Knowles Corp
Form 10-K
February 25, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014.

or

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

Commission File Number: 001-36102

Knowles Corporation
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 90-1002689 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| 1151 Maplewood Drive | |
| Itasca, Illinois | 60143 |
| (Address of principal executive offices) | (Zip Code) |

(630) 250-5100
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, par value $0.01 per share | New York Stock Exchange |

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

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

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

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 þ No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

| | | |
|---|---|---|
| Large accelerated filer þ | | Accelerated filer o |
| Non-accelerated filer o | (Do not check if smaller reporting company) | Smaller reporting company o |

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of the close of business on June 30, 2014 was $2,614,095,909. The registrant's closing price as reported on the New York Stock Exchange-Composite Transactions for June 30, 2014 was $30.74 per share. The number of outstanding shares of the registrant's common stock as of February 18, 2015 was 85,069,974.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the registrant's Proxy Statement for its 2015 Annual Meeting of Stockholders is incorporated by reference into Part III hereof.

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# PART I
## ITEM 1. BUSINESS

### Our Separation from Dover Corporation

On February 28, 2014, Knowles Corporation ("Knowles") became an independent, publicly-traded company as a result of the distribution by Dover Corporation ("Dover") of 100% of the outstanding common stock of Knowles to Dover's stockholders. Dover's Board of Directors approved the distribution of its shares of Knowles on February 6, 2014. Knowles' Registration Statement on Form 10 was declared effective by the U.S. Securities and Exchange Commission on February 10, 2014. On February 28, 2014, Dover's stockholders of record as of the close of business on February 19, 2014 ("record date") received one share of Knowles common stock for every two shares of Dover common stock held as of the record date. Knowles' common stock began trading "regular-way" under the ticker symbol "KN" on the New York Stock Exchange on March 3, 2014.

Unless the context otherwise requires, references in this Annual Report on Form 10-K to (i) "Knowles," the "Company," "we," "our" or "us" refer to Knowles Corporation and its consolidated subsidiaries, after giving effect to the spin-off of Knowles from Dover Corporation, (ii) "Former Parent" refer to Dover Corporation and (iii) the "Separation" or the "Distribution" refer to our spin-off from our Former Parent. Knowles was incorporated in Delaware on June 12, 2013 for the purpose of holding certain of Former Parent's communication technologies businesses in connection with the Separation. The address of our principal executive offices is 1151 Maplewood Drive, Itasca, Illinois 60143. Our telephone number is 630-250-5100.

### Our Company

We are a market leader and global supplier of advanced micro-acoustic solutions and specialty components serving the mobile communications, consumer electronics, medical technology, military, aerospace and industrial markets. We have a leading position in micro-electro-mechanical systems ("MEMS") microphones, speakers and receivers which are used in smartphones, tablets and mobile handsets. We are also a leading manufacturer of transducers used in hearing aids and other medical devices and have a strong position in oscillators (timing devices) and capacitor components which enable various types of communication. Our focus on the customer, combined with unique technology, rigorous testing and global scale, helps to deliver innovative solutions and consistently dependable and precise products.

### Our Strategy

Knowles is committed to growing market leadership in our current business segments and potentially expanding into attractive adjacent markets. This will be accomplished by guiding our research and development efforts towards opportunities that exhibit the greatest potential for optimal long-term returns and through the expansion of our technology platforms, while maintaining the highest product quality and operational excellence in the business. Inorganic growth may also be part of our strategy. We will measure our success through revenue growth, margin expansion, market share gains, stockholder return and stakeholder satisfaction.

### Our Business Segments

We are organized into two reportable segments based on how management analyzes performance, allocates capital and makes strategic and operational decisions. These segments were determined in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 280-Segment Reporting and are comprised of (i) Mobile Consumer Electronics ("MCE") and (ii) Specialty Components ("SC"). The segments are aligned around similar product applications serving our key end markets, to enhance focus on end market growth strategies.

- MCE designs and manufactures innovative acoustic products, including microphones, speakers, receivers and integrated modules used in several applications that serve the handset, tablet and other consumer electronic markets. Locations include the corporate office in Itasca, Illinois; sales, support and engineering facilities in North America, Europe and Asia; and manufacturing facilities in Asia.

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- SC specializes in the design and manufacture of specialized electronic components used in medical and life science applications, as well as high-performance solutions and components used in communications infrastructure and a wide variety of other markets. SC's transducer products are used principally in hearing aid applications within the commercial audiology markets, while its oscillator products predominantly serve the telecom infrastructure market and its capacitor products are used in applications including radio, radar, satellite, power supplies, transceivers and medical implants serving the defense, aerospace, telecommunication and life sciences markets. Operating facilities and sales, support and engineering facilities are located in North America, Europe and Asia.

We sell our products directly to original equipment manufacturers ("OEMs") and to their contract manufacturers and suppliers and to a lesser extent through distributors worldwide.

The following table shows the percentage of total revenue generated by each of our segments for the years ended December 31, 2014, 2013 and 2012:

| | Revenue Years Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Mobile Consumer Electronics | 60 % | 64 % | 60 % |
| Specialty Components | 40 % | 36 % | 40 % |

The following table shows total assets by segment at December 31, 2014 and 2013:

| (in millions) | December 31, | |
|---|---|---|
| | 2014 | 2013 |
| Mobile Consumer Electronics | $1,474.1 | $1,638.2 |
| Specialty Components | 525.8 | 538.7 |
| Corporate / eliminations | (1.4) | (6.8) |
| Total | $1,998.5 | $2,170.1 |

Market Trends

Our products serve a variety of end markets, notably, consumer mobile devices, medical technology, aerospace and defense and telecommunications and can generally be divided into two categories: MCE and SC, as described below.

- MCE- Includes analog and digital microphones, MEMS microphones, surface mounted device microphones, receivers, speakers, integrated modules, multi-functional devices, ultrasonic sensors and integrated audio sub-systems.
- SC- Includes transducers, oscillators, capacitors and filters.

The markets served by MCE continue to be driven by trends in smartphone and tablet innovation and demand. Today, mobile device OEMs are facing ever-rising challenges to differentiate their products in the global marketplace while managing growing cost pressures and time-to-market expectations. However, mobile consumers and mobile carriers alike are expecting better quality voice calls, audio and video conferencing, capturing and playback, media content consumption and gaming, as well as extended battery life. To enable smart mobile devices to handle ever more demanding audio use cases, OEMs are increasingly adopting more intelligent active audio components (audio chipset) and higher performance passive acoustic components. Trends impacting the smartphone market today include:

- Smartphone growth from feature phone substitution. The smartphones segment within the handset device market has exhibited consistently strong unit growth over the past several years. There continues to be a positive mix shift from the proliferation of lower-end smartphone devices and the further cannibalization of feature phones (i.e., non-smartphones). The average smartphone continues to drive higher audio content including more microphones and higher value speakers than its feature phone counterpart, compounding the growth of acoustic content as mobile phone sales rise.

- Smartphone OEM market share shifts are likely to remain volatile for some time. Over the past several years, Nokia, Blackberry and Samsung have lost significant market share to other United States and Asian-based OEMs who have released smartphones that have been more readily accepted due to, among other factors, perceived feature sets

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and price points. We expect the OEM market to continue to be dynamic over time, characterized by rapid market share shifts driven by new product introductions, price points and feature sets.

- New OEM product line rollouts. Smartphones continue to shift to Long Term Evolution ("LTE"), a standard for 4G wireless technology and the shift is expected to buoy unit growth in developed markets and drive the competitive landscape in high-end chipsets through 2015. Aggressive LTE deployments are happening in China, in addition to a build-out of deeper coverage profiles in the United States, Japan, Korea and Northern Europe. Deployments are also expected to accelerate in emerging markets. This will likely drive an increase in LTE smartphone units over the next several years, which should help maintain some level of high-end smartphone volume growth despite high market penetration.
- Shortened smartphone upgrade plans at U.S. carriers. Several U.S. carriers have recently introduced new smartphone plans which offer consumers the option of paying for their phone in monthly installments with no upfront lump sum payment and the ability to upgrade again in 12 months. Plans such as these could drive greater-than-expected unit growth (turnover) at the high end, as they are most likely to appeal to high-income consumers seeking to upgrade their phone more frequently.
- High-end consumer elasticity. Consumers are reluctant to downgrade from a high-end smartphone to a low-end smartphone in most circumstances. This is especially true as high-end smartphones will likely continue to offer significant performance advantages and new functionality compared to low-end smartphones.
- Proliferation of premium acoustics. Consumers are seeking improved acoustics solutions, regardless of the country they live in or the type of device they are using. As a result, acoustic dollar content is generally expanding per device for two primary reasons. First, many of the solutions we are introducing are higher performance and command higher value. Secondly, a majority of OEMs are increasing the number of acoustic components per device. Over the past several years, we have seen an increase in the number of microphones used in high end smartphones. The benefits to the user are substantial, including reduced background noise, improved voice recognition, better hands-free communication and enhanced audio recording and playback capabilities. OEMs and their customers recognize the importance of these features in their next-generation products. We believe an additional opportunity exists for these trends to proliferate to mid-range phones and tablets, as well as emerging wearable devices. Knowles can capitalize on these market demands by leveraging our acoustics expertise and proprietary process technologies to deliver solutions that improve the performance of our OEM customers' devices.

Specialty Components products are sold across diverse end markets and relative to the Acoustic Components end markets, portions of this business face much greater exposure to capital investment cycles and government spending, both direct and indirect, as some of these end markets are largely dependent on project upgrades, expansion and government contracts. These products can be divided into the following categories:

- Medical and life sciences products (i.e., transducers, hearing aids, capacitors). Product sales are largely driven by aging demographics, healthcare spending, the rise of a middle class in emerging markets and government subsidies.
- Aerospace and defense communications (i.e., capacitors, filters, oscillators). Aerospace and defense spending and automation (largest end market), telecom regional coverage and bandwidth expansion and growing industrial power supply requirements are a few of the end market trends driving the product sales in this sector.
- Telecom infrastructure (i.e., capacitors, filters, oscillators). Sales are typically levered to the expansion of large telecom companies, looking to increase wireless signal in new or existing territories, although these products are also sold to aerospace and defense companies (i.e., airplane radio frequencies).

Geographic Trends

We strive to maintain our manufacturing facilities in close proximity to our direct customers. In the case of MCE, we operate eight facilities in Asia to serve the contract manufacturers who build OEM equipment on behalf of our end-customers. These contract manufacturers are largely based in China, Taiwan and India. Although end-user demand for consumer electronics is global and marketing activities occur globally, the majority of our manufacturing is located in Asia, primarily in China, Malaysia and the Philippines.

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In the case of SC, we operate five facilities in Asia to serve the manufacturing sites of both hearing aid OEMs and the contract manufacturers who build OEM headsets on behalf of earphone makers. These OEM manufacturing sites are largely based in China, Singapore, Indonesia and Vietnam. Although marketing activities and end-user demand for hearing aid and specialty consumer components is global, manufacturing is primarily located in Asia for the purposes of being close to the point of assembly. We also operate six facilities in North America and three in Europe for the manufacturing of capacitors and oscillators that support our global telecom and military customers, as well as their suppliers and contract manufacturers.

As a majority of our manufacturing and sales occur outside the United States, we generate the majority of our profits and cash outside the United States. While no significant statutory limitation exists, a repatriation of profits from foreign markets to the United States is inherently inefficient.

Competitive Landscape

Success in the electronic components industry is primarily driven by innovation and flexibility as customers compete to gain a share of the growing consumer device market. We compete across handset, tablet and other consumer platforms to deliver superior acoustic performance through customized products. Our continuous investment in research and development enables us to capture new design wins across consumer OEMs. Flexibility in balancing full and semi-automation is key to achieving a superior cost structure. Additionally, it is important for suppliers to have flexibility and quick time-to-market to meet clients' needs. Notably, according to industry estimates, the product cycle for handsets has shortened over recent years. Key competitors include:

- MCE- AAC Technologies, Goertek, ST Micro and Invensense; and
- SC- Sonion, Rakon, Kyocera, and Epson Electronics.

In the MCE segment, our investments in research and development enable us to continually introduce new products with higher performance. Our customers are adopting these higher value microphones, speakers and receivers to improve the overall audio performance of their devices which in turn improves the end user experience. Typically our new products have higher average selling prices than the products they are replacing. Once introduced, the pricing for these products follows a normal downward trend as typically seen in the consumer electronics market. Some OEMs are moving to our higher value integrated module and intelligent audio solutions to enable additional performance advantages.

For products that were introduced more than 18 months ago, we strive to offset anticipated price erosion through bill of material cost reductions, yield improvements, equipment efficiency and movement to lower-cost manufacturing locations.

In the SC segment, the end markets tend to be more stable. Within acoustics we see limited competition but continuously invest to improve acoustic performance for our hearing health and high end headset customers. In precision devices we see a highly fragmented set of competitors across capacitor and oscillator products for a diverse set of end markets including telecom infrastructure, military, aerospace and medical.

Customers, Sales and Distribution

We serve customers in the mobile consumer electronics, medical technology, defense/aerospace, telecommunication infrastructure and other industrial markets. Our customers include some of the largest operators in these markets. In addition, many of our OEM customers outsource their manufacturing to Electronic Manufacturing Services ("EMS") companies. Other customers include global mobile phone and hearing aid manufacturers and many of the largest global EMS companies, particularly in China. For the year ended December 31, 2014, Apple, Inc. and Samsung Group accounted for approximately 20% and 12%, respectively, of our total revenue. For the year ended December 31, 2013, Apple, Inc. and Samsung Group accounted for approximately 25% and 15%, respectively, of our total revenue. For the year ended December 31, 2012, Apple, Inc. accounted for 18% of our total revenue. No other customer accounted for more than 10% of total revenues during these periods.

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The following table details our sales by geographic location for the years ended December 31, 2014, 2013 and 2012. These results do not necessarily indicate the geographies where our products are deployed or where end-customer demand is originated.

| (in millions) | Years Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Asia | $879.0 | $950.4 | $855.5 |
| Europe | 120.4 | 120.8 | 110.6 |
| Other Americas | 12.4 | 14.5 | 15.2 |
| Other | 5.1 | 6.0 | 6.8 |
| Subtotal non-United States | $1,016.9 | $1,091.7 | $988.1 |
| United States | 124.4 | 123.1 | 129.9 |
| Total | $1,141.3 | $1,214.8 | $1,118.0 |

We own and conduct manufacturing operations through a network of facilities throughout the world. We also maintain quality assurance, manufacturing technology, supply chain and distribution departments. Our global distribution center is located in Penang, Malaysia. For our long-lived assets by geographic region, see Note 14. Segment Information of the notes to our Consolidated Financial Statements under Item 8, "Financial Statements and Supplementary Data."

Raw Materials

We use a wide variety of raw materials, primarily metals and semi-processed or finished components, which are generally available from a number of sources. As a result, shortages or the loss of any single supplier have not had and are not likely to have, a material impact on operating profits. While the required raw materials are generally available, commodity pricing for various precious metals, such as palladium and gold, and “rare earth” materials (dysprosium and neodymium), fluctuates. As a result, our operating results are exposed to such fluctuations. Although some cost increases may be recovered through increased prices to customers if commodity prices trend upward, we attempt to control such costs through fixed-price contracts with suppliers and various other programs.

We have established a Green Materials Policy, pursuant to which we have established a Green Materials Standard. Our products are in compliance with the European Union Restriction of Hazardous Substances ("EU RoHS") and Waste Electrical and Electronic Equipment ("WEEE") directives. This standard is based on the list of substances identified in the Joint Industry Guide-101 Standard which is endorsed by the Electronic Industry Association, the Joint Electronics Device Engineering Council and the Japan Green Procurement Survey Standardization Initiative associations as well as the Sony Standard-00259.

Research and Development

We conduct research worldwide to discover and develop new acoustic and related products around the world and refine our existing products. Our research is primarily conducted internally. We employ approximately 400 employees worldwide in research and development. Our research and development efforts continue to expand the technology platforms that support our customers’ product and business development. By applying interrelated technologies to the design processes, we strive to enhance and accelerate our customers’ initial concepts and design work, as well as provide for cost-effective component customization, manufacturing and subassembly. Research and development expenses are classified within Operating expenses. We spent $83.0 million, $82.6 million and $77.3 million on research and development, or 7.3%, 6.8% and 6.9% as a percentage of revenue, for the years ended December 31, 2014, 2013 and 2012, respectively.

Intellectual Property and Intangible Assets

We own many patents, trademarks, licenses and other forms of intellectual property, which have been acquired or created over a number of years and, to the extent relevant, expire at various times. A large portion of our intellectual property consists of patents, unpatented technology and trade secrets. In addition, a significant portion of our intangible assets relate to customer relationships. We believe that our commitment to continuous engineering improvements, new product development and improved manufacturing techniques, as well as strong sales, marketing and service efforts, are significant to our leadership positions in the niche markets that we serve.

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Seasonality

In general, our businesses, while not having significant seasonality, tend to have stronger revenue in the third and fourth quarters of each calendar year. This is particularly true of those businesses that serve the consumer electronics market. Our businesses tend to have short product cycles due to the highly technical nature of the industries they serve which can result in new OEM product launches that can impact quarterly revenues, earnings and cash flow.

Environmental Matters

Our operations are governed by a variety of international, national, state and local environmental laws. These regulations include limitations on discharge of pollutants to air, water and soil; manufacturing chemical use and handling restrictions; and requirements with respect to treatment, transport, storage and disposal of solid and hazardous wastes. We are committed to continued compliance and believe our operations generally are in substantial compliance with these laws.

We are dedicated to the preservation and improvement of our global environment. To help achieve this, we have established a Green Materials Policy pursuant to which we have established a Green Materials Standard. The products we offer are in compliance with the EU RoHS/WEEE regulations. The regulations aim to restrict of the use of certain hazardous substances in electrical and electronic equipment.

Employees

We currently employ approximately 13,000 persons across our facilities in 15 countries. Approximately 88%, 8% and 4% of these employees are located in Asia, North America and Europe, respectively. We are subject to various local, national and multi-national laws and regulations relating to our relationships with our employees. Our workforce in the United States is not unionized, however in the European Union, we have established workers councils composed of management and elected members of our workforce. We believe we generally have good relationships with employees and their representative organizations.

Regulation

It is our policy to maintain the highest ethical standards in the conduct of our affairs and in our relationship with customers, suppliers, employees and the communities in which our operations are located. In accordance with the Electronics Industry Citizenship Coalition, the Electronic Industry Code of Conduct and applicable laws in each country where we operate, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and other countries' anti-corruption laws, we strive to ensure that working conditions are safe, our employees are treated with respect and dignity and business operations are environmentally responsible and comply with all applicable laws. In addition, we proactively educate our suppliers and
carry out our commitment to seek out business partners who share our values and, in accordance with our Supplier Code of Conduct, specifically prohibit our suppliers from using forced, bonded, involuntary, prison, or indentured labor.

Other Information

We routinely post our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports on the "Financial Information" link on the Investor Relations section of our Internet website, www.knowles.com. We post each of these reports on the website as soon as reasonably practicable after the report is filed with the Securities and Exchange Commission ("SEC"). The information on our Internet website is not incorporated into this Form 10-K.

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## ITEM 1A. RISK FACTORS

### Cautionary Statement Concerning Forward-Looking Statements

This Annual Report on Form 10-K, as well as our Annual Report to Stockholders, quarterly reports and other filings with the SEC, press releases and other oral and written communications, contains certain statements regarding business strategies, market potential, future financial performance, future action, results and any other statements that do not directly relate to any historical or current fact which are “forward-looking” statements within the meaning of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. The words “believe,” “expect,” “anticipate,” “project,” “estimate,” “budget,” “continue,” “coul “intend,” “may,” “plan,” “potential,” “predict,” “seek,” “should,” “will,” “would,” “expect,” “objective,” “forecast,” “goal,” “g “effort,” “target” and similar expressions, among others, generally identify forward-looking statements, which speak only as of the date the statements were made. Additionally, forward-looking statements include, but are not limited to:

- expectations as to future sales of products;
- ability to protect intellectual property in the United States and abroad;
- ability to manage new product ramp-ups and introductions for our customers;
- estimates regarding capital requirements and needs for additional financing;
- estimates of expenses, future revenues and profitability;
- estimates of the size of the markets for products and services;
- expectations related to the rate and degree of market acceptance of products; and
- estimates of the success of other competing technologies that may become available.

In particular, information included under the sections entitled “Business,” “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contain forward-looking statements.

The matters discussed in these forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those projected, anticipated or implied in the forward-looking statements. Where, in any forward-looking statement, an expectation or belief as to future results or events is expressed, such expectation or belief is based on the current plans and expectations of management and expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will be achieved or accomplished. Many factors that could cause actual results or events to differ materially from those anticipated include those matters described under the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Any forward-looking statement speaks of as of the date on which it is made and Knowles does not assume any obligation to update any forward-looking statement as a result of new information, future events, or otherwise, except as required by applicable law.

### Risk Factors

Our business, financial condition, operating results, cash flows and stock price can be impacted by a number of factors which could cause our actual results to vary materially from recent results or from anticipated future results. In general, we are subject to the same general risks and uncertainties that impact many other companies such as general economic, industry and/or market conditions and growth rates; possible future terrorist threats and their effect on the worldwide economy; and changes in laws or accounting rules. The risk factors discussed in this section should be considered together with information included elsewhere in this Form 10-K and should not be considered the only risks to which we are exposed.

We depend on a limited number of customers for a substantial portion of our revenues and the loss of, or a significant reduction in orders from, any key customer could significantly reduce our revenues and adversely impact our operating results.

We rely on several key customers. For 2014, our top ten customers accounted for approximately 61% of total revenue. For the year ended December 31, 2014, Apple, Inc. and Samsung Group accounted for approximately 20% and 12%, respectively, of our total revenue. For the year ended December 31, 2013, Apple, Inc. and Samsung Group accounted for approximately 25% and 15%, respectively, of our total revenue. For the year ended December 31, 2012, Apple, Inc. accounted for 18% of our total revenue. We expect that a substantial portion of our revenue will continue to be attributable to several key customers. If these customers decide not to buy our products or to purchase lower volumes from us because their own products are not commercially successful or for other reasons, our revenues could substantially decline, which could have a material adverse effect on our results of operations.

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The markets we serve are concentrated, with a limited number of companies active in these markets. A concentrated market and reliance on a small number of customers gives those customers substantial purchasing power and leverage in negotiating contracts with us. In addition, we do not have long-term agreements or purchase orders with any of our customers, our customers have irregular and unpredictable ordering patterns and our customers may not have regular, predictable product introduction schedules. A decision by any of our major customers to decrease significantly the number of products purchased from us could substantially reduce sales and have a material adverse effect on our business, financial condition and results of operations.

Global markets for the Company's products are highly competitive and subject to rapid technological change. If the Company is unable to develop new products and compete effectively in these markets, its financial condition and operating results could be materially adversely affected.

We compete in electronic and technology-based industries that are highly dynamic and constantly experiencing change as new technologies are developed. It is characteristic of such industries that sales prices for products decline over time following their introduction to market due to technological obsolescence and the introduction of new technologies. Downward pressure on product prices typically causes downward pressure on component prices as well. Our ability to compete depends on our ability to innovate successfully.

Our competitors may produce products that are more advanced than the products we produce. If our businesses are unable to anticipate our competitors' development of new products and services, identify customer needs and preferences on a timely basis, or successfully introduce new products and services in response to such competitive factors, including new or enhanced products with higher margins to offset price declines, we may experience lower revenue, operating profits and cash flows. In addition, if we are unable to adapt to the rapid technological changes (which include hiring and retaining top engineering talent), or for those products which are subject to declining average selling prices, we are unable to increase our unit volumes, introduce new or enhanced products with higher margins and/or reduce manufacturing costs to offset price decreases in existing products, our products could become obsolete or commoditized and business and operating results may be materially adversely affected.

Our products must undergo lengthy and expensive qualification processes without any assurance of product sales. The costs associated with new product introductions and execution of related manufacturing ramp-ups could negatively impact our operating results and profits.

A significant portion of our revenue is derived from products that are required to go through extensive customer qualification processes before being selected by customers for inclusion in their products under development. We devote substantial resources, including design, engineering, sales, marketing and management efforts, to these qualification processes. In order to ensure availability of our products for some of our largest customers, we may begin manufacturing efforts based on forecasts provided by these customers, historical shipments and company estimates. Forecasts do not represent binding purchase commitments and we do not recognize sales for products until they are selected for inclusion in the customer's product and are shipped to the customer. Our products may not be designed into a customer's product despite our investment in the qualification process, which would result in loss of the associated investment, increased inventory risk and manufacturing costs and could adversely impact our operating results and profits.

Even if our products are designed into a customer's product, the customer's product may not be commercially successful, or the customer's commercial plans for the product could change, which could adversely impact our sales and operating results. Similarly, a modification to the product or manufacturing process, or the selection of a new supplier by us, may require new qualification processes, which may result in delays, cause us to forego sales for the remainder of the life of the customer's product and/or hold excess or obsolete inventory.

In addition, when our customers introduce new products, the time required and costs incurred by us to ramp-up production can be significant. Certain non-recurring costs and expenditures for tooling and other equipment may not be reusable in manufacturing products for other customers or different products for the same customer. Product ramp-ups typically involve greater volumes of scrap and risks to execution such as higher costs due to inefficiencies and delays in production, all of which can adversely impact our operating results and profits.

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Our operating results and profits could be adversely affected if we are unable to balance customer demand for our products and capacity. If demand increases and we are unable to increase our production capacity to meet the demand, or if there are unforeseen costs associated with adjusting our capacity levels, we may not be able to achieve our financial targets. Conversely, if demand does not increase at the rate forecasted, we may not be able to adequately absorb manufacturing expenses or overhead costs which could negatively impact our product margins. Additionally, if product demand decreases or we fail to forecast demand accurately, we may be required to record impairments on our long-lived assets or record other charges.

Any of these developments could have a material adverse impact on our sales and operating results. In addition, to the extent a customer has a “dual source” strategy whereby customers may purchase products from more than one supplier, we may realize lower sales from our products that are designed into the customer’s products.

Our revenue, operating profits and cash flows could be adversely affected if our businesses are unable to protect or obtain patent and other intellectual property rights, or to do so at expected cost levels, or if intellectual property litigation is successful against us.

We own patents, trademarks, licenses and other forms of intellectual property related to our products, technology and manufacturing processes, which are critical to sustain market acceptance of our products. Therefore, we believe that the protection of our intellectual property rights is, and will continue to be, important to the success of our business. We employ various measures to maintain, protect and defend our intellectual property, including enforcing our intellectual property rights in various jurisdictions and forums throughout the world. However, these measures may not prevent our intellectual property from being challenged, invalidated, copied or circumvented and our businesses may not be successful in litigation or other actions to enforce our intellectual property rights, particularly in countries where intellectual property rights are not highly developed or protected and may result in retaliatory legal proceedings alleging infringement by us of intellectual property owned by others. In addition, such proceedings may occur in multiple jurisdictions and forums and we may incur adverse judgments with regard to certain claims in certain jurisdictions and forums while still contesting other related claims against the same opposing party in other jurisdictions and forums.

We have and will continue to aggressively defend our intellectual property because unauthorized use of our intellectual property rights could adversely impact our competitive position and negatively impact our revenue, operating profits and cash flows. The expense of protecting, defending and enforcing our intellectual property, or defending claims that our products, technology or manufacturing processes infringe the intellectual property rights of others, can vary significantly period to period and, in any given period, could be material and divert the attention of management and key technical personnel. Further, regardless of the merits of any specific claim, we may not prevail in litigation because of the complex technical issues and uncertainties inherent in intellectual property litigation. If any litigation or claims, in which we were defending our products, technology or manufacturing processes were to result in an adverse ruling, we could be required to:

- pay substantial damages;
- cease the manufacture, import, use, sale or offer for sale of infringing products or processes;
- discontinue the use of infringing technology;
- expend significant resources to develop non-infringing technology; and
- enter into royalty or license agreements from the third party claiming infringement, which license may not be available on commercially reasonable terms.

Our operating results or financial condition may be materially adversely affected if we, or one of our customers, were required to take any one or more of the foregoing actions. In addition, if one of our customers or another supplier to one of our customers were found to have infringed the intellectual property rights of a third party, the supplier or customer could be ordered to cease the manufacture, import, use, sale or offer for sale of its infringing product(s) or process(es), any of which could result, indirectly, in a decrease in demand for our products. Furthermore, we license third party intellectual property for use in some of our products and, if the licensor were found to have infringed the intellectual property rights of a third party, we may be ordered to cease the manufacture of the product containing the infringing intellectual property, which could result in a decrease in demand for our products. If any such decrease in demand for our products were to occur, it could have an adverse impact on our operating results and financial condition.

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Our results may be impacted by domestic and international economic, legal, currency, political and compliance conditions and uncertainties.

Worldwide economic and capital market conditions are beyond our control, are highly unpredictable and can have an adverse effect on our revenue, earnings, cash flows and cost of capital. We have significant operations in China, Germany, Malaysia, the Philippines, the United Kingdom and the United States. Our businesses may be adversely affected by disruptions in the financial markets or declines in economic activity both domestically and internationally in the countries where we operate or from which we derive substantial revenues. These circumstances will also impact our suppliers and customers in various ways which could have an impact on our business operations, particularly if global credit markets are not operating efficiently and effectively to support industrial commerce.

Our domestic and international sales and operations are subject to risks associated with changes in local government laws (including environmental and import/export laws), regulations and policies. Failure to comply with any of these laws could result in civil and criminal, monetary and non-monetary penalties and damage to our reputation. In addition, we cannot provide assurance that our costs of complying with new and evolving regulatory reporting requirements and current or future laws, including environmental protection, employment and health and safety laws, will not exceed our estimates. In addition, we have invested in certain countries, including Malaysia, China and the Philippines, that carry high levels of currency, political, compliance and/or economic risk. While these risks or the impact of these risks are difficult to predict, any one or more of them could adversely affect our businesses and reputation.
In particular, economic regulation in China could materially and adversely affect our business and results of operations. We have significant manufacturing operations in China and, as a result, are subject to risks inherent in doing business in China. For example, in recent years, the Chinese economy has experienced periods of rapid expansion and wide fluctuations in the rate of inflation. In response to these factors, the Chinese government has, from time to time, adopted measures to regulate growth and contain inflation, including measures designed to restrict credit or to control prices. Such actions in the future could increase the cost of doing business in China or decrease the demand for our products in China, which could have a material adverse effect on our business and results of operations.

Failure to attract, retain and develop personnel or to provide adequate succession plans for key management could have an adverse effect on our operating results.

Our growth, profitability and effectiveness in conducting our operations and executing our strategic plans depend in part on our ability to attract, retain and develop qualified personnel, align them with appropriate opportunities and maintain adequate succession plans for key management positions. If we are unsuccessful in these efforts, our operating results could be adversely affected.
Our goodwill, other intangible assets or long-lived assets may become impaired, which could result in a significant charge to earnings.

We hold significant amounts of goodwill, other intangible assets and long-lived assets, and the balances of these assets could increase in the future if we were to acquire other businesses. As of December 31, 2014, the balance of our goodwill, other intangible assets and long-lived assets was $1,500.9 million. Under accounting principles generally accepted in the United States, we review our goodwill, other intangible assets and long-lived assets for impairment when events or changes in circumstances indicate the carrying value of such goodwill, other intangible assets or long-lived assets may not be recoverable. In addition, we test goodwill and other indefinite-lived intangible assets for impairment annually. Factors that may be considered a change in circumstances, indicating that the carrying value of our goodwill, other intangible assets or long-lived assets may not be recoverable, include, but are not limited to, a sustained decline in stock price and market capitalization, significant negative variances between actual and expected financial results, reduced future cash flow estimates, adverse changes in legal factors, failure to realize anticipated synergies from acquisitions and slower growth rates in our industry. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill, other intangible assets or long-lived assets is determined to exist, negatively impacting our results of operations.

We rely on sole source and limited source suppliers for certain supplies of critical components.

Our operations depend on obtaining sufficient supplies of components used in our manufacturing processes. In particular, certain of our businesses rely on wafer fabrication facilities or foundries which are limited source suppliers to provide silicon-based products that are critical components of our products and to provide such products in sufficient quantities to meet our production needs. Although we have long-term supply arrangements with these foundries, they may experience financial

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difficulties, be unable to deliver product to us in a timely manner, have insufficient capacity to meet our requirements, or suffer business disruption resulting from damage to or destruction of their facilities due to natural disasters and we might not be able to secure an alternative source of supply in a timely manner. We rely on a variety of other material, component and sub-assembly suppliers (some of whom may be our sole qualified source), who, from time to time, may be unable to supply product. These events could have a material adverse impact on our results of operations.
A significant amount of our cash and cash equivalents are located outside of the United States and our ability to repatriate or access that cash is limited and subject to changes in domestic and foreign tax legislation.

We earn a significant amount of our operating income outside the United States. As of December 31, 2014, $53.6 million of our cash and cash equivalents and short-term investments were held in countries outside of the United States. Any repatriation of funds currently held in foreign jurisdictions to the United States may result in higher effective tax rates for us. In addition, there have been proposals from Congress and the President to change U.S. tax laws that would significantly impact how U.S. multinational corporations are taxed on foreign earnings. Although it is uncertain whether, or in what form, any proposed tax legislation may be enacted, if any such legislation were enacted it could have a material adverse impact on our tax expense and cash flows.

Our stock price may fluctuate significantly.

The market price of our common stock may fluctuate significantly due to a number of factors, some of which may be beyond our control, including:

- our quarterly or annual earnings, or those of other companies in our industry;
- the failure of securities analysts to cover our common stock;
- actual or anticipated fluctuations in our operating results;
- changes in earnings estimates by securities analysts or our ability to meet those estimates or our earnings guidance;
- the operating and stock price performance of other comparable companies;
- overall market fluctuations and domestic and worldwide economic conditions; and
- other factors described in these “Risk Factors” and elsewhere in this Form 10-K.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations may adversely affect the trading price of our common stock.

Our indebtedness could adversely affect our financial condition and impair our ability to operate our business.

As of December 31, 2014, we had $400.0 million of total indebtedness, including $300.0 million outstanding under a term loan and $100.0 million outstanding under our revolving credit facility. For additional information about our indebtedness, see Note 8. Borrowings and Lines of Credit of the notes to our Consolidated Financial Statements under Item 8, "Financial Statements and Supplementary Data." This level of indebtedness could have important consequences to our financial condition, operating results and business, including the following:

- limiting our ability to obtain additional debt or equity financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes;
- increase our cost of borrowing;
- requiring that a substantial portion of our cash flows from operations be dedicated to payments on our indebtedness instead of other purposes, including operations, capital expenditures and future business opportunities;
- making it more difficult for us to make payments on our indebtedness or satisfy other obligations;
- exposing us to risk of increased interest rates because our borrowings under the term loan and revolving credit facility are at variable rates of interest;

- limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors that have less debt; and
- increasing our vulnerability to a downturn in general economic conditions or in our business and making us unable to carry out capital spending that is important to our growth.

In addition, the agreement governing our term loan and revolving credit facility contains covenants requiring us to, among other things, maintain a minimum ratio of consolidated EBITDA to consolidated interest expense and a maximum ratio of consolidated total indebtedness to consolidated EBITDA.

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Our ability to make payments on and to refinance our indebtedness and to meet the financial covenants related to our indebtedness will depend on our ability to generate cash in the future from operations, financings or asset sales and the tax consequences of our repatriation of overseas cash. Our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If we are not able to repay or refinance our debt as it becomes due, we may be forced to sell assets or take other disadvantageous actions, including (i) reducing financing in the future for working capital, capital expenditures and general corporate purposes or (ii) dedicating an unsustainable level of our cash flow from operations to the payment of principal and interest on our indebtedness. In addition, our ability to withstand competitive pressures and to react to changes in our industry could be impaired. The lenders who hold such debt could also potentially accelerate amounts due, which could potentially trigger a default or acceleration of any of our other debt.

In addition, we may increase our debt or raise additional capital, subject to restrictions in our debt agreements. If our cash flow from operations is less than we anticipate, or if our cash requirements are more than we expect, we may require more financing. However, debt or equity financing may not be available to us on terms acceptable to us, if at all. If we incur additional debt or raise equity through the issuance of preferred stock, the terms of the debt or preferred stock issued may give the holders rights, preferences and privileges senior to those of holders of our common stock, particularly in the event of liquidation. The terms of the debt may also impose additional and more stringent restrictions on our operations than it currently has. If we are unable to raise additional capital when needed, it could affect our financial condition. Also, regardless of the terms of our debt or equity financing, the amount of our stock that we can issue may be limited because the issuance of our stock may cause the distribution to be a taxable event for our Former Parent under Section 355(e) of the Internal Revenue Code of 1986, as amended (the "Code"), and under the Tax Matters Agreement, we could be required to indemnify our Former Parent for the resulting tax. See the section entitled “Risk Factors—Risks Related to Our Recent Separation—We may not be able to engage in certain corporate transactions as a result of the Separation.”

We face risks arising from the restructuring of our operations globally.

We continuously evaluate our operations and cost structure relative to general economic conditions, market demands, tax rates, foreign currency fluctuations, cost competitiveness and our geographic footprint. As a result of this ongoing evaluation, we plan to reduce our 18 facilities worldwide to 11 by the end of 2016 and will engage in restructuring activities from time to time. The restructuring process includes moving production between facilities or to new facilities, closing facilities, reducing staff levels, realigning our business processes and reorganizing our management. Restructurings present significant potential risks that could adversely affect our businesses, including delays in finalizing the scope of and implementing, the restructurings (including extensive consultations concerning potential workforce reductions and obtaining agreements from our affected customers for the relocation of our facilities in certain instances), the failure to achieve targeted cost savings, impacts on product quality and delivery interruptions, the failure to meet operational targets and customer requirements and the acceleration of obligations to fund pension liabilities. These risks are further complicated by our international footprint, which subject us to various legal and regulatory requirements that govern the extent and speed of our ability to restructure our operations.

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We are subject to risks relating to our existing international operations and to expanding our global business.

Many of our manufacturing operations and suppliers are located outside the United States and we continue to focus on global markets as part of our growth strategy. Our international operations and global expansion strategy are subject to various risks, including:

- political, social and economic instability and disruptions;
- government embargoes or trade restrictions;
- the imposition of duties and tariffs and other trade barriers;
- import and export controls;
- transportation delays and interruptions;
- labor unrest and current and changing regulatory environments;
- increased compliance costs, including costs associated with disclosure requirements and related due diligence;
- the loss of one or more of our manufacturing facilities;
- difficulties in staffing and managing multi-national operations;
- limitations on our ability to enforce legal rights (including intellectual property rights) and remedies and the costs of such enforcement;
- environmental liabilities arising from our current, historical and future operations and manufacturing sites; and
- earthquakes, floods or other natural disasters or catastrophic events.

If we are unable to successfully manage the risks associated with our global business or adequately manage operational risks of our existing international operations, the risks could have a material adverse effect on our growth strategy involving expansion into new geographical markets or our results of operations and financial position.

We could lose customers or generate lower revenue, operating profits and cash flows if there are significant increases in the cost of raw materials or if we are unable to obtain raw materials.

We purchase raw materials, sub-assemblies and components for use in manufacturing operations, which exposes us to volatility in prices for certain commodities. Significant price increases for these commodities could adversely affect operating profits for certain of our businesses. Although the raw materials necessary for our products are generally available, commodity pricing for various precious metals, such as palladium and gold, fluctuates. As a result, our operating results are exposed to such fluctuations. While we generally attempt to mitigate the impact of increased raw material prices by passing along the increased costs to customers, there may be a time delay between the increased raw material prices and the ability to increase the prices of our products, or we may be unable to increase the prices of our products due to a competitor’s pricing pressure or other factors. In addition, the inability to obtain necessary raw materials could affect our ability to meet customer commitments and satisfy market demand for certain products. Consequently, a significant price increase in raw materials, including certain rare earth materials, or their unavailability, may result in a loss of customers and adversely impact revenue, operating profits and cash flows.
We and our suppliers rely upon certain rare earth materials (dysprosium and neodymium) that are necessary for the manufacturing of our products and our business could be harmed if we or our suppliers experience shortages or delays of these rare earth materials. We and/or our suppliers acquire these materials from a number of countries, including China. More than 95% of the world’s current supply of rare earth materials comes from China, which has enacted a policy to reduce its exports because of its rising domestic demand and new environmental restrictions. We cannot predict whether the government of China or any other nation will impose further regulations, quotas or embargoes upon these materials that would restrict their worldwide supply or increase their cost. If China or any other major supplier were to further restrict the supply available or increase the cost of the materials used in our products, we could experience a shortage in supply and an increase in production costs, which would harm our operating results.

Customer requirements and new regulations may increase our expenses and impact the availability of certain raw materials, which could adversely affect our revenue and operating profits.

Our businesses use parts or materials that are impacted by the Dodd-Frank Wall Street Reform and Consumer Protection Act requirement for disclosure of the use of “conflict minerals” mined in the Democratic Republic of the Congo and adjoining countries. Some of our customers require “conflict free” metals in products purchased from us. We have been following a process to comply with both regulatory and customer requirements. However, the supply chain due diligence and verification of sources require substantial periods of time to complete based on the current availability of origin information and the number of vendors. We may not be able to complete the process in the time frame required because of the complexity of our supply chain. Other governmental social responsibility regulations also may impact our suppliers, manufacturing operations and operating profits.

The need to find alternative sources for certain raw materials or products because of customer requirements and regulations may impact our ability to secure adequate supplies of raw materials or parts, lead to supply shortages, or adversely impact the prices at which our businesses can procure compliant goods.

Our effective tax rate may fluctuate and it could be subject to additional tax liabilities, including in the event of repatriation of our overseas earnings to fund our liquidity needs.

Our effective tax rate may be adversely impacted by changes in the mix of our earnings among countries with differing statutory tax rates, changes in the valuation allowance of deferred tax assets and changes in tax laws. We cannot give any assurance as to what our effective tax rate will be in the future because of, among other things, uncertainty regarding the tax policies of the jurisdictions where we operate. Further, our tax returns are subject to periodic audits by domestic and international authorities. If these audits result in allocations of income or other tax assessments different from amounts estimated, then our financial results may be adversely affected by unfavorable tax adjustments.

Our effective tax rate is favorably impacted by a significant tax holiday granted to us by Malaysia. This tax holiday is subject to our satisfaction of certain conditions, including exceeding certain annual thresholds of operating expenses and gross sales. We expect to continue to satisfy all of the conditions to this tax holiday. If we fail to satisfy such conditions, our effective tax rate may be significantly adversely impacted. For additional detail, see Note 9. Income Taxes of the notes to our Consolidated Financial Statements under Item 8, "Financial Statements and Supplementary Data."

In addition, if we encounter a significant need for liquidity domestically or other location that we cannot fulfill through borrowings, equity offerings or other internal or external sources, we may experience unfavorable tax and earnings consequences due to cash repatriations. These adverse consequences would occur, for example, if the transfer of cash into the United States is taxed and no foreign tax credit is available to offset the U.S. tax liability, resulting in lower earnings. Foreign exchange ceilings imposed by local governments and the sometimes lengthy approval processes that foreign governments require for international cash transfers may delay our internal cash transfers from time to time. These factors may cause us to have an overall tax rate higher than other companies or higher than our tax rates have been in the past.

Our growth and results of operations may be adversely affected if we are unsuccessful in our capital allocation and acquisitions program.

We expect to pursue a strategy of acquiring value-creating add-on businesses that broaden our existing position and global reach as well as, in the right circumstances, strategically pursuing larger acquisitions that could have the potential to either complement our existing businesses or allow us to pursue a new growth opportunity. However, there can be no assurance that we will be able to find suitable businesses to purchase or that we will be able to acquire such businesses on acceptable terms. If we are unsuccessful in our acquisition efforts, then our ability to grow could be adversely affected. In addition, a completed acquisition may underperform relative to expectations, may be unable to achieve synergies originally anticipated, or may expose us to unexpected liabilities. Further, if we fail to allocate capital appropriately, in respect of either our acquisition program or organic growth in operations, we could be overexposed in certain markets and geographies.

We may face wage inflation and increased competition for our employees in the countries where we operate, which could increase our employment costs and our attrition.

Competition in Asia and other regions in which we operate for skilled-labor has increased and we expect this competition to continue as additional companies enter the market and expand their operations. For example, a considerable amount of our operations are located in China and there is substantial competition in China for qualified and capable personnel, particularly experienced engineers and technical personnel, which may make it difficult for us to recruit and retain qualified employees. If the availability of skilled-labor decreases, it could affect the availability and the cost of employees and increase our attrition rate, all of which may have an adverse effect on our operating results.

Our business operations may be adversely affected by information systems interruptions or intrusion.

Our businesses rely on a number of information technologies to manage, store and support business activities. We have put in place a number of systems, processes and practices designed to protect against intentional or unintentional misappropriation or corruption of our systems and information, disruption of operations or corruption of the software that supports our products.

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Disruptions or cybersecurity attacks, such as unauthorized access, malicious software or other violations, may lead to exposure of proprietary or confidential information as well as potential data corruption. Any intrusion may cause operational stoppages, violations of applicable law, diminished competitive advantages or reputational harm and increased operational costs due to remedial activities. The theft or unauthorized use or publication of our trade secrets and other confidential business information resulting from a breach of our information systems could adversely affect our competitive position and the value of our investment in research and development.

Our reputation, ability to do business and results of operations may be impaired by improper conduct by any of our employees, agents or business partners.

While we strive to maintain high standards, we cannot provide assurance that our internal controls and compliance systems will always protect us from acts committed by employees, agents or business partners that would violate U.S. and/or non-U.S. laws or fail to protect our confidential information, including the laws governing payments to government officials, bribery, fraud, anti-kickback and false claims rules, competition, export and import compliance, money laundering and data privacy laws, as well as the improper use of proprietary information or social media. Any such violations of law or improper actions could subject us to civil or criminal investigations in the United States and in other jurisdictions, could lead to substantial civil or criminal, monetary and non-monetary penalties and related stockholder lawsuits and could damage our reputation. In addition, we have entered into non-disclosure agreements with several of our significant customers which grant us access to their product designs. Any misuse of confidential information with the terms of these agreements could result in harm to our reputation, penalties/fines and loss of orders with the affected customer and therefore could adversely affect our financial condition and results of operations.

Our exposure to exchange rate fluctuations on cross-border transactions and the translation of local currency results into U.S. dollars could negatively impact our results of operations.

We conduct business through our subsidiaries in many different countries and fluctuations in currency exchange rates could have a significant impact on the reported results of operations, which are presented in U.S. dollars. A significant and growing portion of our products are manufactured in lower-cost locations and sold in various countries. Cross-border transactions, both with external parties and intercompany relationships, result in increased exposure to changes in foreign exchange rates. Accordingly, significant changes in currency exchange rates, particularly the Malaysian ringgit, the euro, the Chinese renminbi (yuan) and the Philippine peso, could cause fluctuations in the reported results of our business operations that could negatively affect our results of operations. A weakening of the U.S. dollar could adversely impact the cost of materials, products and services purchased outside the United States and therefore adversely affect our results of operations. In addition, sales and expenses of our non-U.S. businesses are translated into U.S. dollars for reporting purposes and therefore any weakening of the U.S. dollar could result in unfavorable translation effects.

Some of our businesses are subject to the cycles inherent in the consumer electronics industry.

The consumer electronics industry is cyclical and characterized by continuous and rapid technological change, product obsolescence, price erosion, evolving standards, short product life cycles and significant fluctuations in product supply and demand. Markets or the markets for specific products incorporating our solutions may not continue to grow or may decline for a number of reasons outside of our control, including economic uncertainty, competition among companies and market saturation. For example, this industry experienced a significant downturn as part of the broader global recession in 2008 and 2009. Industry downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. Future downturns could have a material adverse effect on our business and operating results.

In addition, our businesses, while not having significant seasonality, tend to have stronger revenue in the third and fourth quarters of each calendar year due, at least in part, to the timing of OEM product launches, over which we have no control. This is particularly true of those businesses that serve the consumer electronics market. If anticipated OEM product launches do not occur, we may experience decreased sales, which could have a material adverse effect on our business and operating results.

Costs related to product defects and errata may harm our results of operations and business.

Adverse consequences associated with unexpected product defects and errata (deviations from published specifications) due to, for example, unanticipated problems in our design and manufacturing processes, could include writing off or reserving the value of inventory of such products; disposing of products that cannot be fixed; recalling such products that have been shipped to customers; providing product replacements for, or modifications to, such products; and defending against litigation related to such products. The costs associated with these occurrences could be substantial and may temporarily increase our expenses and

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lower our margins and profitability. In addition, our reputation could be damaged as a result of such product defects and errata and the demand for our products could be reduced.

Our products are typically sold to customers at prices that are significantly lower than the cost of the customer's products in which they are incorporated. Because a defect in one of our products could give rise to failures in the products that incorporate them, we may face claims for damages that are disproportionate to the revenues we receive from the products involved. We may not have product liability insurance coverage in a sufficient amount to pay any or all such claims, which could adversely affect our financial position. Moreover, to the extent a defect in one of our products is caused by a defective component supplied to us by a third party, we may nonetheless be held liable to the customer and may be unable to seek or unsuccessful in seeking indemnification from our supplier.

We have limited history operating as an independent publicly-traded company and our historical financial information is not necessarily representative of the results that we would have achieved as a separate, publicly-traded company and therefore may not be a reliable indicator of our future results.

We were spun-off from our Former Parent on February 28, 2014 and have limited operating history as an independent publicly-traded company. The financial information in this Form 10-K for periods prior to the Separation reflects our business as part of our Former Parent. Accordingly, such financial information does not necessarily reflect the financial condition, results of operations or cash flows that we would have achieved as an independent publicly-traded company during the periods presented or those that we will achieve in the future primarily as a result of the factors described below:

o We have made and will need to continue to make, investments to replicate or outsource certain systems, infrastructure and functional expertise as a result of the Separation. These initiatives to develop our independent ability to operate without access to our Former Parent's existing operational and administrative infrastructure will be costly to implement. We may not be able to operate our business at comparable costs and our profitability may decline.

o Prior to the Separation, we relied upon our Former Parent for working capital requirements and other cash requirements, including in connection with our previous acquisitions. As a result of the Separation, our Former Parent ceased providing us with funds to finance our working capital or other cash requirements. After the Separation, our access to and cost of debt financing may be different from the historical access to and cost of debt financing from our Former Parent. Differences in access to and cost of debt financing may result in differences in the interest rate charged to us on financings, as well as the amounts of indebtedness, types of financing structures and debt markets that may be available to us, which could have an adverse effect on our business, financial condition and results of operations and cash flows.

For additional information about the past financial performance of our business and the basis of presentation of the historical Consolidated Financial Statements of our business, see the sections entitled "Selected Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical financial statements and accompanying notes under Item 8, "Financial Statements and Supplementary Data."

Potential indemnification liabilities to our Former Parent pursuant to the Separation and Distribution Agreement could materially and adversely affect our business, financial condition, results of operations and cash flows.

The Separation and Distribution Agreement between us and our Former Parent, among other things, provides for indemnification obligations (for uncapped amounts) designed to make us financially responsible for substantially all liabilities that may exist relating to our business activities, whether incurred prior to or after the Separation. If we are required to indemnify our Former Parent under the circumstances set forth in the Separation and Distribution Agreement, we may be subject to substantial liabilities.

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In connection with the Separation, our Former Parent has agreed to indemnify us for certain liabilities. However, there can be no assurance that the indemnity will be sufficient to insure us against the full amount of such liabilities, or that our Former Parent's ability to satisfy its indemnification obligation will not be impaired in the future.

Pursuant to the Separation and Distribution Agreement and certain other agreements with our Former Parent, our Former Parent has agreed to indemnify us for certain liabilities. However, third parties could also seek to hold us responsible for any of the liabilities that our Former Parent has agreed to retain and there can be no assurance that the indemnity from our Former Parent will be sufficient to protect us against the full amount of such liabilities, or that our Former Parent will be able to fully satisfy its indemnification obligations. In addition, our Former Parent's insurers may attempt to deny coverage to us for liabilities associated with certain occurrences of indemnified liabilities prior to the Separation. Moreover, even if we ultimately succeed in recovering from our Former Parent or such insurance providers any amounts for which we are held liable, we may be temporarily required to bear these losses. Each of these risks could negatively affect our business, financial position, results of operations and cash flows.
We are subject to continuing contingent liabilities of our Former Parent following the Separation.

After the Separation, there are several significant areas where the liabilities of our Former Parent may become our obligations. For example, under the Code and the related rules and regulations, each corporation that was a member of our Former Parent's U.S. consolidated group during a taxable period or portion of a taxable period ending on or before the effective time of the distribution is jointly and severally liable for the U.S. federal income tax liability of the entire U.S. consolidated group of our Former Parent for that taxable period. Consequently, if our Former Parent is unable to pay the consolidated U.S. federal income tax liability for a prior period, we could be required to pay the entire amount of such tax which could be substantial and in excess of the amount allocated to us under the Tax Matters Agreement between us and our Former Parent. Other provisions of federal and state law establish similar liability for other matters, including laws governing tax-qualified pension plans as well as other contingent liabilities.
If the Distribution (as defined below), together with certain related transactions, does not qualify as a transaction that was generally tax-free for U.S. federal income tax purposes, we, our Former Parent and our stockholders could be subject to significant tax liability and, in certain circumstances, we could be required to indemnify our Former Parent for material taxes pursuant to indemnification obligations under the Tax Matters Agreement.

Our Former Parent received an opinion of Baker & McKenzie LLP, tax counsel to our Former Parent, substantially to the effect that, among other things, the distribution of all of the shares of our common stock owned by our Former Parent to stockholders of our Former Parent in connection with the Separation (the "Distribution") will qualify as tax-free for U.S. federal income tax purposes under Sections 368(a)(1)(D) and 355 of the Code. In addition, in July 2014, the Internal Revenue Service (the "IRS") issued a Private Letter Ruling to our Former Parent that the Distribution would qualify as tax-free for U.S. federal income tax purposes under Sections 368(a)(1)(D) and 355 of the Code. The opinion of tax counsel and the Private Letter Ruling relied on certain facts, assumptions, representations and undertakings from our Former Parent and us, including those regarding the past and future conduct of the companies' respective businesses and other matters. If any of these facts, assumptions, representations or undertakings are incorrect or not satisfied, our Former Parent and its stockholders may not be able to rely on the opinion or the Private Letter Ruling and could be subject to significant tax liabilities. Notwithstanding the opinion of tax counsel and the Private Letter Ruling, the IRS could determine on audit that the Distribution is taxable if it determines that any of these facts, assumptions, representations or undertakings are not correct or have been violated or if it disagrees with the conclusions in the opinion. In addition, we and our Former Parent intend for certain related transactions to qualify for tax-free treatment under federal, state and local tax law and/or foreign tax law.
If the Distribution is determined to be taxable for U.S. federal income tax purposes, our Former Parent and its stockholders that are subject to U.S. federal income tax could incur significant U.S. federal income tax liabilities. For example, if the Distribution fails to qualify for tax-free treatment, our Former Parent would for U.S. federal income tax purposes be treated as if it had sold the Knowles common stock in a taxable sale for its fair market value and our

Former Parent's stockholders, who are subject to U.S. federal income tax, would be treated as receiving a taxable distribution in an amount equal to the fair market value of the Knowles common stock received in the Distribution. In addition, if certain related transactions fail to qualify for tax-free treatment under federal, state and local tax law and/or foreign tax law, our Former Parent (and, under the Tax Matters Agreement described below, Knowles) could incur significant tax liabilities under U.S. federal, state, local and/or foreign tax law.

Under the Tax Matters Agreement between our Former Parent and us, we are required to indemnify our Former Parent against taxes incurred by our Former Parent that arise as a result of our taking or failing to take, as the case may be, certain actions that result in the Distribution failing to meet the requirements of a tax-free distribution under Section 355 of the Code or of such

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related transactions failing to qualify for tax-free treatment. Also, under the Tax Matters Agreement, we are required to indemnify our Former Parent for one-half of the taxes and other liabilities incurred by our Former Parent if the Distribution fails to meet the requirements of a tax-free distribution under Section 355 of the Code for reasons other than an act or failure to act on the part of us or our Former Parent and therefore we might be required to indemnify our Former Parent for such taxes and liabilities due to circumstances and events not within our control. Under the Tax Matters Agreement, we are also required to indemnify our Former Parent for one-half of certain taxes incurred as a result of the restructuring activities undertaken to effectuate the Distribution or as a result of the application of certain rules relating to consolidated federal income tax returns, whether payable upon filing tax returns related to the restructuring and Distribution or upon a subsequent audit of those returns. Our indemnification obligations to our Former Parent under the Tax Matters Agreement are not limited by a maximum amount. If we are required to indemnify our Former Parent under the circumstances set forth in the Tax Matters Agreement, we may be subject to substantial liabilities, which could materially adversely affect our financial position.
We may not be able to engage in certain corporate transactions as a result of the Separation.

To preserve the tax-free treatment to our Former Parent and its stockholders of Distribution and certain related transactions, under the Tax Matters Agreement between us and our Former Parent, we are restricted from taking any action following the Distribution that prevents the Distribution and related transactions from being tax-free for U.S. federal income tax purposes. Under the Tax Matters Agreement, for the two-year period following the Distribution, we will be prohibited, except in certain circumstances, from:

- entering into any transaction resulting in the acquisition of 40% or more of our stock or substantially all of our assets, whether by merger or otherwise;
- merging, consolidating or liquidating;
- issuing equity securities beyond certain thresholds;
- repurchasing our capital stock; and
- ceasing to actively conduct our business.

These restrictions may limit our ability to pursue certain strategic transactions or other transactions that we may believe to be in the best interests of our stockholders or that might increase the value of our business. In addition, under the Tax Matters Agreement, we are required to indemnify our Former Parent against any such tax liabilities as a result of the acquisition of our stock or assets, even if we did not participate in or otherwise facilitate the acquisition.

The Separation and related internal restructuring transactions may expose us to potential liabilities arising out of state and federal fraudulent conveyance laws and legal dividend requirements.

If our Former Parent files for bankruptcy or is otherwise determined or deemed to be insolvent under federal bankruptcy laws, a court could deem the Separation or certain internal restructuring transactions undertaken by our Former Parent in connection with the Separation to be a fraudulent conveyance or transfer. Fraudulent conveyances or transfers are defined to include transfers made or obligations incurred with the actual intent to hinder, delay or defraud current or future creditors or transfers made or obligations incurred for less than reasonably equivalent value when the debtor was insolvent, or that rendered the debtor insolvent, inadequately capitalized or unable to pay its debts as they become due. A court could void the transactions or impose substantial liabilities upon us, which could adversely affect our financial condition and our results of operations. Among other things, the court could require our stockholders to return to our Former Parent some or all of the shares of our common stock issued in the Separation, or require us to fund liabilities of other companies involved in the restructuring transactions for the benefit of creditors.
We may have received better terms from unaffiliated third parties than the terms we will receive in our agreements with our Former Parent.

The agreements we entered into with our Former Parent in connection with the Separation, including the Separation and Distribution Agreement, Transition Services Agreement, Tax Matters Agreement and Employee Matters Agreement, were prepared in the context of our separation from our Former Parent while we were still a wholly owned subsidiary of our Former Parent. Accordingly, during the period in which the terms of those agreements were prepared, we did not have an independent Board of Directors or a management team that was independent of our Former Parent. As a result, the terms of those agreements may not reflect terms that would have resulted from arm’s-length negotiations between unaffiliated third parties. Arm’s-length negotiations between our Former Parent and an unaffiliated third party in another form of transaction, such as a buyer in a sale of a business transaction, may have resulted in more favorable terms to the unaffiliated third party.

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Certain provisions in our amended and restated certificate of incorporation, amended and restated by-laws and Delaware law may prevent or delay an acquisition of the Company, which could decrease the trading price of our common stock.

Our amended and restated certificate of incorporation and amended and restated by-laws contain and the DGCL contains provisions that are intended to deter coercive takeover practices and inadequate takeover bids by making such practices or bids unacceptably expensive to the bidder and to encourage prospective acquirers to negotiate with our Board of Directors rather than to attempt a hostile takeover. These provisions include, among others:

- the inability of our stockholders to call a special meeting or act by written consent;
- rules regarding how stockholders may present proposals or nominate directors for election at stockholder meetings;
- the right of our Board of Directors to issue preferred stock without stockholder approval;
- the division of our Board of Directors into three approximately equal classes of directors, with each class serving a staggered three-year term;
- a provision that stockholders may only remove directors for cause;
- the ability of our directors, without a stockholder vote, to fill vacancies on our Board of Directors (including those resulting from an enlargement of the Board of Directors); and
- the requirement that stockholders holding at least 80% of our voting stock are required to amend certain provisions in our amended and restated certificate of incorporation and our amended and restated by-laws.

In addition, we are subject to Section 203 of the DGCL. Section 203 provides that, subject to limited exceptions, persons that (without prior board approval) acquire, or are affiliated with a person that acquires, more than 15 percent of the outstanding voting stock of a Delaware corporation shall not engage in any business combination with that corporation, including by merger, consolidation or acquisitions of additional shares, for a three-year period following the date on which that person or its affiliate becomes the holder of more than 15 percent of the corporation's outstanding voting stock.

We believe these provisions protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirers to negotiate with our Board of Directors and by providing our Board of Directors with more time to assess any acquisition proposal. These provisions are not intended to make us immune from takeovers. However, these provisions will apply even if the offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that our Board of Directors determines is not in the best interests of the Company and our stockholders. These provisions may also prevent or discourage attempts to remove and replace incumbent directors.
In addition, an acquisition or further issuance of our stock could trigger the application of Section 355(e) of the Code. Under the Tax Matters Agreement, we would be required to indemnify our Former Parent for the tax imposed under Section 355(e) of the Code resulting from an acquisition or issuance of our stock, even if we did not participate in or otherwise facilitate the acquisition and this indemnity obligation might discourage, delay or prevent a change of control that may be considered favorable.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

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ITEM 2. PROPERTIES

Our corporate headquarters is located in Itasca, Illinois. We maintain technical customer support offices and operating facilities in North America, Europe and Asia.

The number, type, location and size of the properties used by our continuing operations as of December 31, 2014 are shown in the following charts:

| | Total |
|---|---|
| Number and nature of facilities: | |
| Manufacturing and Distribution | 20 |
| Other Facilities (principally sales, research and development and headquarters) | 19 |
| | |
| Square footage (in 000s): | |
| Owned | 923 |
| Leased [(1)] | 1,250 |
| | |
| Locations: | |
| Asia | 20 |
| North America | 11 |
| Europe | 8 |

[(1)] Expiration dates on leased facilities range from 1 to 10 years.

We believe that our owned and leased facilities are well-maintained and suitable for our operations.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various legal proceedings and claims discussed below as well as certain other legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business, including those related to intellectual property, which may be owned by us or others. We own many patents covering products, technology and manufacturing processes. Some of these patents have been and may continue to be challenged by others. In appropriate cases, we have taken and will take steps to protect and defend our patents and other intellectual property, including through the use of legal proceedings in various jurisdictions around the world. Such steps have resulted in and may continue to result in retaliatory legal proceedings, including litigation or other legal proceedings in various jurisdictions and forums around the world alleging infringement by us of patents owned by others. The costs of investigations and legal proceedings, particularly multi-forum litigation, relating to the enforcement and defense of our intellectual property, may be material. Additionally, in multi-forum disputes, we may incur adverse judgments with regard to certain claims in certain jurisdictions and forums while still contesting other related claims against the same opposing party in other jurisdictions and forums. In the opinion of management, there was not at least a reasonable probability that we may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies. However, the outcome of legal proceedings and claims brought against us is subject to significant uncertainty. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against us in a reporting period for amounts in excess of management's expectations or the amounts accrued, if any, our Consolidated Financial Statements for that reporting period could be materially adversely affected. See the risk factor "Our revenue, operating profits and cash flows could be adversely affected if our businesses are unable to protect or obtain patent and other intellectual property rights, or to do so at expected cost levels, or if intellectual property litigation is successful against us." in Part I, Item 1A of this Form 10-K under the heading "Risk Factors."

GoerTek IP Litigation

As previously reported, we have been involved in multi-forum, trans-continental, litigation with GoerTek, Inc. and GoerTek Electronics, Inc. (“GoerTek”), both in the United States, including before the U.S. International Trade Commission (“ITC”), the U.S. District Court for the Northern District of Illinois, and the U.S. Patent and Trademark Office, and before various courts and government intellectual property authorities in China. This litigation concerned the alleged infringement of patents directed to MEMS microphones and related technologies. On February 13, 2015, the parties reached a global settlement that resolved all pending litigation between them, including an ITC investigation brought by Knowles against GoerTek, regarding GoerTek’s

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importation of MEMS microphone packages and finished products containing MEMS microphones, in which the Administrative Law Judge assigned to this investigation found that GoerTek had infringed certain patents asserted by Knowles. The ITC had been expected to issue its Final Determination no later than March 6, 2015; however, pursuant to the settlement, Knowles and GoerTek have filed a motion to terminate this investigation. The settlement further resolves two Chinese judgments against Knowles totaling approximately $12.0 million, which also ordered a Chinese subsidiary of Knowles to stop manufacturing and selling accused MEMS microphone products; both of these judgments had been on appeal. Knowles expects that certain validity challenges to its MEMS microphone patents initially brought by GoerTek and other third parties both in the United States and China will continue without GoerTek participating. The terms of the settlement are confidential, but include cross-licensing provisions relating to the companies' MEMS microphone patent portfolios and establish the foundation for a commercial relationship between the parties.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The following sets forth information regarding our executive officers, as of February 16, 2015.

| Name | Age | Position |
|---|---|---|
| Jeffrey S. Niew | 48 | President & Chief Executive Officer |
| John S. Anderson | 51 | Senior Vice President & Chief Financial Officer |
| Michael A. Adell | 44 | Co-President, Mobile Consumer Electronics-Microphones |
| Christian U. Scherp | 49 | Co-President, Mobile Consumer Electronics-Speakers and Receivers |
| Gordon A. Walker | 38 | Co-President, Specialty Components-Acoustics & Hearing Health |
| David W. Wightman | 60 | Co-President, Specialty Components-Precision Devices |
| Alexis Bernard | 41 | Senior Vice President & Chief Technology Officer |
| Raymond D. Cabrera | 48 | Senior Vice President, Human Resources & Chief Administrative Officer |
| Paul M. Dickinson | 43 | Senior Vice President, Corporate Development |
| Daniel J. Giesecke | 47 | Senior Vice President & Chief Operating Officer |
| Thomas G. Jackson | 49 | Senior Vice President, General Counsel & Secretary |
| James F. Wynn | 54 | Senior Vice President, Global Supply Chain |
| Bryan E. Mittelman | 44 | Vice President, Controller |

Jeffrey S. Niew has served as President & Chief Executive Officer since September 2013 and as a member of our Board of Directors since February 2014. From November 2011 until the Separation in February 2014, Mr. Niew served as a Vice President of Dover Corporation and as President and Chief Executive Officer of Dover Communication Technologies. Mr. Niew joined Knowles Electronics LLC (“Knowles Electronics”) in May 2000 and became Chief Operating Officer in January 2007, President in January 2008 and President and Chief Executive Officer in February 2010. Prior to joining Knowles Electronics, Mr. Niew was employed by Littelfuse, Inc., from 1995 to 2000, where he held various positions in product management, sales and engineering in the Electronic Products group and by Hewlett-Packard Company, from 1988 to 1994, where he served in various engineering and product management roles in the Optoelectronics Group in California.

John S. Anderson has served as Senior Vice President & Chief Financial Officer since December 2013. From January 2013 until the Separation in February 2014, Mr. Anderson served as Vice President and Chief Financial Officer of Dover Communication Technologies. Previously, Mr. Anderson served as Vice President and Chief Financial Officer of Dover Energy (from August 2010 to January 2013) and Vice President and Chief Financial Officer of Dover Fluid Management (from October 2009 to August 2010). Previous experience includes the roles of Corporate Controller and Director Financial Planning & Analysis for Sauer-Danfoss Inc. (from October 2004 to October 2009) and Director of Finance and Controller for Borg Warner Turbo Systems GmbH (from August 2002 to October 2004).

Michael A. Adell has served as Co-President, Mobile Consumer Electronics - Microphones since July 2011. Previously, Mr. Adell served as Vice President and General Manager in the Knowles Acoustics division of Knowles Electronics ("Knowles Acoustics") (from January 2009 to July 2011), General Manager, Knowles Acoustics (from December 2006 to January 2009), Director, Product Management, Knowles Acoustics (from July 2004 to November 2006) and Product Manager for silicon microphone products, Knowles Acoustics (from November 2002 to July 2004).
Christian U. Scherp has served as Co-President, Mobile Consumer Electronics - Speakers and Receivers since September 2012. Prior to joining Knowles Electronics, Mr. Scherp served as the Global Head of Sales for the Consumer Devices business of TE Connectivity (from November 2011 to August 2012). Additional previous experience includes the following roles at Conexant Systems: Executive Vice President of Sales (from January 2011 to June 2011), Co-President, WW Sales, Marketing, Program Management (from July 2009 to December 2010) and President (from 2008 to 2009).

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Gordon A. Walker has served as Co-President, Specialty Components - Acoustics & Hearing Health since July 2011. Previously, Mr. Walker served in the following roles in the Knowles Electronics division of Knowles Electronics: Vice President and General Manager (from December 2007 to July 2011), General Manager (from January 2006 to December 2007) and Director, Product Management (from September 2004 to December 2005). Prior to such positions, he held marketing, finance and operations roles after he joined Knowles Electronics in 1997.
David W. Wightman has served as Co-President, Specialty Components - Precision Devices since April 2013. Previously, Mr. Wightman held the position of President of Ceramic & Microwave Products (from August 2004 to April 2013) and President (from February 2000 to August 2004) of Dow-Key Microwave Corporation.
Mr. Wightman's experience also includes leadership roles at Danaher from February 1995 to February 2000.
Alexis Bernard has served as Chief Technology Officer since October 2014. Prior to joining Knowles, Mr. Bernard was the Chief Technology Officer at Audience (from 2013 to 2014). Previously, Mr. Bernard was Vice President of Technology Strategy and Business Development (from 2012 to 2013) and Head Chief Technology Officer, Operations and Chief of Staff, Nokia Chief Technology Officer & Executive Vice President (from 2010 to 2012) at Nokia and prior thereto Senior Engagement Manager at McKinsey & Company (from 2005 to 2010).
Raymond D. Cabrera has served as Senior Vice President, Human Resources & Chief Administrative Officer since February 2014. From November 2011 until the Separation in February 2014, Mr. Cabrera served as Vice President, Human Resources of Dover Communication Technologies. Previously, Mr. Cabrera served in the following capacities at Knowles: as Vice President, Human Resources and Chief Administrative Officer (from January 2004 to November 2011), Vice President, Human Resources (from March 2000 to January 2004) and Director, Human Resources (from June 1997 to March 2000) of Knowles Electronics.
Paul M. Dickinson has served as Senior Vice President, Corporate Development since February 2014 and Treasurer from February to November 2014. Mr. Dickinson started his career with Knowles in October 2013. Previously, Mr. Dickinson was the Chief Financial Officer for EPAY Systems, Inc., from 2012 until moving to Knowles. Additional previous experience includes the following roles at Littelfuse, Inc.: Vice President and General Manager, Semiconductor Business (from 2008 to 2012), Vice President, Corporate Development & Treasurer (from 2005 to 2008), Treasurer (from 2003 to 2005), Director of Accounting and International Finance (from 2000 to 2003) and other finance leadership roles since he joined Littelfuse in 1993.
Daniel J. Giesecke has served as Senior Vice President & Chief Operating Officer since February 2014. From January 2012 until the Separation in February 2014, Mr. Giesecke served as Vice President, Global Operations of Dover Communication Technologies. Previously, Mr. Giesecke served as Vice President, Advanced Manufacturing Engineering, Knowles Electronics (from February 2009 to January 2012), Senior Director, Advanced Manufacturing Engineering, Knowles Electronics (from January 2008 to February 2009), Director of Engineering Operations, Knowles Electronics (from November 2003 to January 2008) and various operations, supply chain and engineering positions since he joined Knowles Electronics in 1995.
Thomas G. Jackson has served as Senior Vice President, Secretary since February 2014 and, effective April 1, 2014, General Counsel. Prior to joining Knowles, Mr. Jackson served as Vice President and Assistant General Counsel at Jabil Circuit, Inc., a provider of electronic manufacturing services (from March 2012 to December 2013). In addition, he served as Vice President, General Counsel and Secretary at P.H. Glatfelter Company, a manufacturer of specialty papers and fiber-based engineered materials (from June 2008 to November 2011) and as its Assistant General Counsel, Assistant Secretary and Director of Compliance (from September 2006 to June 2008).
James F. Wynn has served as Senior Vice President Global Supply Chain since February 2014. From January 2013 until the Separation in February 2014, Mr. Wynn served as Vice President, Global Supply Chain of Dover Communication Technologies. Previously, Mr. Wynn served as Vice President, Global Supply Chain (from February 2009 to January 2013), Senior Director, Global Supply Chain (from March 2004 to February 2009) and Director, Global Supply Chain (from March 2002 to March 2004) of Knowles Electronics.
Bryan E. Mittelman has served as Vice President, Controller since February 2014. Mr. Mittelman started his career at Knowles in September 2013. Previously, Mr. Mittelman served as the Controller for Morningstar, Inc. from December 2011 to September 2013. Additional prior experience includes operating his consulting business from June 2010 to

December 2011 and the following roles at Siemens Healthcare Diagnostics and Dade Behring (which was acquired by Siemens in 2007): Vice President, Finance, North America (from January 2008 to May 2010), Vice President, Finance, Americas (from January 2007 to December 2007), Vice President, Corporate Audit and Advisory Services (from March 2006 to December 2006), Assistant Corporate Controller (from April 2005 to February 2006) and Director of Financial Reporting (from July 2002 to April 2005).

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on the New York Stock Exchange (the “NYSE”) under the ticker symbol “KN.” A "when issued" trading market for our common stock began on the NYSE on February 14, 2014 and "regular way" trading of our common stock began on March 3, 2014. Prior to February 14, 2014, there was no public market for our common stock. The following table presents the high and low prices for common stock as reported on the NYSE since February 14, 2014.

| | 2014 Market Prices | |
|---|---|---|
| | High | Low |
| First Quarter (February 14, 2014 through March 31, 2014) | $33.66 | $27.58 |
| Second Quarter | $32.61 | $27.55 |
| Third Quarter | $33.82 | $25.62 |
| Fourth Quarter | $26.38 | $17.23 |

Dividends

Since the spin-off from Dover Corporation, we have not paid cash dividends and we do not anticipate paying a cash dividend on our common stock in the immediate future. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend on many factors, such as our financial condition, earnings, capital requirements, debt service obligations, industry practice, legal requirements, regulatory constraints and other factors that the Board of Directors deems relevant. Our ability to pay dividends will depend on our ongoing ability to generate cash from operations and access to the capital markets.

Holders

The number of holders of record of our common stock as of February 18, 2015 was approximately 1,436.

Securities Authorized for Issuance Under Equity Compensation Plans

For information regarding securities authorized for issuance under our equity compensation plans, see Part III, Item 12 of this Form 10-K.

Recent Sales of Unregistered Securities

On June 26, 2013, in connection with our formation, we issued 100 shares of common stock, par value $0.01 per share, to Dover Corporation for total consideration of $100 in cash. On February 28, 2014, we issued 85,019,059 shares of common stock, par value $0.01 per share, to Dover Corporation as a dividend to our sole stockholder. We did not register the issuance of these shares under the Securities Act of 1933, as amended (the “Securities Act”), because such issuance did not constitute a public offering and therefore was exempt from registration pursuant to Section 4(a)(2) of the Securities Act. All of these 85,019,159 shares were subsequently distributed on a pro rata basis to Dover’s stockholders in connection with the Separation.

Issuer Purchases of Equity Securities

None.

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Performance Graph

This performance graph does not constitute soliciting material, is not deemed filed with the SEC and is not incorporated by reference in any of our filings under the Securities Act of 1933 or the Exchange Act of 1934, whether made before or after the date of this Annual Report on Form 10-K and irrespective of any general incorporation language in any such filing, except to the extent we specifically incorporate this performance graph by reference therein.

Data Source: NYSE

*Total return assumes reinvestment of dividends.
This graph assumes $100 invested on March 3, 2014 in Knowles Corporation common stock, the S&P Mid Cap 400® index and PHLX / Semiconductor Sector Index℠.
The foregoing performance graph is being furnished as part of this Annual Report on Form 10-K solely in accordance with the requirement under Rule 14a-3(b)(9) to furnish our stockholders with such information and therefore, shall not be deemed to be filed or incorporated by reference into any filings by the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

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ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected financial data. We derived the selected financial data as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012 from the audited Consolidated Financial Statements and accompanying notes that are under Item 8, "Financial Statements and Supplementary Data." We derived the selected financial data as of December 31, 2012 and 2011 and for the years ended December 31, 2011 and 2010 from our audited Combined Financial Statements and accompanying notes that are not included in this report. We derived the data as of December 31, 2010 from our unaudited Combined Financial Statements that are not included in this report. In management's opinion, our unaudited Combined Financial Statements for this date have been prepared on the same basis as our audited Consolidated Financial Statements and include all adjustments, consisting only of normal recurring adjustments and allocations, necessary for a fair statement of the information for the periods presented.

The selected financial data includes costs of Knowles' businesses, which include the allocation of certain corporate expenses from Dover. We believe that these allocations were made on a reasonable basis. The selected historical financial data may not be indicative of our future performance as an independent publicly-traded company. The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and accompanying notes included under Item 8, "Financial Statements and Supplementary Data."

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| Statement of Earnings Data (in millions, except for share and per share amounts): | 2014 | 2013 | 2012 | 2011 [1] | 2010 |
| Revenue | $1,141.3 | $1,214.8 | $1,118.0 | $983.3 | $730.4 |
| Gross profit | 232.7 | 427.9 | 407.0 | 378.0 | 334.6 |
| Net (loss) earnings | $(87.0) | $105.8 | $79.1 | $98.5 | $109.3 |
| | | | | | |
| Adjusted for: | | | | | |
| Interest expense, net [2] | 6.6 | 42.0 | 56.5 | 39.9 | 20.3 |
| Provision (benefit from) for income taxes | 31.9 | (4.3) | (0.2) | 7.1 | 7.5 |
| EBIT [3] | $(48.5) | $143.5 | $135.4 | $145.5 | $137.1 |
| Basic and diluted (loss) earnings per share | $(1.02) | $1.24 | $0.93 | $1.16 | $1.29 |
| Basic and diluted shares outstanding [4] | 85,046,042 | 85,019,159 | 85,019,159 | 85,019,159 | |