	-	17,373
Other current assets	-	1,169	3,854	-	5,023
Net property, plant and equipment	-	25,609	19,896	-	45,505
Investment in and advances to subsidiaries	101,347	358,574	2,443	(462,364)	-
Deferred finance costs, net	7,168	-	-	-	7,168
Other non-current assets	-	2,969	180	-	3,149
Total assets	<u>\$109,381</u>	<u>\$429,328</u>	<u>\$102,974</u>	<u>\$(529,110)</u>	<u>\$112,573</u>
Accounts payable	\$-	\$32,642	\$45,376	\$(66,746)	\$11,272
Accrued restructuring costs	-	1,490	-	-	1,490
Advances from parent	217,164	90,385	350	(307,899)	-
Other current liabilities	4,875	15,761	5,244	-	25,880
Deferred income taxes	-	-	968	-	968
Noncurrent liabilities	-	9,043	3,714	-	12,757
Notes payable	288,180	-	-	-	288,180
Preferred stock	284,401	-	-	-	284,401
Stockholders' equity (deficit)	(685,239)	280,007	47,322	(154,465)	(512,375)
Total liabilities and stockholders' equity (deficit)	<u>\$109,381</u>	<u>\$429,328</u>	<u>\$102,974</u>	<u>\$(529,110)</u>	<u>\$112,573</u>

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	Three Months Ended June 30, 2004				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
Net sales	\$-	\$40,137	\$46,223	\$(41,586)	\$44,774
Cost of sales	-	22,539	43,799	(41,337)	25,001
Gross margin	-	17,598	2,424	(249)	19,773
Selling, research and administrative expenses	-	9,884	2,111	(251)	11,744
Impairment of assets held for sale	-	850	-	-	850
Restructuring activities	-	16	-	-	16
Operating income	-	6,848	313	2	7,163
Other income (expense):					
Interest income	-	5	31	(21)	15
Interest expense	(8,351)	140	(1)	24	(8,188)
Loss on extinguishment of debt	(2,256)	-	-	-	(2,256)
Income (loss) from continuing operations before income taxes	(10,607)	6,993	343	5	(3,266)
Income taxes	-	-	276	-	276
Net income (loss)	\$(10,607)	\$6,993	\$67	\$5	\$(3,542)

	Three Months Ended June 30, 2003				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
Net sales	\$-	\$35,287	\$43,508	\$(39,889)	\$38,906
Cost of sales	-	21,629	37,103	(39,804)	18,928
Gross margin	-	13,658	6,405	(85)	19,978
Selling, research and administrative expenses	-	8,390	1,733	(124)	9,999
Operating income	-	5,268	4,672	39	9,979
Other income (expense):					
Interest income	-	31	3	(19)	15
Interest expense	(9,809)	72	(4)	61	(9,680)
Dividend income	-	6,211	-	(6,211)	-
Income (loss) from continuing operations before income taxes	(9,809)	11,582	4,671	(6,130)	314
Income taxes	-	640	404	-	1,044
Income (loss) from continuing operations after income taxes	(9,809)	10,942	4,267	(6,130)	(730)
Income from discontinued operations after income taxes	-	25,087	623	(85)	25,625
Net income (loss)	\$(9,809)	\$36,029	\$4,890	\$(6,215)	\$24,895

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	Six Months Ended June 30, 2004				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
Net sales	\$–	\$80,061	\$95,238	\$(85,197)	\$90,102
Cost of sales	–	47,291	86,482	(84,728)	49,045
Gross margin	–	32,770	8,756	(469)	41,057
Selling, research and administrative expenses	–	18,638	4,126	(469)	22,295
Impairment of assets held for sale	–	850	–	–	850
Restructuring activities	–	(70)	–	–	(70)
Operating income	–	13,352	4,630	–	17,982
Other income (expense):					
Interest income	–	12	216	(197)	31
Interest expense	(17,209)	211	(3)	197	(16,804)
Loss on extinguishment of debt	(2,256)	–	–	–	(2,256)
Income (loss) before taxes	(19,465)	13,575	4,843	–	(1,047)
Income taxes	–	–	1,218	–	1,218
Net income (loss)	<u>\$(19,465)</u>	<u>\$13,575</u>	<u>\$3,625</u>	<u>\$–</u>	<u>\$(2,265)</u>

	Six Months Ended June 30, 2003				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
Net sales	\$–	\$68,480	\$80,082	\$(72,152)	\$76,410
Cost of sales	–	39,172	70,570	(71,868)	37,874
Gross margin	–	29,308	9,512	(284)	38,536
Selling, research and administrative expenses	–	17,030	3,380	(291)	20,119
Operating income	–	12,278	6,132	7	18,417
Other income (expense):					
Interest income	–	90	9	(59)	40
Interest expense	(17,981)	(369)	(7)	502	(17,855)
Loss on extinguishment of debt	(1,100)	–	–	–	(1,100)
Dividend income	–	35,231	–	(35,231)	–
Income (loss) from continuing operations before income taxes	(19,081)	47,230	6,134	(34,781)	(498)
Income taxes	–	640	647	–	1,287
Income (loss) from continuing operations after income taxes	(19,081)	46,590	5,487	(34,781)	(1,785)
Income from discontinued operations after income taxes	–	26,239	945	(450)	26,734
Net income (loss)	<u>\$(19,081)</u>	<u>\$72,829</u>	<u>\$6,432</u>	<u>\$(35,231)</u>	<u>\$24,949</u>

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	Six Months Ended June 30, 2004				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$(16,295)	\$16,158	\$2,195	\$-	2,058
Equity contributions into subsidiaries	-	(3,802)	-	3,802	-
Purchases of property , plant and equipment, net	-	(5,276)	(3,226)	-	(8,502)
Net cash provided by (used in) investing activities	-	(9,078)	(3,226)	3,802	(8,502)
Debt payments – long term	(35,667)	-	-	-	(35,667)
Debt proceeds – long term	48,000	-	-	-	48,000
Common stock transactions	(150)	-	-	-	(150)
Intercompany loans	6,429	(7,438)	1,009	-	-
Premium on early retirement of debt	(1,080)	-	-	-	(1,080)
Costs associated with debt	(1,560)	-	-	-	(1,560)
Equity contributions into subsidiaries	-	-	3,802	(3,802)	-
Net cash provided by (used in) financing activities	15,972	(7,438)	4,811	(3,802)	9,543
Effect of exchange rate changes on cash	-	-	(10)	-	(10)
Net change in cash and cash equivalents	(323)	(358)	3,770	-	3,089
Cash and cash equivalents at beginning of period	866	5,627	4,734	-	11,227
Cash and cash equivalents at end of period	\$543	\$5,269	\$8,504	\$-	\$14,316

	Six Months Ended June 30, 2003				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
Net cash provided by (used in) continuing operating activities	\$(17,286)	\$19,613	\$10,733	\$(14,020)	\$(960)
Net cash provided by discontinued activities	-	1,610	2,213	-	3,823
Net cash provided by (used in) operating activities	(17,286)	21,223	12,946	(14,020)	2,863
Equity contributions into subsidiaries	-	(4,185)	-	4,185	-
Proceeds from sales of Synchro-Start operations	-	45,786	-	-	45,786
Purchases of property , plant and equipment, net	-	(3,553)	(890)	-	(4,443)
Net cash provided by (used in) investing activities	-	38,048	(890)	4,185	41,343
Debt payments – long-term	(83,559)	-	(243)	-	(83,802)
Debt proceeds – long-term	35,000	-	-	-	35,000
Common stock transactions	(350)	-	-	-	(350)
Intercompany loans	63,458	(59,308)	(4,150)	-	-
Costs associated with debt	(1,749)	-	-	-	(1,749)
Intercompany dividends	-	-	(14,020)	14,020	-
Equity contributions into subsidiaries	-	-	4,185	(4,185)	-
Net cash provided by (used in) financing activities	12,800	(59,308)	(14,228)	9,835	(50,901)
Effect of exchange rate changes on cash	-	-	(31)	-	(31)
Net change in cash and cash equivalents	(4,486)	(37)	(2,203)	-	(6,726)
Cash and cash equivalents at beginning of period	9,614	7,578	6,687	-	23,879
Cash and cash equivalents at end of period	\$5,128	\$7,541	\$4,484	\$-	\$17,153

7. Segment Information

The Company's continuing business consists of one operating segment known as Microacoustics. In the third quarter of 2003 after the sale of the Synchro-Start and Infrared operations, the Company reviewed its segment reporting under SFAS No. 131 – *Disclosure about Segments of an Enterprise and Related Information*, and concluded that the operating results of the Company should be reported as a single operating segment. Previously, the Company reported three operating segments: hearing aid components, acoustic technology, and automotive components. The Synchro-Start division was sold May 30, 2003, and was the primary part of the Company's Automotive Components reporting segment. The Infrared business was part of the Company's Acoustic and Infrared Technology reporting segment. (see Footnote 2. Discontinued Operations.)

The Microacoustic operating segment utilizes the Company's acoustic technologies to design, manufacture, and market transducers and other components for hearing aids, mobile communications and computer telephony integration telematics (voice controlled wireless services delivered to an automobile environment).

The Company uses consolidated financial information to assess performance and make resource allocation decisions.

8. Restructuring Expenses

November 2003 Elgin, Illinois Restructure

The Company announced the closure of its Elgin, Illinois facility in November of 2003, which it expects to complete in September of 2004. Operations will be shifted to facilities in China, Malaysia and Itasca, Illinois, with 66 positions at the Elgin facility being eliminated. The Company recorded employee severance and outplacement expenses of \$1,479 as of December 31, 2003. The following table presents the restructure costs and payments for the period.

	Restructure Expense	Accrued Restructure Liability
Balance December 31, 2003	\$–	\$1,479
Employee severance and outplacement payments	–	(20)
Adjustment due to reduced expected terminations	(70)	(70)
Balance June 30, 2004	\$(70)	\$1,389

March 2000 Worldwide Restructure

The Company announced a major restructuring in March 2000 under which the Company consolidated its worldwide manufacturing operations by ending production at five manufacturing facilities and either outsourced component production or moved final assembly to lower cost locations in Malaysia, China and Hungary. The remaining liability balance of \$11 related to this restructure was paid in the first quarter of 2004.

9. Commitments and Contingencies

Synchro-Start Divestiture Indemnifications In connection with sale of the Synchro-Start business, the Company has agreed to indemnify certain tax obligations arising out of tax audits or administrative or court proceedings relating to tax returns for any periods ending on or prior to the closing date of the sale. The Company has also agreed to indemnify certain liabilities, losses or claims arising from presale operations, limited such that the Company is not liable for total claims under \$0.3 million, is fully liable for claims totaling between \$0.3 and \$7.5 million, is 50% liable for total claims between \$7.5 million and \$12.5 million and is not liable for total claims exceeding \$12.5 million. Proceeds from the Synchro-Start sale include \$2.5 million in escrow for potential indemnification obligations. The Company considers it unlikely that a claim would be made of such magnitude that it would have a material impact on the Company's financial position.

The foregoing summary of the indemnities made by the Company in connection with the sale of the Synchro-Start business is qualified in its entirety by reference to the Stock Purchase Agreement Between and among Woodward Governor Company and Knowles Intermediate Holding, Inc. and Knowles Electronics Holdings, Inc. dated May 20, 2003 incorporated by reference to Exhibit 10.25 to Form 8-K filed with the Securities and Exchange Commission June 16, 2003.

Ruwido (Infrared) Divestiture Indemnifications In connection with the sale of the Ruwido business, the Company has agreed to indemnify certain liabilities, losses or claims up to a total of \$0.1 million. The Company believes that any claim would not have a material impact on the Company's financial position.

The foregoing summary of the indemnities made by the Company in connection with the sale of the Ruwido business is qualified in its entirety by reference to the Share Deal agreed by and between Knowles Intermediate Holding, Inc. and FM Electronics-Holding GmbH and WEHA Holding GmbH dated July 29, 2003 incorporated by reference to Exhibit 10.27, a copy of which was attached as an exhibit to the Form 10-Q for the period ended June 30, 2003.

Other Commitments and Contingencies The Company is involved in various lawsuits, claims, investigations and proceedings including patent and commercial matters that are in the ordinary course of business. The Company cannot at this time estimate with any certainty the impact of such matters on its financial position.

Product Warranties The Company provides an accrual for estimated future warranty costs at the time products are sold and periodically adjusts the accrual to reflect actual experience. The warranty on products sold generally extends from one to three years.

Changes in the Company's accrual for warranty during the period are as follows:

	2004
Balance December 31, 2003	\$2,282
Settlements made during the period	(462)
Provision for warranty liability on sales	562
Adjustments in estimates for pre-existing warranties	(603)
Balance June 30, 2004	<u>\$1,779</u>

10. Retirement Plans

Components of net periodic benefit cost for the three months ended June 30 are as follows:

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	U.S. Plans		Foreign Plans	
	2004	2003	2004	2003
Components of net periodic benefit cost:				
Service cost	\$ 308	\$ 411	\$ 83	\$ 49
Interest cost	1,092	957	215	127
Expected return on plan assets	(1,150)	(1,108)	(204)	(120)
Amortization of prior service cost	23	24	–	–
Amortization of transitional asset	–	–	3	2
Recognized actuarial (gain) or loss	–	–	114	67
Expected contributions from employees	–	–	(15)	(8)
Net periodic benefit cost	\$ 273	\$ 284	\$ 196	\$ 117

Components of net periodic benefit cost for the six months ended June 30 are as follows:

	U.S. Plans		Foreign Plans	
	2004	2003	2004	2003
Components of net periodic benefit cost:				
Service cost	\$ 689	\$ 984	\$ 147	\$ 98
Interest cost	1,935	1,915	379	253
Expected return on plan assets	(2,150)	(2,216)	(359)	(239)
Amortization of prior service cost	43	62	(1)	–
Amortization of transitional asset	–	–	6	4
Recognized actuarial (gain) or loss	–	–	201	134
Expected contributions from employees	–	–	(26)	(17)
Net periodic benefit cost	\$ 517	\$ 745	\$ 347	\$ 233

In March 2004, the Company made a contribution of \$331 to its U.S. defined benefit plan.

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

In 2003, the Company completed a program to divest its non-core businesses and to focus on its core microacoustic business. On July 29, 2003 the Company completed the sale of its Ruwido Austria GmbH subsidiary, whose operations made up the Infrared division, to FM Electronic Holdings. On May 30, 2003, the Company completed the sale of its Synchro-Start division to Woodward Governor Company. The financial statements for the period ended June 30, 2003 have been prepared with Ruwido and Synchro-Start accounted for as discontinued operations under Generally Accepted Accounting Principles (GAAP). (See Note 2 – Discontinued Operations).

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Quarter Ended June 30, 2004 Compared to Quarter Ended June 30, 2003

The table below shows the principal line items from our consolidated income statements for the six months ending June 30.

\$000s	Three months ended 6/30/04	Three months ended 6/30/03	\$ Increase/ (decrease) from prior year	% Increase/ (decrease) from prior year	
Net sales	\$44,774	\$38,906	\$5,868	15.1	%
Cost of sales	25,001	18,928	6,073	32.1	%
Gross margin	\$19,773	\$19,978	\$(205)	-1.0	%
Gross margin %	44.2	51.3			
Research and development	2,857	2,880	(23)	-0.8	%
Sales and marketing	2,840	2,279	561	24.6	%
General and administrative	6,047	4,840	1,207	24.9	%
Total operating expenses	\$11,744	\$9,999	\$1,745	17.5	%
Impairment of assets held for sale	850	-	850	n/a	
Restructuring expenses	16	-	16	n/a	
Operating income from continuing operations	\$7,163	\$9,979	\$(2,816)	-28.2	%
Loss on extinguishment of debt	2,256	-	2,256	n/a	
Interest expense, net	8,173	9,665	(1,492)	-15.4	%
Income (loss) from continuing operations, before tax	\$(3,266)	\$314	\$(3,580)	-1140.1	%
Income tax	276	1,044	(768)	-73.6	%
Income (loss) from continuing operations, after tax	\$(3,542)	\$(730)	(2,812)	385.2	%
Income from discontinued operations, after tax	-	25,625	(25,625)	-100.0	%
Net income (loss)	\$(3,542)	\$24,895	\$(28,437)	-114.2	%
EBITDA from continuing operations	\$9,309	\$11,899	\$(2,590)	-21.8	%

EBITDA is defined as earnings before interest, taxes, depreciation and amortization and is presented solely as a supplemental disclosure because we believe that it is a widely used measure of operating performance and because of debt covenants based on a defined EBITDA.

\$000s	Three months ended 6/30/04	Three months ended 6/30/03	\$ increase/ (decrease) from prior year	% increase/ (decrease) from prior year	
Operating income from continuing operations	7,163	9,979	\$(2,816)	-28.2	%
Depreciation and amortization	2,146	1,920	226	11.8	%
EBITDA from continuing operations	9,309	11,899	\$(2,590)	-21.8	%

Sales increased \$5.9 million or 15.1% in the second quarter 2004 compared to the same quarter of 2003. The increase in sales is due to increased demand for transducers and increasing sales of the company's silicon microphone ("Sisonic") which was introduced in the summer of 2003.

Cost of sales as a percent of sales increased by 7.1 percentage points or \$6.1 million in the second quarter of 2004 compared to the same period the prior year. The increase in costs in both dollar and percentage terms is primarily associated with the production ramp up costs of Sisonic and higher overall sales levels.

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Research and development expenses in the second quarter of 2004 were consistent with the same period in the prior year. Sales and marketing expenses increased 24.6% primarily related to the Sisonic product line. General and administrative expenses increased by 24.9% due to higher employee benefit and information system support costs. Total operating expenses increased by \$1.7 million or 17.5% due to the increased sales and marketing expense and general and administrative expenses.

A charge of \$0.9 million for the impairment of assets held for sale was recorded in the second quarter of 2004 representing the revaluation of our Elgin, Illinois facility to fair market value.

Restructuring expenses were recorded in the second quarter associated with the closure of our Elgin, Illinois facility. The Elgin facility is scheduled to close in the third quarter of 2004.

Operating income from continuing operations in the second quarter of 2004 decreased by \$2.8 million or 28.2% from the second quarter of 2003 due to the increased costs associated with increasing Sisonic production, the higher operating expenses and the impairment of assets held for sale, only partially offset by additional margin from increased sales.

The April 2004 refinancing of the Tranche C portion of our Credit Agreement resulted in a \$2.3 million loss on extinguishment of debt. This amount reflected the write-off of previously deferred charges associated with the origination of the Tranche C debt as well as a prepayment penalty paid to the Tranche C lenders.

In connection with our June 1999 recapitalization, we currently have significant senior debt and senior subordinated debt. Net interest expense decreased by \$1.5 million in the second quarter of 2004 compared to the second quarter of 2003 primarily due to the Tranche C refinancing, which replaced \$36 million of 18.5% Tranche C debt with \$48 million of Tranche D debt, which has a variable interest rate, currently priced at an 8.3% interest rate.

The second quarter of 2003 included \$25.6 million income from discontinued operations, primarily made up of the gain on the sale of Synchro-Start net of the loss on the sale of Ruwido.

Income tax expense was \$0.3 million in the second quarter of 2004 compared to \$1.0 million in the second quarter of 2003. We are providing tax consistent with the expected taxes in foreign locations.

We reported a net loss of \$3.5 million for the second quarter of 2004, primarily due to the \$2.3 million of loss on the extinguishment of debt and \$0.9 million impairment of assets held for sale. We reported net income of \$24.9 million for the second quarter of 2003, including the \$25.6 million in income from discontinued operations net of taxes.

EBITDA from continuing operations decreased by \$2.6 million or 21.8% in the second quarter of 2004 due to the costs associated with Sisonic and increased sales and marketing and general and administrative expenses, only partially offset by higher sales.

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Six months ended June 30, 2004 Compared to the Six Months Ended June 30, 2003

The table below shows the principal line items from our consolidated income statements for the six months ending June 30.

\$000s	Six months ended 6/30/04	Six months ended 6/30/03	\$ Increase/ (decrease) from prior year	% Increase/ (decrease) from prior year
Net sales	\$90,102	\$76,410	\$13,692	17.9 %
Cost of sales	49,045	37,874	11,171	29.5 %
Gross margin	\$41,057	\$38,536	\$2,521	6.5 %
Gross margin %	45.6 %	50.4 %		
Research and development	5,579	5,170	409	7.9 %
Sales and marketing	5,330	4,422	908	20.5 %
General and administrative	11,386	10,527	859	8.2 %
Total operating expenses	\$22,295	\$20,119	\$2,176	10.8 %
Impairment of assets held for sale	850	-	850	n/a
Restructuring activity	(70)	-	(70)	n/a
Operating income from continuing operations	\$17,982	\$18,417	\$(435)	-2.4 %
Loss on extinguishment of debt	2,256	1,100	1,156	105.1 %
Interest expense, net	16,773	17,815	(1,042)	-5.8 %
Income from continuing operations, before tax	\$(1,047)	\$(498)	\$(549)	110.2 %
Income tax	1,218	1,287	(69)	-5.4 %
Income (loss) from continuing operations, after tax	\$(2,265)	\$(1,785)	(480)	26.9 %
Income from discontinued operations, after tax	-	26,734	(26,734)	n/a
Net income (loss)	\$(2,265)	\$24,949	\$(27,214)	-109.1 %
EBITDA from continuing operations	\$22,040	\$22,561	\$(521)	-2.3 %

EBITDA is defined as earnings before interest, taxes, depreciation and amortization and is presented solely as a supplemental disclosure because we believe that it is a widely used measure of operating performance and because of debt covenants based on a defined EBITDA.

\$000s	Six months ended 6/30/04	Six months ended 6/30/03	\$ increase/ (decrease) from prior year	% increase/ (decrease) from prior year
Operating income from continuing operations	\$17,982	\$18,417	\$(435)	-2.4 %
Depreciation and amortization	4,058	4,144	86	-0.2 %
EBITDA from continuing operations	22,040	22,561	\$(521)	-2.3 %

Sales increased \$13.7 million or 17.9% in the first six months 2004 compared to the same period of 2003. The increase in sales is due to increased demand for transducers and increasing sales of the company's silicon microphone ("Sisonic") which was introduced in the summer of 2003.

Cost of sales as a percent of sales increased 4.8 percentage points or \$11.2 million in the first six months of 2004 compared to the same period the prior year. The increase in costs in both dollar and percentage terms is primarily associated with the production ramp up costs of Sisonic and higher overall sales levels.

Research and development expenses in the first six months of 2004 increased by 7.9% due to higher personnel costs and increased project expenses. Sales and marketing expenses increased 20.5% in the first six months of 2004 to support the Sisonic product line. General and administrative expenses increased by 8.2% primarily due to higher information system support costs and employee benefit expenses.

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A charge of \$0.9 million for the impairment of assets held for sale was recorded in the second quarter of 2004 representing the revaluation of our Elgin, Illinois facility to fair market value.

Operating income from continuing operations in the first six months of 2004 decreased by \$0.4 million compared to the same period in 2003 due to the increased costs associated with increasing Sisonic production, the impairment of assets held for sale and higher operating expenses, only partially offset by additional margin from increased sales.

The April 2004 refinancing of the Tranche C portion of our Credit Agreement resulted in a \$2.3 million loss on extinguishment of debt. This amount reflected the write-off of previously deferred charges associated with the origination of the Tranche C debt as well as a prepayment penalty paid to the Tranche C lenders. The March 2003 refinancing of the Tranche A portion of our Credit Agreement resulted in a \$1.1 million loss on extinguishment of debt, reflecting the write-off of previously deferred financing fees.

In connection with our June 1999 recapitalization, we currently have significant senior debt and senior subordinated debt. Net interest expense decreased by \$1.0 million in the first six months of 2004 compared to the same period in 2003 primarily due to more favorable interest rates associated with the refinancing of the Tranche C debt.

The first six months of 2003 included \$26.7 million income from discontinued operations, primarily made up of the gain on the sale of Synchro-Start net of the loss on the sale of Ruwido.

Income tax expense was \$1.2 million in the first six months of 2004 compared to an expense of \$1.3 million in the first six months of 2003. We are providing tax consistent with the expected taxes in foreign locations.

We reported a net loss of \$2.3 million for the first six months of 2004, primarily due to the \$2.2 million of loss on the extinguishment of debt and \$0.9 million impairment of assets held for sale. We reported net income of \$24.9 million for the same period in 2003, primarily due to the \$26.7 million in income from discontinued operations, net of taxes.

EBITDA from continuing operations decreased by \$0.5 million in the first six months of 2004 compared to the year earlier period due to increased operating expenses partially offset by the margin on higher sales.

Liquidity and Capital Resources

We have historically used available funds for capital expenditures and working capital management. These funds have been obtained from operating activities and from lines of credit. We also will have substantial interest expense of approximately \$32 to \$36 million each year.

We are a holding company. Our subsidiaries conduct substantially all of our consolidated operations and own substantially all of our consolidated assets. Consequently, our cash flow and our ability to meet our debt service obligations depends substantially upon the cash flow of our subsidiaries and the payment of funds by our subsidiaries to us in the form of loans, dividends or otherwise.

In association with its recapitalization on June 30, 1999 the Company borrowed \$200 million under a Credit Agreement in two facilities, a Tranche A Facility of \$50 million and a Tranche B Facility of \$150 million. On June 30, 1999, the Company also borrowed \$153.2 million under a senior subordinated note agreement. The Company borrowed an additional \$10 million in Senior Subordinated Debt in August 2002, as required under the Amendment and Waiver to the Credit Agreement dated May 10, 2002. In the first quarter of 2003, the Company repaid \$7.7 million of principal on the B Facility as required under the Excess Cash provision of the Credit Agreement. On March 25, 2003, the Company entered into the Fifth Amendment of the Credit Agreement. The Fifth Amendment refinanced \$31.7 million of the Credit Agreement, replacing the balance of the original Tranche A Facility with a Tranche C Facility and revising certain terms and conditions of the Credit Agreement. In May 2003 the Company obtained Amendment Number Six and Waiver that approved the sale of Synchro-Start and Ruwido under certain conditions. The Company completed the sale of the Synchro Start division May 30, 2003 and prepaid \$42 million of Tranche

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B Facility loans. An additional prepayment of \$2.3 million related to the Synchro Start sale was made in November 2003. The Company completed the sale of Ruwido in July 2003 and prepaid \$1 million of the Tranche B loans in July 2003.

On April 14, 2004 the Company obtained a Seventh Amendment to its Credit Agreement which replaced the \$36 million Tranche C Facility with a \$48 million Tranche D Facility at reduced interest rates and more favorable terms. The Tranche D loans bear interest at the Company's option of a Libor rate plus 7.25% or the U.S. prime rate plus 6.25%. On the date of the refinancing, the applicable rate of the Tranche D loan was 8.35% compared to the rate of 18.5% in the Tranche C loan. The Company paid a related prepayment penalty of \$1.1 million to the Tranche C debtholders.

Under the amended terms of the Credit Agreement, the Company must maintain certain financial ratios. The two primary ratios the Company must maintain are the leverage ratio, which is total net debt divided by EBITDA and the interest coverage ratio, which is EBITDA divided by net cash interest expense. The Company is required to maintain its leverage ratio below a specified level and its interest coverage ratio above a specified level.

For purposes of calculating the required ratios, under the amended terms of the Credit Agreement, EBITDA excludes up to \$7.5 million in cash charges related to the nonrecurring costs of restructuring overhead in the three year period 2003 through 2005. These restructuring costs will be related to the Company's announced closure of its Elgin facility and other activities to reduce overhead costs.

The required ratios as amended in the Seventh Amendment for future year-ends are as follows:

	Required Leverage Ratio	Required Interest Coverage Ratio
December 31, 2004	6.50	1.25
December 31, 2005	6.00	1.35
December 31, 2006	5.50	1.45

We expect to be able to comply with the required covenants. However, our ability to meet these covenants is highly dependent upon market and competitive conditions. If future results are lower than planned, the company may be unable to comply with the debt covenants or make required debt service payments. Such inability could have a material adverse impact on the Company's financial condition, results of operations or liquidity.

The Credit Agreement as amended provides total credit of \$154.6 million, including a \$15 million in Revolving Credit facility that was not utilized as of June 30, 2004. The following table summarizes the Company's actual credit amounts outstanding as of June 30, 2004:

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(\$000s)	Total credit outstanding as of June 30, 2004
Revolving Credit Facility	\$ –
Term B Facility	91.6
Term D Facility	48.0
Total Credit Agreement	\$ 139.6
13 1/8% Senior Subordinated Notes due 2009	151.0
10% Senior Subordinated Notes due 2009	10.0
Total Long Term Notes Payable	\$ 300.6

Interest rates on the Revolving Credit Facility are 4 percentage points above the London Inter Bank Offered Rate (LIBOR). Interest on the Tranche B Facility bears interest (at the Company's option) at either: 1.) LIBOR plus 5.0% or 2.) U.S. Prime Rate plus 4.0%. The Tranche D facility bears interest, at the Company's option at either 1.) LIBOR plus 7.25% or 2.) Prime Rate plus 6.25%. (See Note 6 – Notes Payable)

The principal on the Revolving Credit Facility and the Term B facility is due in four principal payments from September 30, 2006 to June 29, 2007. The Term D Facility is payable in full on June 29, 2007.

Net cash provided by operating activities was \$2.1 million in the first six months of 2004 compared to \$2.9 million from operating activities in the first six months of 2003. The decrease of \$1.8 million is due to the absence, in 2004, of cash flow from the discontinued operations which were sold, partially offset by improved cash flow from continuing operations. The net loss from continuing operations was \$2.3 million in the six months ended June 30, 2004 and \$1.8 million in the same period in the prior year. The impairment of assets held for sale of \$0.9 million was a non-cash writedown in the first six months of 2004. Inventory increased by \$4.9 million in 2004 compared to a decrease in inventory of \$3.0 million in 2003, due to the start-up of Sisonic and increased inventory in transducers and electro-mechanical controls designed to be responsive to increased customer demand. Accounts payable increased \$3.1 million in the first six months of 2004 compared to a decrease of \$1.4 million in the same period in 2003, due to increased inventory purchases and capital investments. Other current liabilities decreased by \$1.5 million in the first six months of 2004 compared to a decrease of \$4.3 million in the same period of 2003 due to a decrease in the prior year in the accrual for warranty and rebates. Net cash provided by discontinued operating activities (SSPI and Ruwido) added \$3.8 million to the prior year.

Net cash used in investing activities was \$8.5 million in the first six months of 2004 compared to net cash provided of \$41.3 million in the first six months of 2003. The net cash outflow from investing activities in the six months ending June 30, 2004 was due to net purchases of property, plant and equipment for new product introductions and expansion of Asian production facilities. In the six months ending June 30, 2003, the \$4.4 million of cash used for purchases of property, plant and equipment was offset by the \$45.8 million provided by the sale of SSPI and Ruwido.

Net cash from financing activities was \$9.5 million in the first six months of 2004 compared to a use of \$50.9 million in the first half of 2003. The activity in 2004 reflects the Refinancing of debt in April 2004, which resulted in the payment of Tranche C debt of \$35.7 million and the borrowing of \$48.0 million of Tranche D debt at a more favorable interest rate. Associated with this April 2004 refinancing was the payment of \$1.6 million in financing fees related to the Tranche D loan and a prepayment penalty of \$1.1 million on the Tranche C debt. The net cash used from financing activities in the six months ended June 30, 2003 reflects the payment of debt related to the sale of SSPI and Ruwido of \$42.0 million, and transactions associated with the refinancing of the Tranche A facility, including the completion of the borrowing of the Tranche C Facility of \$35.0 million and the payment of the \$33.5 million of Tranche A Facility. In addition, the six months ended June 2003 included the payment of \$7.7 million of principal of Tranche B Facility associated with an excess cash calculation as of December 2002.

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The change in net cash in the first six months of 2004 was an increase in cash of \$3.1 million, as cash provided by financing activities of \$9.5 million and \$2.1 in cash provided by operating activities was only partially offset by cash used in investing activities of \$8.5 million. In the six months of 2003, net cash decreased by \$6.7 million, as the sale of SSPI and Ruwido was cash neutral (net cash proceeds were used to reduce debt) and bank debt was reduced by \$7.7 million due to the excess cash calculation.

We expect capital expenditures of \$18 to \$23 million in 2004, funded by operating activities and lines of credit. We expect our major capital expenditures in 2004 will primarily be to support increased capacity, especially for the Sisonic product line and new product introductions. The amount and timing of actual capital expenditures may be different than our current expectations.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on the Company’s current plans and expectations as of the date of this document and involve risks and uncertainties that may cause actual results to differ materially from the forward-looking statements. Generally, the words “believe,” “expect,” “estimate,” “anticipate,” “will” and similar expressions identify forward-looking statements.

Important factors that could cause such differences include, among others: general economic conditions in the U.S. and worldwide; fluctuations in currency exchange rates and interest rates; dependence on our largest customers and key suppliers; the competitive environment applicable to the Company’s operations; greater than expected expenses associated with the Company’s activities or personnel needs; changes in accounting assumptions; changes in customers’ business environments; implementation of new software systems; regulatory, legislative and judicial developments, including environmental regulations; ability to generate sufficient liquidity to service debt obligations; and ability to maintain compliance with debt covenants.

The risks included here are not exhaustive. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors or to assess the impact of such risk factors on the Company’s business. Accordingly, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 3. Qualitative and Quantitative Disclosures about Market Risk

We are exposed to foreign currency exchange rate risks. Our revenues are primarily denominated in the U.S. dollar. During the first six months of 2004, approximately 93% of our revenue was denominated in U.S. dollars, approximately 4% was denominated in Japanese Yen and the balance denominated in other foreign currencies. None of the revenue that is earned in foreign currencies is hedged. Some of our expenses are denominated in the local currencies of the United Kingdom, China, Japan, Malaysia and Taiwan, none of which are hedged. A number of the currencies in which are expenses are denominated are closely tied to the U.S. Dollar. China has had a managed floating exchange rate since 1994 and the exchange rate to the U.S. Dollar has been effectively fixed since 1996. Malaysia has practiced a fixed exchange rate regime since 1998 and the exchange rate to the U.S. Dollar has been effectively fixed since then. In addition to revenue and expenses, we have certain contractual obligations that are expressed in a foreign currency. These obligations are hedged in order to limit the Company’s liability.

We do not invest in speculative or derivative financial instruments. We have significant amounts of debt that are subject to interest rate fluctuation risk. The amounts outstanding under the term loans of the Credit Agreement have variable interest rates and, therefore, adjust to market conditions. An increase or a decrease of 1 percentage point in the interest rate of the loans under the Credit Agreement would change our annual interest expense by \$1.4 million. We have \$151 million outstanding in 13 1/8% notes due in 2009. The estimated fair value of the notes as of June 30, 2004 is 104% of their face value or \$160 million based on current market prices. The fair value of the Tranche B loan, Tranche D loan and 10% Notes are estimated to be \$92, \$48 and \$10 million respectively.

Item 4. Controls and Procedures

As of the end of the period covered by this report, June 30, 2004, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required.

There was no change in the Company's internal controls over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. Other Information

Item 6. Exhibits and Reports on Form 8-K

Exhibits

- 10.26 Amendment No. 6 and Waiver dated as of May 28, 2003 to the Credit Agreement dated as of June 28, 1999, as amended and restated as of July 21, 1999, as amended, among Knowles Electronics Holdings, Inc.; the financial institutions party thereto as Lenders; JPMorgan Chase Bank as administrative agent and Morgan Stanley Senior Funding, Inc. as Syndication Agent.
- 10.27 Seventh Amendment to Credit Agreement and Second Amendment to Security Agreement dated as of April 8, 2004 among Knowles Electronics Holdings, Inc., the financial institutions listed on the signature pages hereof, JPMorgan Chase bank as agent for the Lenders, and for purposes of Sections 2,5 and 6 hereof, the Loan Parties listed on the signature pages hereof, with reference to the Credit Agreement dated as of June 28, 1999, as amended and restated July 21, 1999, as amended, among Knowles Electronics Holdings, Inc.; the financial institutions party thereto as Lenders; JPMorgan Chase Bank as administrative agent and Morgan Stanley Senior Funding, Inc. as Syndication Agent.
- 31.A Certification pursuant to Section 302 of Sarbanes-Oxley Act of 2002
- 31.B Certification pursuant to Section 302 of Sarbanes-Oxley Act of 2002

Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, to be signed on its behalf by the undersigned thereunto duly authorized.

KNOWLES ELECTRONICS HOLDINGS, INC.

By _____
/s/ JAMES H. MOYLE
James H. Moyle,
Executive Vice President & CFO,
(As duly authorized officer and as the principal
financial and accounting officer)

Date: August 12, 2004

AMENDMENT NO. 6 AND WAIVER dated as of May 28, 2003 (this "Amendment"), to the Credit Agreement dated as of June 28, 1999, as amended and restated as of July 21, 1999, as amended (the "Credit Agreement"), among Knowles Electronics Holdings, Inc., formerly known as Knowles Electronics, Inc., a Delaware corporation (the "Parent Borrower"); the financial institutions party thereto as Lenders (the "Lenders"); JPMorgan Chase Bank, as successor to The Chase Manhattan Bank, as administrative agent (in such capacity, the "Administrative Agent") and Morgan Stanley Senior Funding, Inc., as Syndication Agent.

A. The Lenders and the Issuing Bank have extended credit to the Parent Borrower, and have agreed to extend credit to the Parent Borrower, in each case pursuant to the terms and subject to the conditions set forth in the Credit Agreement.

B. The Parent Borrower and Knowles Intermediate Holding, Inc. ("Intermediate Holdings") have entered into an agreement dated May 20, 2003 in the form of attached hereto as Exhibit A (the "SSPI Sale Agreement") with Woodward Governor Company (the "Purchaser"), pursuant to which Intermediate Holdings and the Parent Borrower will agree, subject to the terms and conditions set forth therein, to sell, transfer and assign the Shares (as defined in the SSPI Sale Agreement) to the Purchaser (the "SSPI Sale").

C. The Parent Borrower may wish to sell all the capital stock of and any other investments in Ruwido Austria GmbH ("Ruwido", such capital stock and any other investments, the "Ruwido Securities") and its Subsidiaries (the "Ruwido Sale").

D. The Parent Borrower has requested that the Required Lenders agree to amend and waive certain provisions of the Credit Agreement and consent to the release of (i) certain Subsidiary Loan Parties from the Guarantee of the Subsidiary Guarantee Agreement and (ii) the security interests pursuant to the Security Documents in the Shares and the assets of the Subsidiaries proposed to be transferred pursuant to the SSPI Sale Agreement, and in the Ruwido Securities and the assets of the Subsidiaries that would be transferred pursuant to a Ruwido Sale as set forth herein. The Required Lenders are willing to agree to such amendments, waivers and consents pursuant to the terms and subject to the conditions set forth herein.

E. Capitalized terms used but not defined herein have the meanings assigned to them in the Credit Agreement as amended and waived hereby.

Accordingly, in consideration of the mutual agreements herein contained and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Amendments. The Credit Agreement is hereby amended as follows:

(a) Section 1.01 of the Credit Agreement is hereby amended by deleting the definition of the term “Consolidated EBITDA” and substituting in lieu thereof the following:

“Consolidated EBITDA” means, for any period, Consolidated Net Income for such period plus (a) without duplication and to the extent deducted in determining such Consolidated Net Income, the sum of (i) consolidated interest expense for such period, (ii) consolidated tax expenses for income taxes and taxes in the nature of income taxes for such period, (iii) all amounts attributable to depreciation and amortization for such period, (iv) any extraordinary non-cash charges for such period, (v) one time cash costs incurred in connection with the Transactions in an aggregate amount not to exceed \$10,674,000, (vi) the 1999 Balance Sheet Adjustments, (vii) cash restructuring charges taken in 2000, 2001 and/or 2002 in connection with the Manufacturing Restructuring Program in an aggregate amount not to exceed \$20,000,000, (viii) non-cash charges relating to the sale of Ruf Electronics GmbH, (ix) for all purposes other than the calculation of the Leverage Ratio for purposes of determining the Applicable Rate, cash restructuring charges taken in 2003, 2004 and 2005 in an aggregate amount not to exceed \$7,500,000 in connection with nonrecurring restructuring of overhead costs and (x) non-cash charges relating to the SSPI Sale and the Ruwido Sale (including any loss relating to the Ruwido Sale), and minus (b) without duplication and to the extent included in determining such Consolidated Net Income, any extraordinary gains for such period including gains (net of any and all fees and expenses) relating to the SSPI Sale, all determined on a consolidated basis in accordance with GAAP.

(b) Section 1.01 of the Credit Agreement is hereby amended by adding to paragraph (a) of the definition of the term “Excess Cash Flow” immediately prior to the semicolon at the end thereof the following:

(treating the SSPI Sale and the Ruwido Sale as a Prepayment Event)

(c) Section 1.01 of the Credit Agreement is hereby amended by adding to clause (c)(i) of the definition of the term “Excess Cash Flow” immediately prior to the word “plus” the following:

(excluding any Net Working Capital decrease resulting from (x) the SSPI Sale for the fiscal year of such sale and (y) the Ruwido Sale for the fiscal year of such sale)

(d) Section 1.01 of the Credit Agreement is hereby amended by adding to clause (f) of the definition of the term “Excess Cash Flow” immediately prior to the first comma thereof the following:

(for purposes of this clause (f), scheduled repayments of the Loans that are adjusted pursuant to the proviso in the first sentence of Section 2.10(d) shall be deemed to be repaid (i) in the fiscal year in which such scheduled repayments would be due but for such proviso and (ii) in the amount of total scheduled repayments that would be due in such fiscal year but for such proviso)

(e) Section 1.01 of the Credit Agreement is hereby amended by (i) deleting the word “and” appearing at the end of clause (i) of the definition of the term “Net Working Capital” and substituting in lieu thereof a comma and (ii) adding following the word “Program” the following:

and (iii) accruals and reserves for or relating to nonrecurring restructuring of overhead costs taken in 2003, 2004 and 2005 in an aggregate amount not to exceed \$7,500,000

(f) Section 1.01 of the Credit Agreement is hereby amended by adding the following defined terms in proper alphabetical order:

“Amendment Number 6” means Amendment No. 6 and Waiver dated as of May 28, 2003, to this Agreement.

“Amendment No. 6 Effective Date” means the date Amendment No. 6 becomes effective in accordance with its terms.

“Ruwido Sale” has the meaning set forth in Amendment No. 6.

“SSPI Sale” has the meaning set forth in Amendment No. 6.

(g) Section 2.10(d) of the Credit Agreement is hereby amended by adding prior to the period at the end of the first sentence thereof the following:

; provided that in the case of the SSPI Sale, the first \$10,000,000 of Net Proceeds shall be applied to reduce the subsequent scheduled repayments of Tranche B Term Borrowings to be made pursuant to this Section or pursuant to Section 2.11(d) in the direct order in which such repayments are due, and the remainder of such Net Proceeds shall be applied to reduce the subsequent scheduled repayments of Tranche B Term Borrowings to be made pursuant to this Section ratably.

(h) Section 6.04(k) of the Credit Agreement is hereby amended by adding before the semicolon at the end thereof the following:

(for purposes of the clause (k), the Ruwido Sale shall be considered as if permitted by Section 6.05)

(i) Section 6.05(d) of the Credit Agreement is hereby amended by adding immediately prior to the semicolon at the end thereof the following:

(it being understood that neither the SSPI Sale nor the Ruwido Sale shall be considered as made in reliance upon this clause (d))

(j) Section 6.12 of the Credit Agreement is hereby amended by adding immediately before the colon before the table thereof the following:

(for purposes of the foregoing proviso, the Ruwido Sale and the SSPI Sale shall not be deemed a disposition permitted by Section 6.05)

(k) Section 6.13 of the Credit Agreement is hereby amended by adding immediately before the colon before the table thereof the following:

(for purposes of the foregoing proviso, the Ruwido Sale and the SSPI Sale shall not be deemed a disposition permitted by Section 6.05)

SECTION 2. Waivers. (a) The undersigned Lenders hereby waive compliance by the Parent Borrower with the provisions of the Credit Agreement to the extent necessary to permit the SSPI Sale on substantially the same terms and conditions set forth in the SSPI Sale Agreement; provided that (i) on the date of consummation of the SSPI Sale, the entire amount of the Net Proceeds thereof (which shall exclude amounts deposited in escrow in accordance with the SSPI Sale Agreement and a reasonable reserve for a potential purchase price adjustment), which shall not be less than \$42,000,000 after excluding such escrowed amounts and reserve, shall be delivered to the Administrative Agent and applied (on such date or, if received too late on such date to be so applied, then on the next Business Day) to prepay Tranche B Term Borrowings pursuant to Section 2.11(c) of the Credit Agreement (and no election shall be permitted thereunder to reinvest such Net Proceeds), and (ii) any Net Proceeds thereof received after the date of consummation of the SSPI Sale (including pursuant to a release of escrowed amounts) shall be delivered to the Administrative Agent by the Parent Borrower on the date received and applied (on such date or, if received too late on such date to be so applied, then on the next Business Day) to prepay Term Borrowings pursuant to Section 2.11(c) of the Credit Agreement (and no election shall be permitted thereunder to reinvest such Net Proceeds).

(b) The undersigned Lenders hereby waive compliance by the Parent Borrower with (x) Sections 6.03 and 6.05 of the Credit Agreement to the extent necessary to permit the Ruwido Sale and (y) Section 6.08 of the Credit Agreement to the extent necessary to allow for up to the full repayment of any Indebtedness of Ruwido and its Subsidiaries in connection with the Ruwido Sale (any such repaid Indebtedness being deemed to be required to be repaid for the purpose of the calculation of Net Proceeds, whether or not so required); provided that in the case of each of clauses (x) and (y), (i) there shall not be any significant additional investments in or other transfers of assets to

Ruwido and its Subsidiaries by the Parent Borrower and its other Subsidiaries, or other unusual intercompany transactions between Ruwido and its Subsidiaries, on the one hand, and the Parent Borrower and its other Subsidiaries, on the other hand, prior to consummation of the Ruwido Sale, (ii) no Default shall have occurred and be continuing at the time of and after giving effect to the Ruwido Sale, (iii) the Ruwido Sale shall be consummated prior to December 31, 2004, (iv) the Parent Borrower and its other Subsidiaries shall not have any investment commitments or other contingent liabilities to or for the account of Ruwido or any of its Subsidiaries (or for the purchaser thereof) after giving effect to the Ruwido Sale, other than pursuant to customary indemnities and purchase price adjustments, (v) the sum of (A) the Net Proceeds received on the date of consummation of the Ruwido Sale and (B) the amount of any optional prepayments of Tranche B Term Loans on such date shall not be less than \$1,000,000, (vi) all Net Proceeds from the Ruwido Sale shall be delivered to the Administrative Agent not later than one Business Day after the date of receipt and applied (on such date or, if received too late on such date to be so applied, then on the next Business Day) to prepay Term Borrowings pursuant to Section 2.11(c) of the Credit Agreement (and no election shall be permitted thereunder to reinvest such Net Proceeds) and (vii) the Parent Borrower shall deliver to the Administrative Agent, on or prior to the date of consummation of the Ruwido Sale, a certificate of a Financial Officer certifying compliance with the requirements set forth in clause (i), (ii) and (iv) of this paragraph and setting forth a reasonably detailed computation of the Net Proceeds of the Ruwido Sale.

(c) The undersigned Lenders hereby waive compliance with Section 6.09 of the Credit Agreement to the extent necessary to permit the payment of the Parent Borrower or its Subsidiaries to one or more of the Sponsors or their Affiliates of fees in respect of the SSPI Sale in an aggregate amount not exceeding 2.0% of the gross proceeds of the SSPI Sale; provided that such fees shall not be paid prior to consummation of the SSPI Sale.

SECTION 3. Acknowledgement. (a) The undersigned Lenders acknowledge that upon consummation of any sale, transfer or other disposition of all the capital stock of a Subsidiary to a Person that is not an Affiliate of the Parent Borrower in accordance with the Credit Agreement (including pursuant to any amendment, waiver or consent in respect thereof), such Subsidiary and its capital stock and assets shall be released from the Loan Documents and the Liens granted thereunder and, accordingly, upon consummation of the SSPI Sale or the Ruwido Sale, the Administrative Agent is authorized to execute and deliver any documents and other instruments necessary or appropriate to confirm or effect such release in respect of the affected Subsidiaries.

(b) The undersigned Lenders acknowledge that, upon payment of all amounts owing pursuant to Section 5 hereof on the Amendment Effective Date, the Success Fee Principal Amount shall have been paid in full and no further payment shall accrue with respect thereto.

SECTION 4. Representations and Warranties. The Parent Borrower represents and warrants to the Administrative Agent and to each of the Lenders that:

(a) This Amendment has been duly authorized, executed and delivered by it and constitutes the legal, valid and binding obligation of the Parent Borrower, enforceable against the Parent Borrower in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

(b) On and as of the Amendment Effective Date, the representations and warranties set forth in Article III of the Credit Agreement are true and correct in all material respects with the same effect as if made on the Amendment Effective Date, except to the extent such representations and warranties expressly relate to an earlier date.

(c) At the time of and immediately after giving effect to this Amendment, no Default has occurred and is continuing.

SECTION 5. Conditions to Effectiveness. This Amendment and the waivers set forth herein shall become effective on the date of consummation of the SSPI Sale subject to prior or concurrent satisfaction of the following conditions (such date, the "Amendment Effective Date"):

(a) The Administrative Agent shall have received counterparts of this Amendment that, when taken together, bear the signatures of the Parent Borrower, the Required Lenders and Lenders holding a majority in interest of the outstanding Tranche B Term Loans.

(b) The representations and warranties set forth in Section 4 of this Amendment shall be true and correct.

(c) The Administrative Agent shall have received payment of all out-of-pocket expenses (including fees and disbursements of counsel for the Administrative Agent) required to be paid or reimbursed by the Parent Borrower under the Credit Agreement, to the extent invoices therefor have been presented to the Parent Borrower at least one Business Day prior to the Amendment Effective Date.

(d) The Administrative Agent shall have received (i) a copy of the SSPI Sale Agreement, which shall have been executed and delivered by the parties thereto and which shall be substantially in the form attached hereto as Exhibit A and shall not have been modified from the version attached herein as Exhibit A (or amended or waived) in any respect that is adverse to the interests of the Parent Borrower or the Lenders in any material respect, and any other documents executed and delivered in connection with the SSPI Sale reasonably requested by the Administrative Agent and (ii) a certificate of a Financial Officer of the Parent Borrower certifying compliance with clause (i) above and setting forth a reasonably detailed computation of the Net Proceeds of the SSPI Sale

(e)(i) The SSPI Sale shall be consummated on the Amendment Effective Date, (ii) the Net Proceeds therefrom delivered to the Administrative Agent on such date to be applied to prepay Tranche B Term Borrowings shall not be less than \$42,000,000 and (iii) the Parent Borrower shall have paid the full amount of the success fee that has accrued in respect of the Success Fee Principal Amount from the Fifth Amendment Effective Date through the Amendment Effective Date.

Notwithstanding the foregoing, this Amendment and the waivers set forth herein shall not become effective unless the Amendment Effective Date occurs on or prior to July 31, 2003.

SECTION 6. Effect of Amendment. Except as expressly set forth herein, this Amendment shall not by implication or otherwise limit, impair, constitute a waiver of, or otherwise affect the rights or remedies of the Lenders under the Credit Agreement or any other Loan Document, and shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other Loan Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect. Nothing herein shall be deemed to entitle the Parent Borrower to a consent to, or a waiver, amendment, modification or other change of, any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other Loan Document in similar or different circumstances. This Amendment shall apply and be effective only with respect to the provisions of the Credit Agreement set forth herein. This Amendment shall constitute a Loan Document for all purposes under the Credit Agreement.

SECTION 7. Applicable Law. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 8. Counterparts. This Amendment may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one agreement. Delivery of an executed signature page to this Amendment by facsimile shall be effective as delivery of a manually executed counterpart hereof.

SECTION 9. Expenses. The Parent Borrower agrees to reimburse the Administrative Agent for its out-of-pocket expenses in connection with this Amendment, including the reasonable fees, charges and disbursements of Cravath, Swaine & Moore LLP counsel for the Administrative Agent.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first written above.

KNOWLES ELECTRONICS HOLDINGS, INC.,

By _____

Name:

Title:

JPMORGAN CHASE BANK, individually and as Administrative Agent,

By _____

Name:

Title:

MORGAN STANLEY SENIOR FUNDING, INC., individually and as Syndication Agent,

By _____

Name:

Title:

To Approve the Amendment:

Name of Institution: _____

By _____

Name:

Title:

**KNOWLES ELECTRONICS HOLDINGS, INC.
SEVENTH AMENDMENT TO CREDIT AGREEMENT AND
SECOND AMENDMENT TO SECURITY AGREEMENT**

This **SEVENTH AMENDMENT TO CREDIT AGREEMENT AND SECOND AMENDMENT TO SECURITY AGREEMENT** (this "**Amendment**") is dated as of April 8, 2004 and entered into by and among **KNOWLES ELECTRONICS HOLDINGS, INC.** (f/k/a Knowles Electronics, Inc.), a Delaware corporation ("**Parent Borrower**"), **THE FINANCIAL INSTITUTIONS LISTED ON THE SIGNATURE PAGES HEREOF** ("**Lenders**"), **JPMORGAN CHASE BANK** (successor to The Chase Manhattan Bank), as agent for Lenders ("**Administrative Agent**"), and, for purposes of Sections 2, 5 and 6 hereof, the Loan Parties (as defined in Section 5 hereof) listed on the signature pages hereof, and is made with reference to that certain Credit Agreement dated as of June 28, 1999, as amended and restated as of July 21, 1999 (as amended, restated, supplemented or otherwise modified as of the date hereof, the "**Credit Agreement**"), by and among Parent Borrower, Lenders, Administrative Agent, and Morgan Stanley Senior Funding, Inc., as Syndication Agent. Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Credit Agreement.

RECITALS

WHEREAS, Parent Borrower and Lenders desire to amend the Credit Agreement to (i) provide for Tranche D Term Loans in an aggregate principal amount of \$48,000,000 and refinance Tranche C Term Loans with Tranche D Term Loans, and (ii) amend the Credit Agreement in certain other respects, all as more specifically set forth below.

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

Section 1. AMENDMENTS TO THE CREDIT AGREEMENT

1.1 Amendments to Article I: Definitions

A. Section 1.01 of the Credit Agreement is hereby amended by adding thereto the following definitions, which shall be inserted in proper alphabetical order:

"**Financing Fee Write-Offs**" means non-cash charges relating to the write-off of deferred financing fees in connection with the repayment of the Tranche C Term Loans.

"**Net Worth**" means, as at any date of determination, the sum of the capital stock and additional paid-in capital plus retained earnings (or minus accumulated deficits) of any Foreign Subsidiary and its subsidiaries on a consolidated basis determined in conformity with GAAP.

“**Seventh Amendment**” means the Seventh Amendment to Credit Agreement and Second Amendment to Security Agreement, dated as of April 8, 2004, among Parent Borrower, the Lenders, Administrative Agent and the other Loan Parties party thereto.

“**Seventh Amendment Effective Date**” has the meaning set forth in the Seventh Amendment.

“**Tranche D Commitment**” means, with respect to each Lender, the commitment, if any, of such Lender to make a Tranche D Term Loan on the Seventh Amendment Effective Date, expressed as an amount representing the maximum principal amount of the Tranche D Term Loan to be held by such Lender hereunder immediately after funding such amounts, as such commitment may be (a) reduced from time to time pursuant to Section 2.08 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender’s Tranche D Commitment is set forth on Schedule 2.01. The initial aggregate amount of the Lenders’ Tranche D Commitments is \$48,000,000.

“**Tranche D Lender**” means a Lender with a Tranche D Commitment or an outstanding Tranche D Term Loan.

“**Tranche D Maturity Date**” means June 29, 2007, or if such day is not a Business Day, the next preceding Business Day.

“**Tranche D Term Loan**” means a Loan made pursuant to clause (e) of Section 2.01.

B. Section 1.01 of the Credit Agreement is hereby further amended by deleting each of the definitions of “Class”, “Commitment”, “Consolidated EBITDA”, “Intercreditor Agreement”, “Lenders”, “Term Borrowing”, and “Term Loans” in their entirety and substituting therefor the following:

“**Class**”, when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are Domestic Revolving Loans, Multicurrency Revolving Loans, Tranche A Term Loans, Tranche B Term Loans, Tranche C Term Loans, Tranche D Term Loans or Swingline Loans and, when used in reference to any Commitment, refers to whether such Commitment is a Domestic Revolving Commitment, Multicurrency Revolving Commitment, Tranche A Commitment, Tranche B Commitment, Tranche C Commitment or Tranche D Commitment.

“**Commitment**” means a Domestic Revolving Commitment, Multicurrency Revolving Commitment, Tranche A Commitment, Tranche B Commitment, Tranche C Commitment or Tranche D Commitment or any combination thereof (as the context requires).

“**Consolidated EBITDA**” means, for any period, Consolidated Net Income for such period plus (a) without duplication and to the extent deducted in determining such Consolidated Net Income, the sum of (i) consolidated interest expense for such

period, (ii) consolidated tax expenses for income taxes and taxes in the nature of income taxes for such period, (iii) all amounts attributable to depreciation and amortization for such period and, (iv) any extraordinary non-cash charges for such period, (v) for all purposes other than the calculation of the Leverage Ratio for purposes of determining the Applicable Rate, cash restructuring charges taken in 2003, 2004 and 2005 in an aggregate amount not to exceed \$7,500,000 in connection with nonrecurring restructuring of overhead costs, (vi) non-cash charges relating to the sale of Ruf Electronics GmbH, SSPI Sale and the Ruwido Sale (including any loss relating to the Ruwido Sale), (vii) all reasonable costs, fees and expenses in connection with the Seventh Amendment (including without limitation, fees of counsel and any amounts in the nature of a commitment fee or financing fee due and owing in connection with the Seventh Amendment) and any prepayment penalties or fees resulting from a repayment of the Tranche C Term Loans prior to the Tranche C Maturity Date pursuant to Section 2.11(h) of the Credit Agreement as in effect immediately prior to the Seventh Amendment Effective Date, and (viii) any Financing Fee Write-Offs, minus (b) without duplication and to the extent included in determining such Consolidated Net Income, any extraordinary gains for such period including gains (net of any and all fees and expenses) relating to the SSPI Sale, all determined on a consolidated basis in accordance with GAAP.

“**Intercreditor Agreement**” means the Intercreditor Agreement, dated as of April 8, 2004, among the Parent Borrower, the Subsidiaries of the Parent Borrower listed on the signature pages thereto, JPMorgan Chase Bank, as Administrative Agent and collateral agent, and the Tranche D Lenders.

“**Lenders**” means the Persons listed on Schedule 2.01 and any other Person that shall have become a party hereto pursuant to an Assignment and Acceptance, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Acceptance; provided, that on and after the Seventh Amendment Effective Date, Tranche C Lenders shall cease to be a “Lender” and a party hereto but shall continue to be entitled to the benefits of Sections 2.15, 2.16, 2.17 and 9.03. Unless the context otherwise requires, the term “Lenders” includes the Swingline Lender.

“**Term Borrowing**” means a Tranche A Term Loan Borrowing, a Tranche B Term Loan Borrowing, a Tranche C Term Loan Borrowing or a Tranche D Term Loan Borrowing.

“**Term Loans**” means (i) Tranche A Term Loans, (ii) Tranche B Term Loans, (iii) after the Fifth Amendment Effective Date, Tranche C Term Loans and (iv) after the Seventh Amendment Effective Date, Tranche D Term Loans.

C. The definition of “Applicable Rate” is hereby amended by (i) deleting the reference to “for any day with respect to any ABR Loan or Eurodollar Loan” in the first sentence thereof; and (ii) substituting therefor the following:

“for any ABR Tranche D Term Loan, 6.25%, for any Eurodollar Tranche D Term Loan, 7.25%, and for any day with respect to any other ABR Loan or Eurodollar Loan”

D. The definition of “Excess Cash Flow” is hereby amended by adding after the word “charges” in clause (b) thereof:

“(excluding Financing Fee Write-Offs)”

1.2 Amendments to Article II: The Credits

A. Section 2.01 of the Credit Agreement is hereby amended by (i) deleting the “and” at the end of clause (c) thereof and substituting therefor “;” and (ii) adding at the end of clause (d) thereof the following:

“and (e) to make a Tranche D Term Loans to the Parent Borrower on the Seventh Amendment Effective Date in a principal amount equal to its Tranche D Commitment.”

B. Section 2.02(d) of the Credit Agreement is hereby amended by (i) deleting the word “or” before the reference to “Tranche B Maturity Date” and substituting therefor “;” and (ii) adding the following after the reference to “Tranche B Maturity Date”:

“or the Tranche D Maturity Date”

C. Section 2.03 of the Credit Agreement is hereby amended by (i) deleting the word “or” before the reference to “(b)” thereof, and (ii) adding the following new clause (c) immediately after the end of clause (b) thereof:

“or (c) in the case of Tranche D Term Loan Borrowing, not later than noon, New York City time, the date of the proposed Borrowing”

D. Section 2.03 of the Credit Agreement is hereby further amended by deleting clause (i) and substituting therefor the following:

“(i) whether the requested Borrowing is to be a Domestic Revolving Borrowing, a Tranche A Term Loan Borrowing, Tranche B Term Loan Borrowing, Tranche C Term Loan Borrowing or Tranche D Term Loan Borrowing;”

E. Section 2.06(b) of the Credit Agreement is hereby amended by (i) uncapitalizing the word “Unless”, and (ii) adding the following prior to the word “Unless”:

“Other than in the case of a Tranche D Term Loan Borrowing,”

F. Section 2.08(a) of the Credit Agreement is hereby amended by (i) deleting the word “and” at the end of clause (ii) thereof and substituting therefor “;” and (ii) adding at the end of clause (iii) thereof the following:

“and (iv) the Tranche D Commitments shall terminate at 5:00 p.m., New York City time, on the Seventh Amendment Effective Date”

G. Section 2.10(c) of the Credit Agreement is hereby amended by (i) deleting the word “and” at the end of clause (ii) thereof and substituting therefor “;” and (ii) adding at the end of clause (iii) thereof the following:

“and (iv) all Tranche D Term Loans shall be due and payable on the Tranche D Maturity Date”

H. Section 2.10(d) of the Credit Agreement is hereby amended by adding the following at the end thereof:

“For the avoidance of doubt, immediately upon the application of the proceeds of the Tranche D Term Loans to prepay Tranche C Term Loans pursuant to Section 2.11(e) and Section 5.11, the sole Term Loans remaining outstanding shall be Tranche B Term Loans and Tranche D Term Loans.”

I. Section 2.11(e) of the Credit Agreement is hereby amended by deleting it in its entirety and substituting therefor the following:

“(e) Prior to any optional or mandatory prepayment of Borrowings hereunder, the applicable Borrower shall select the Borrowing or Borrowings to be prepaid and shall specify such selection in the notice of such prepayment pursuant to paragraph (f) of this Section. In the event of any optional or mandatory prepayment of Term Borrowings made after the Seventh Amendment Effective Date pursuant to Section 2.11 at a time when Tranche B Term Loans and Tranche D Term Loans remain outstanding, the aggregate amount of such prepayment shall be applied first to the prepayment of Tranche B Term Loans to the full extent thereof and second to the prepayment of Tranche D Term Loans to the full extent thereof, provided that any Tranche B Lender may elect, by notice to the Administrative Agent by telephone (confirmed by telecopy) at least one Business Day prior to the prepayment date, to decline all or any portion of any prepayment of its Tranche B Term Loans pursuant to this Section (other than an optional prepayment pursuant to paragraph (a) of this Section, which may not be declined), in which case the aggregate amount of the prepayment that would have been applied to

prepay Tranche B Term Loans but was so declined shall, subject to Section 2.11(h), be applied to the prepayment of Tranche B Term Loans of those Tranche B Lenders that have not declined their portion of such prepayment pro rata based on the aggregate principal amount of outstanding Tranche B Term Loans of each such Tranche B Lender. To the extent that all Tranche B Lenders elect to decline prepayment of the Tranche B Term Loans, the aggregate amount of the prepayment that would have been applied to prepay Tranche B Term Loans but was so declined shall, subject to Section 2.11(h), be applied to the prepayment of Tranche D Term Loans. Any optional or mandatory prepayment of Tranche B Term Loans made pursuant to Section 2.11 shall be applied first to the prepayment of the outstanding portion of the Success Fee Principal Amount and second to the prepayment of the remaining outstanding portion of Tranche B Term Loans (it being understood by the parties that as of the effective date of the SSPI Sale, the Success Fee Principal Amount has been paid in full). Notwithstanding the foregoing, (i) nothing in this provision shall be construed to apply to the allocation of payments if the Loans are accelerated pursuant to the terms of this Agreement and (ii) the proceeds of Tranche D Term Loans shall be applied by the Parent Borrower to prepayment of all Tranche C Term Loans to the full extent of such Tranche C Term Loans.”

J. Section 2.11(h) of the Credit Agreement is hereby amended by deleting it in its entirety and substituting therefor the following:

“(h) Notwithstanding the foregoing, Parent Borrower shall not have the right or obligation to prepay any Tranche D Term Loan from the Seventh Amendment Effective Date through and including June 29, 2005. The aggregate amount of any prepayment pursuant to Section 2.11(a), (c) or (d) that, but for this Section 2.11(h), would be applied by Parent Borrower to prepay Tranche D Term Loans, shall be applied instead to prepay Tranche B Term Loans. If any Tranche B Lender elects to decline all or any portion of any such prepayment of its Tranche B Terms Loans in accordance with Section 2.11(e), the aggregate amount of the prepayment that would have been applied to prepay Tranche B Term Loans but was so declined may be applied by Parent Borrower to any other purpose otherwise permitted under this Agreement. If any portion of the Tranche D Term Loans is prepaid pursuant to Section 2.11(a) or pursuant to Section 2.11(c) as a result of a Prepayment Event occurring upon either of the events described in clause (c) of the definition of “Prepayment Event”

or any issuance of Equity Securities described in clause (d) of the definition of "Prepayment Event" (i) after June 29, 2005 but on or prior to June 29, 2006, then Parent Borrower shall pay to Administrative Agent, for ratable distribution to the Tranche D Lenders, a fee equal to 2% of the Tranche D Term Loans so prepaid, and (ii) after June 29, 2006 but prior to June 29, 2007, then Parent Borrower shall pay to Administrative Agent, for ratable distribution to the Tranche D Lenders, a fee equal to 1% of the Tranche D Term Loans so prepaid."

K. Clause (y) of the first sentence of Section 2.12(e) of the Credit Agreement is hereby amended by inserting the following at the end of such clause:

"(it being understood by the parties that as of the effective date of the SSPI Sale, the Success Fee Principal Amount has been paid in full)"

L. Section 2.12(a) of the Credit Agreement is hereby amended by adding the following at the end of the first sentence thereof:

"or any Tranche D Commitment".

M. Section 2.13(c) of the Credit Agreement is hereby amended by adding at the end thereof the following new sentence:

"Upon the occurrence and during the continuance of an Event of Default, (x) the provisions of the first sentence of this Section 2.13(c) shall not apply with respect to any overdue amounts in respect of the Tranche D Term Loans, and (y) the per annum interest rate otherwise applicable to the Tranche D Term Loans shall increase by 3%"

N. Section 2.13(d) of the Credit Agreement is hereby amended by (i) deleting clause (iv) contained therein, and (ii) substituting therefor the following:

"(iv) all interest payable pursuant to this Agreement on the Revolving Loan Borrowings, Tranche B Term Loan Borrowings, Tranche D Term Loan Borrowings shall be payable in cash, including interest due pursuant to Section 2.13(c)."

1.3 Amendments to Article III: Representations and Warranties

A. Section 3.04(d) of the Credit Agreement is hereby amended by deleting the date "December 31, 2002" contained therein and substituting therefor the date "December 31, 2003".

B. Section 3.10 of the Credit Agreement is hereby amended by the deleting each reference to “\$12,000,000” contained therein and substituting the figure “\$15,000,000” therefor.

1.4 Amendment to Article IV: Conditions

A. Section 4.01 of the Credit Agreement is hereby amended by adding in the second parenthetical at the end of the first sentence thereof the following:

“or the obligation of the Tranche D Lenders to make Tranche D Term Loans”.

B. Section 4.02 of the Credit Agreement is hereby amended by adding in the parenthetical at the end of the first sentence thereof the following:

“or the obligation of the Tranche D Lenders to make Tranche D Term Loans”.

1.5 Amendment to Article V: Affirmative Covenants

A. Section 5.09 of the Credit Agreement is hereby amended by (i) deleting the second proviso contained therein, and (ii) substituting it with the following:

“; provided further, however, that with respect to the initial Tranche D Lenders as of the Seventh Amendment Effective Date, the foregoing limitation on the number of visits or inspections in any fiscal year shall be increased to an aggregate of twelve visits or inspections for such initial Tranche D Lenders as a whole”.

B. Section 5.11 of the Credit Agreement is hereby amended by adding in the parenthetical in the first sentence therefore the following:

“and Tranche D Term Loans”

C. Section 5.11 of the Credit Agreement is hereby amended by adding after the second sentence therefor the following:

“The proceeds of the Tranche D Term Loans will be used to prepay the Tranche C Term Loans on the Seventh Amendment Effective Date as set forth in Section 2.11(e) and the payment of fees and expenses payable in connection therewith; provided, that in the event the total proceeds of the Tranche D Term Loans exceed those required for such prepayment and payment of such fees and expenses, Parent Borrower may use such excess proceeds for general corporate purposes.”

D. Section 5.12 of the Credit Agreement is hereby amended by adding before the “.” at the end thereof the following:

“provided, that, in the event that either: (i) the Net Worth of any Foreign Subsidiary formed or acquired after the Effective Date exceeds \$3,000,000 at any time (the “Net Worth Threshold”), or (ii) any Loan Party makes, after the Seventh Amendment Effective Date, any loan or advance to or investment in Equity Interests of any such Foreign Subsidiary or subsidiary thereof which, together with all other such loans, advances and investments made after the Seventh Amendment Effective Date to such Foreign Subsidiary and any subsidiary thereof exceeds \$2,000,000 in the aggregate (the “Investment Limit”), then (x) no later than 5 Business Days after the date the Net Worth Threshold or Investment Limit is exceeded, as applicable, the Parent Borrower shall provide written notice to Administrative Agent of the amount of such excess and the names of the applicable subsidiaries, and (y) unless waived by Administrative Agent in writing in its sole discretion, no later than 90 days (which date may be extended by the Administrative Agent in writing in its sole and reasonable discretion) after the date the Net Worth Threshold or Investment is exceeded, as applicable, the Parent Borrower shall, or shall cause such Loan Party to, subject to Section 5.13, take all actions and execute such documents and instruments (including pursuant to the laws of the jurisdiction of formation of such Foreign Subsidiary) to grant to the Administrative Agent, for the benefit of the Lenders, subject to any limitations under applicable law, a first priority perfected security interest in the capital stock of such Foreign Subsidiary held by such Loan Party and Indebtedness owing to any Loan Party by such Foreign Subsidiary and to obtain a legal opinion addressed to Administrative Agent and Lenders as to the creation and perfection of such security interest in the jurisdiction of formation of such Foreign Subsidiary and any other applicable jurisdiction in form and substance reasonably satisfactory to Administrative Agent (except that Parent Borrower and the Subsidiary Loan Parties shall not be required to pledge more than 65% of the outstanding stock of any Foreign Subsidiary that is not a Loan Party to the extent that the pledge of any greater percentage could result in adverse tax consequences to any Loan Party)”

1.6 Amendment to Article VI: Negative Covenants

A. Section 6.04(d)(ii) of the Credit Agreement is hereby amended by adding (i) before the words “in the reasonable judgment of senior management” a reference to “(A)”, and (ii) adding the following at the end thereof:

“, and (B) the Administrative Agent gives its prior written consent if the amount of the proposed investment in any Subsidiary that is not a Subsidiary Loan Party, together with the aggregate amount of cash invested by Parent Borrower and the other Loan Parties in such Subsidiary after the Seventh Amendment Effective Date, exceeds \$500,000.”

B. Section 6.12 of the Credit Agreement is hereby amended by deleting the table contained therein in its entirety and substituting therefor the following:

December 31, 2003 – September 30, 2004	1.15:1.00
December 31, 2004 – September 30, 2005	1.25:1.00
December 31, 2005 – September 30, 2006	1.35:1.00
December 31, 2006 and thereafter	1.45:1.00

C. Section 6.13 of the Credit Agreement is hereby amended by deleting the table contained therein in its entirety and substituting therefor the following:

December 31, 2003 – September 30, 2004	6.75:1.00
December 31, 2004 – September 30, 2005	6.50:1.00
December 31, 2005-September 30, 2006	6.00:1.00
December 31, 2006 and thereafter	5.50:1.00

1.7 Modification and Substitution of Schedule

A. Schedule 2.01 of the Credit Agreement is hereby amended by adding thereto the column labeled “Tranche D Loan Commitment” from **Annex A** to this Amendment.

Section 2. AMENDMENTS TO BORROWER SECURITY AGREEMENT

2.1 Section 1.02 of the Security Agreement is hereby amended by adding thereto the following definition, which shall be inserted in proper alphabetical order:

“Revised UCC” shall mean the revised Uniform Commercial Code in effect in the State of New York as of the Seventh Amendment Effective Date.

- 2.2 Section 1.02 of the Security Agreement is hereby further amended by (i) deleting the word “and” at the end of clause (g) of the definition of “Collateral” and substituting therefor “;”, and (ii) adding the following after the end of clause (h) thereof:

- “(i) all Records (as defined in the Revised UCC),
- (j) all Documents (as defined in the Revised UCC),
- (k) all Commercial Tort Claims, including those set forth on Schedule VI (as defined in the Revised UCC), and
- (l) all Chattel Paper and Letter-of-Credit Rights and other Supporting Obligations (as defined in the Revised UCC).”

- 2.3 Article III of the Security Agreement is hereby amended by inserting the following new Section 3.05 at the end thereof:

“SECTION 3.05 Commercial Tort Claims. Grantor has no Commercial Tort Claims (as defined in the Revised UCC) as of the Seventh Amendment Effective Date, except as set forth on Schedule VI annexed hereto. In the event that a Grantor shall at any time after the date hereof have any Commercial Tort Claims, such Grantor shall promptly notify Administrative Agent thereof in writing, which notice shall (i) set forth in reasonable detail the basis for and nature of such Commercial Tort Claim (as defined in the Revised UCC) and (ii) constitute an amendment to this Agreement by which such Commercial Tort Claim (as defined in the Revised UCC) shall constitute part of the Collateral.”

- 2.4 The Security Agreement is hereby further amended by inserting a new Schedule VI (Commercial Tort Claims) thereto in the form of **Annex B** attached hereto.

Section 3. CONDITIONS TO EFFECTIVENESS

Sections 1 and 2 of this Amendment shall become effective only upon the prior or concurrent satisfaction of all of the following conditions precedent (the date of satisfaction of such conditions being referred to herein as the “**Seventh Amendment Effective Date**”); provided that the Seventh Amendment Effective Date shall occur on or prior to April 15, 2004:

A. On or before the Seventh Amendment Effective Date, each Loan Party (as defined below) shall deliver to Tranche D Lenders and to the Administrative Agent the following, each, unless otherwise noted, dated the Seventh Amendment Effective Date:

1. Certified copies of its organizational documents, together with a good standing certificate from the appropriate official of its jurisdiction of

organization, each dated a recent date prior to the Seventh Amendment Effective Date;

2. Copies of its Bylaws, certified as of the Seventh Amendment Effective Date by its corporate secretary or an assistant secretary;
Resolutions of its Board of Directors or other governing body, as applicable, approving and authorizing the execution, delivery, and
3. performance of this Amendment, certified as of the Seventh Amendment Effective Date by its corporate secretary or an assistant secretary as being in full force and effect without modification or amendment;
4. Signature and incumbency certificates of its officers executing this Amendment; and
5. Counterparts of this Amendment executed by the parties referred to in Section 5 hereof.

B. All fees and expenses due and owing to the Tranche D Lenders, as agreed to by Parent Borrower in writing, and all other amounts due and owing to the Administrative Agent or the Lenders under the Credit Agreement shall have been paid in full to the extent invoiced to the Parent Borrower prior to the Seventh Amendment Effective Date.

C. Administrative Agent shall have received for the benefit of each Lender under the Credit Agreement as in effect immediately prior to the Seventh Amendment Effective Date that executes and delivers to Administrative Agent a counterpart to this Amendment on or prior to 12:00 Noon (EST) April 8, 2004 an amendment fee equal to 0.25% of the sum of (a) the aggregate principal amount of such approving Lender' s Tranche B Loans and (b) such approving Lender' s aggregate Revolving Commitments.

D. Administrative Agent, the Lenders party to the Amended Credit Agreement (as hereinafter defined) and their respective counsel shall have received one or more favorable written opinions of one or more, counsel for Parent Borrower and the other Loan Parties signatory hereto, in form and substance reasonably satisfactory to Administrative Agent, the Tranche D Lenders and their respective counsel, dated as of the Seventh Amendment Effective Date.

E. The Tranche D Lenders shall have received a fully executed or conformed copy of each of the Loan Documents and all amendments thereto, and each Loan Document shall be in full force and effect and no provision thereof shall have been modified or waived in any respect (except by this Amendment and by such other amendments delivered by Parent Borrower hereunder or under the Loan Documents), and the Tranche D Lenders shall have received a certificate of a duly authorized officer of Parent Borrower to such effect.

F. All governmental and third party consents, approvals or withholding of objections, necessary to implement the transactions contemplated by this Amendment and to establish the Tranche D Term Loan facility, shall have been obtained and be in full

force and effect, and the Tranche D Lenders shall have received any available evidence thereof reasonably satisfactory to them.

G. As of the Seventh Amendment Effective Date, since December 31, 2003, there shall have been: (i) no material adverse change in the business, operations, financial condition or prospects of the Loan Parties; (ii) no litigation shall have been commenced which, if successful, would reasonably be expected to have any such material adverse effect or would challenge any of the transactions contemplated by this Amendment, (iii) no dividends or other distributions to stockholders of the Parent Borrower, and (iv) no material increase in liabilities, liquidated or contingent, and no material decrease in assets, of the Loan Parties.

H. Before and after giving effect to this Amendment, no Default or Event of Default shall have occurred and be continuing and the Tranche D Lenders shall have received a certificate of a duly authorized officer of Parent Borrower to such effect;

I. On or before the Seventh Amendment Effective Date, the Parent Borrower shall provide to the Administrative Agent and the Tranche D Lenders the results of a recent search by a person reasonably satisfactory to the Tranche D Lenders, of all effective personal property financing statements, fixture filings or other similar filings and all judgment and tax lien filings which may have been made with respect to any personal or mixed property of any Loan Party, together with copies of all such filings disclosed by such search. The Parent Borrower will, and will cause each Subsidiary to, execute any and all further documents, financing statements, agreements and instruments, and take all such further actions (including amendments to the Security Documents and the filing and recording of financing statements, fixture filings, mortgages, deeds of trust and other documents), which the Tranche D Lenders or their counsel may reasonably request in writing in order to cause the Collateral and Guarantee Requirement to be and remain satisfied, all at the expense of the Loan Parties.

J. On or before the Seventh Amendment Effective Date, the Intercreditor Agreement, dated as of the date hereof, substantially in the form attached hereto as **Annex C**, shall have been executed by the parties thereto.

K. On or before the Seventh Amendment Effective Date, all corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incidental thereto not previously found reasonably acceptable by Administrative Agent, acting on behalf of Lenders, and its counsel shall be reasonably satisfactory in form and substance to Administrative Agent, Tranche D Lenders and their respective counsel, and Administrative Agent, Tranche D Lenders and such counsel shall have received all such counterpart originals or certified copies of such documents as Administrative Agent or Tranche D Lenders may reasonably request.

L. Tranche D Lenders and the Administrative Agent shall have received a copy of a fully-executed pay-off letter substantially in the form attached hereto as **Annex D** (the "**Payoff Letter**") among Administrative Agent, Parent Borrower and Tranche C Lenders evidencing that the Tranche C Term Loans have been paid in full and the Intercreditor

Agreement (as defined in the Credit Agreement in effect immediately prior to the Seventh Amendment Effective Date) shall have been terminated, which letter shall become effective concurrently with the Seventh Amendment Effective Date.

M. On or before the Seventh Amendment Effective Date, the Parent Borrower shall have obtained a rating from Moody's for the Tranche D Term Loans.

N. No later than five Business Days prior to the Seventh Amendment Effective Date, the Tranche D Lenders shall have received, and as of the Seventh Amendment Effective Date, the Tranche D Lenders shall have been satisfied with (i) the audited financial statements of the Parent Borrower and its Subsidiaries for the fiscal years 2002 and 2003, including balance sheets, income and cash flow statements, audited by independent public accountants of recognized national standing and prepared in conformity with GAAP, together with such accountants' report thereon (collectively, "**Financial Statements**"), (ii) a pro forma balance sheet of the Loan Parties as of the Closing Date after giving effect to the Seventh Amendment ("**Pro Forma Financial Statement**"), and (iii) projected financial statements (including balance sheets, income and cash flow statements) of the Loan Parties for the period ending on December 31, 2006, with quarterly projected financial statements through the period ending December 31, 2005 (the "**Projected Financial Statements**").

The parties hereto acknowledge and agree that, subject to the terms and conditions of the Payoff Letter, on the Seventh Amendment Effective Date the Intercreditor Agreement dated as of March 28, 2003 by and among the Parent Borrower, the Subsidiaries of the Parent Borrower listed on the signature pages thereto, the Tranche C Lenders and the Administrative Agent shall be terminated and of no further force and effect.

Section 4. PARENT BORROWER'S REPRESENTATIONS AND WARRANTIES

In order to induce Lenders to enter into this Amendment and to amend the Credit Agreement in the manner provided herein, Parent Borrower represents and warrants to each Lender that the following statements are true, correct and complete as of the Seventh Amendment Effective Date:

A. Corporate Power and Authority. Parent Borrower and each other Loan Party has all requisite corporate power and authority to carry on its business as now conducted, to enter into this Amendment and to carry out the transactions contemplated by, and perform its obligations under, the Credit Agreement as amended by this Amendment (the "**Amended Credit Agreement**") and the Security Agreement, as amended by this Amendment (collectively, with the Amended Credit Agreement, the "**Amended Agreements**").

B. Authorization of Agreements. The execution and delivery of this Amendment, and the performance of the Amended Agreements have been duly authorized by all necessary corporate and, if required, stockholder action on the part of Parent Borrower and each other Loan Party signatory hereto.

C. No Conflict. The execution and delivery by Parent Borrower and each other Loan Party signatory hereto of this Amendment, the performance by Parent Borrower and each other Loan Party signatory hereto of the Amended Agreements and the consummation of the transactions contemplated thereby do not and will not (i) violate any applicable law or regulation or the charter, by-laws or other organizational documents of the Parent Borrower or any of the Subsidiaries or any order of any Governmental Authority, (ii) conflict with, result in a default under any material indenture, agreement or other instrument binding upon the Parent Borrower or any of the Subsidiaries or any of their assets, or give rise to a right thereunder to require any material payment to be made by the Parent Borrower or any of the Subsidiaries, (iii) result in or require the creation or imposition of any Lien upon any of the properties or assets of Parent Borrower or any of its Subsidiaries (other than Liens created under any of the Loan Documents), or (iv) require any approval or consent of any Person under any contractual obligation of Parent Borrower or any of the Subsidiaries, except for such approvals or consents which have been obtained on or before the Seventh Amendment Effective Date and disclosed in writing to Lenders.

D. Governmental Consents. The execution and delivery by Parent Borrower and each other Loan Party of this Amendment and the performance by Parent Borrower and each other Loan Party of the Amended Agreements do not require any consent or approval of, registration or filing with, or any other action by or before, any Governmental Authority, except such as have been obtained or made and are in full force and effect prior to the Seventh Amendment Effective Date and disclosed in writing to the Lenders.

E. Binding Obligation. This Amendment and the Amended Agreements have been duly executed and delivered by Parent Borrower and each other Loan Party signatory hereto and are the legally valid and binding obligations of Parent Borrower and each other Loan Party signatory hereto, enforceable against Parent Borrower and each other Loan Party signatory hereto in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability, regardless of whether considered in a proceeding in equity or at law.

F. Solvency. Immediately after the consummation of the transactions to occur on the Seventh Amendment Effective Date and immediately following the making of the Tranche D Term Loan on the Seventh Amendment Effective Date and after giving effect to the application of the proceeds of such Loans, (a) the fair value of the assets of each Loan Party, at a fair valuation, will exceed its debts and liabilities, subordinated, contingent or otherwise; (b) the present fair saleable value of the property of each Loan Party will be greater than the amount that will be required to pay the probable liability of its debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured; (c) each Loan Party will be able to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and (d) no Loan Party will have unreasonably small capital with which to conduct the business in which it is engaged as such business is now conducted and is proposed to be conducted following the Seventh Amendment Effective Date.

G. Incorporation of Representations and Warranties From Credit Agreement. The representations and warranties contained in Article III of the Credit Agreement (considered as if already amended by this Amendment) are and will be true, correct and complete in all material respects on and as of the Seventh Amendment Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true, correct and complete in all material respects on and as of such earlier date.

H. Annual Report and Financial Statements. The Financial Statements and Pro Forma Financial Statements were prepared in accordance with GAAP applied on a consistent basis, and on that basis, present fairly, in all material respects, the financial position and results of operations and cash flows of the Parent Borrower and its consolidated subsidiaries and other Loan Parties as of such date and for such period. The Projected Financial Statements have been prepared in good faith based upon assumptions believed to be reasonable at the time (it being understood that such projections are subject to significant uncertainties and contingencies, many of which are beyond the Loan Parties' control and that no assurance can be given that the projections will be realized).

I. No Material Adverse Change. Since December 31, 2003, nothing has occurred which would have a Material Adverse Effect.

J. Absence of Default. No event has occurred and is continuing or will result from the consummation of the transactions contemplated by this Amendment that would constitute a Default or an Event of Default.

K. Release and Affirmation. Parent Borrower on and as of the Seventh Amendment Effective Date has no (and it permanently and irrevocably waives and releases Administrative Agent and Lenders from any, to the extent arising on or prior to the Seventh Amendment Effective Date) defense, set off, claim or counterclaim against Administrative Agent or any Lender in regard to its obligations in respect of the Tranche C Term Loans being repaid on such date.

Section 5. ACKNOWLEDGEMENT AND CONSENT

Parent Borrower is a party to the Parent Guarantee Agreement, the Security Agreement, the Pledge Agreement and certain Mortgages, each as amended through the Seventh Amendment Effective Date, pursuant to which, and in accordance with the terms of which, Parent Borrower has (i) guaranteed the Foreign Borrower Obligations (as defined in the Parent Guarantee Agreement), (ii) granted Liens in favor of Administrative Agent on certain Collateral to secure the Obligations and (iii) mortgaged to the Administrative Agent certain real and personal property to secure the Obligations. Each of Knowles Electronics, LLC (“**KE**”), Knowles Intermediate Holding, Inc. (“**KIH**”), Emkay Innovative Products, Inc. (“**Emkay**”) and Knowles Manufacturing Ltd. (“**KML**”) is a party to the Subsidiary Guarantee Agreement, the Security Agreement and the Pledge Agreement, each as amended through the Seventh Amendment Effective Date, pursuant to which KE, KIH, Emkay and KML have (i) guaranteed the Obligations and (ii) granted Liens in favor of Administrative

Agent on certain Collateral to secure the Obligations. Parent Borrower, KE, KIH, Emkay, and KML are collectively referred to herein as the “**Loan Parties**”, and the Parent Guarantee Agreement, the Subsidiary Guarantee Agreement, the Security Agreement, the Pledge Agreement and the Mortgages are collectively referred to herein as the “**Credit Support Documents**”.

Each Loan Party hereby acknowledges that it has reviewed the terms and provisions of the Credit Agreement, the Security Agreement and this Amendment and consents to the amendment of the Credit Agreement and Security Agreement effected pursuant to this Amendment. Each Loan Party hereby confirms that each Credit Support Document to which it is a party or otherwise bound and all Collateral encumbered thereby will continue to guaranty or secure, as the case may be, to the fullest extent provided in the Credit Support Documents the payment and performance of all Obligations and Foreign Borrower Obligations, as applicable, including without limitation the payment and performance of all such Obligations and Foreign Borrower Obligations in respect of the Obligations of Parent Borrower and Foreign Borrower Obligations, as applicable, now or hereafter existing under or in respect of the Amended Agreements.

Each Loan Party acknowledges and agrees that any of the Credit Support Documents to which it is a party or otherwise bound shall continue in full force and effect and that all of its obligations thereunder shall be valid and enforceable and shall not be impaired or limited by the execution or effectiveness of this Amendment. Each Loan Party represents and warrants that all representations and warranties contained in the Amended Agreements and the Credit Support Documents (considered as if already amended by this Amendment) to which it is a party or otherwise bound are true, correct and complete in all material respects on and as of the Seventh Amendment Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true, correct and complete in all material respects on and as of such earlier date.

Each Loan Party acknowledges and agrees that (i) notwithstanding the conditions to effectiveness set forth in this Amendment, such Loan Party (excluding the Parent Borrower) is not required by the terms of the Credit Agreement or any other Loan Document to consent to the amendments to the Credit Agreement effected pursuant to Section 1 of this Amendment and (ii) nothing in the Credit Agreement, this Amendment or any other Loan Document shall be deemed to require the consent of such Loan Party (excluding the Parent Borrower) to any future amendments to the Credit Agreement, as amended by this Amendment. Pursuant to Section 7.08 of the Security Agreement, the Loan Parties hereby consent to amend the Security Agreement as set forth in Sections 2 and 6 hereof.

Section 6. MISCELLANEOUS

A. Reference to and Effect on the Credit Agreement and the Other Loan Documents.

(i) On and after the Seventh Amendment Effective Date, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “hereof”, “herein” or words of

like import referring to the Credit Agreement, and each reference in the other Loan Documents to the “Credit Agreement”, “thereunder”, “thereof” or words of like import referring to the Credit Agreement shall mean and be a reference to the Amended Credit Agreement. On and after the Seventh Amendment Effective Date, each reference in the Security Agreement to “this Agreement”, “hereunder”, “hereof”, “herein” or words of like import referring to the Security Agreement, and each reference in the other Loan Documents to the “Security Agreement”, “thereunder”, “thereof” or words of like import referring to the Security Agreement shall mean and be a reference to the Security Agreement as amended by this Amendment.

(ii) Except as specifically amended by this Amendment, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(iii) The execution, delivery and performance of this Amendment shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of Administrative Agent or any Lender under, the Credit Agreement or any of the other Loan Documents.

B. Fees and Expenses. Parent Borrower acknowledges that all costs, fees and expenses as described in subsection 9.03 of the Credit Agreement incurred by Administrative Agent and its counsel with respect to this Amendment and the documents and transactions contemplated hereby shall be for the account of Parent Borrower.

C. Headings. Section and subsection headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

D. Applicable Law. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING WITHOUT LIMITATION SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK), WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES.

E. Counterparts; Effectiveness. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document. This Amendment (other than the provisions of Sections 1 and 2 hereof, the effectiveness of which are governed by Section 3 hereof) shall become effective upon the execution of a counterpart hereof by Parent Borrower, Required Lenders, Tranche B Lenders holding a majority of the outstanding Tranche B Loans, all Tranche D Lenders and each of the Loan

Parties and receipt by Parent Borrower and Administrative Agent of written notification of such execution and authorization of delivery thereof.

F. Pursuant to Section 2.09(e) of the Credit Agreement, Company shall execute and deliver to each Tranche D Lender, on the Seventh Amendment Effective Date, a Note substantially in the form of **Annex E** annexed hereto to evidence each Tranche D Lender' s Tranche D Term Loan, in the principal amount of that Tranche D Lender' s Tranche D Term Loan and with other appropriate insertions.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

BORROWER:

KNOWLES ELECTRONICS HOLDINGS, INC.

By: _____

Name:

Title:

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**LOAN
PARTIES:**

KNOWLES ELECTRONICS, LLC, (for purposes of Sections 2, 5 and 6 only) as a Loan Party

By: _____

Name:

Title:

**KNOWLES INTERMEDIATE
HOLDINGS, INC.**, (for purposes of Sections 2, 5 and 6 only) as a Loan Party

By: _____

Name:

Title:

EMKAY INNOVATIVE PRODUCTS, INC., (for purposes of Sections 2, 5 and 6) as a Loan Party

By: _____

Name:

Title:

KNOWLES MANUFACTURING LTD., (for purposes of Sections 2, 5 and 6) as a Loan Party

By: _____

Name:

Title:

S-2

**ADMINISTRATIVE
AGENT:**

JPMORGAN CHASE BANK, Individually and as Administrative
Agent

By: _____

Name:

Title:

S-3

LENDERS:

**SIGNATURE PAGE TO THE SEVENTH AMENDMENT
TO CREDIT AGREEMENT AND SECOND AMENDMENT
TO SECURITY AGREEMENT**

Name of Institution: _____

By: _____

Name:

Title:

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Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John J. Zei, certify that:

1. I have reviewed this Form 10-Q of Knowles Electronics Holdings, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of material fact or omit to state any material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant' s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant' s disclosure controls and procedures presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and
5. The registrant' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrants auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions);
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: August 12, 2004

/s/ John J. Zei

John J. Zei
President and Chief Executive Officer

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, James H. Moyle, certify that:

1. I have reviewed this Form 10-Q of Knowles Electronics Holdings, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of material fact or omit to state any material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrants auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2004

/s/ JAMES H. MOYLE
James H. Moyle
*Executive Vice President and Chief
Financial Officer*