

KEMET CORP  
Form 10-K  
May 25, 2016

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PART IV

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-K

(Mark  
One)

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

For the fiscal year ended March 31, 2016

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-15491

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

Delaware (State or other jurisdiction of incorporation or organization) 57-0923789 (I.R.S. Employer Identification No.)

2835 Kemet Way, Simpsonville, South Carolina 29681  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (864) 963-6300

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

(Title of each class) (Name of Exchange on which registered)  
Common Stock, par value \$0.01 New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant 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

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to submit and post such files). Yes  No

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.

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):

Non-accelerated filer

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

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

The aggregate market value of voting common stock held by non-affiliates of the registrant as of September 30, 2015 computed by reference to the closing sale price of the registrant's common stock was approximately \$81,863,979.

The number of shares of each class of common stock, \$0.01 par value, outstanding as of May 23, 2016 was 46,235,675.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement to be delivered to stockholders in connection with the Annual Meeting of Stockholders to be held July 28, 2016 are incorporated by reference into Part III of this report.

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## PART I

## ITEM 1. BUSINESS

## Background of Company

KEMET Corporation ("we", "us", "our", "KEMET" and the "Company"), is a global manufacturer of passive electronic components. We first began manufacturing tantalum capacitors in 1958 as a division of Union Carbide Corporation ("UCC") and became a stand-alone legal entity in 1990 following a management buyout from UCC. In 1992, we publicly issued shares of our common stock. Since then, we have made the following acquisitions:

Business Group	Fiscal Year	Business
Solid Capacitors Business Group ("Solid Capacitors")	2007	Tantalum Business Unit of EPCOS AG
Film and Electrolytic Business Group ("Film and Electrolytic")	2008	Evox Rifa Group Oyj
Film and Electrolytic	2008	Arcotronics Italia S.p.A.
Film and Electrolytic	2012	Cornell Dubilier Foil, LLC (renamed KEMET Foil Manufacturing, LLC ("KEMET Foil"))
Solid Capacitors	2012	Niotan Incorporated (renamed KEMET Blue Powder Corporation ("Blue Powder"))
Corporate	2013	34% economic interest in NEC TOKIN Corporation ("NEC TOKIN")
Corporate	2016	IntelliData, Inc. ("IntelliData")

Through the above acquisitions and organic growth we have expanded our product base to include multilayer ceramic, solid & electrolytic aluminum and film capacitors.

In fiscal year 2013, our subsidiary, KEMET Electronics Corporation ("KEC") acquired a 34% economic interest in NEC TOKIN as calculated based on the number of common shares held by KEC, directly and indirectly, in proportion to the aggregate number of common and preferred shares of NEC TOKIN outstanding as of such date. The Company accounts for its investment in NEC TOKIN using the equity method for a non-consolidated variable interest entity since KEC does not have the power to direct significant activities of NEC TOKIN.

## General

We compete in the passive electronic component industry, specifically multilayer ceramic, tantalum, film and aluminum (solid & electrolytic) capacitors. Product offerings include surface mount, which are attached directly to the circuit board; leaded capacitors, which are attached to the circuit board using lead wires; and chassis-mount and other pin-through-hole board-mount capacitors, which utilize attachment methods such as screw terminal and snap-in.

Capacitors are electronic components that store, filter, and regulate electrical energy and current flow. As an essential passive component used in nearly all circuit boards, capacitors are typically used for coupling, decoupling, filtering, oscillating and wave shaping and are used in communication systems, servers, personal computers, tablets, cellular phones, automotive electronic systems, defense and aerospace systems, consumer electronics, power management systems and many other electronic devices and systems (basically anything that plugs in or has a battery).

Our product line consists of many distinct part configurations distinguished by various attributes, such as dielectric (or insulating) material, configuration, encapsulation, capacitance (at various tolerances), voltage, performance characteristics and packaging. Most of our customers have multiple capacitance requirements, often within each of their products. Our broad product offering allows us to meet the majority of those needs independent of application and end use.

We believe the long-term demand for the various types of capacitors we offer will grow on a regional and global basis due to a variety of factors, including increasing demand for and complexity of electronic products, growing demand for technology in emerging markets and the ongoing development of new solutions for energy generation and

conservation. Our customer base includes most of the world's major electronics original equipment manufacturers ("OEMs") (including Alcatel-Lucent USA, Inc., Bosch Group, Cisco Systems, Inc., Continental AG, Dell Inc., HP Inc., International Business Machines Corporation, Motorola Solutions, L.M. Ericsson, Siemens AG and TRW Automotive), electronics manufacturing services providers ("EMSs") (including Celestica Inc., Flextronics International LTD, Jabil Circuit, Inc. and Sanmina-SCI Corporation) and distributors (including TTI, Inc., Arrow Electronics, Inc. and Avnet, Inc.).

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Solid Capacitors products are commonly used in conjunction with integrated circuits, and the same circuit may, and frequently does, contain both ceramic and tantalum capacitors. Tantalum capacitors are a popular choice because of their ability for high capacitance in a small volume package. While ceramic capacitors are more cost-effective at lower capacitance values, tantalum capacitors are more cost-effective at higher capacitance values while solid aluminum capacitors can be more effective in special applications. Film, paper and aluminum electrolytic capacitors can be used to support integrated circuits, but also are used in the field of power electronics to provide energy for applications such as motor starts, power conditioning, electromagnetic interference filtering safety and inverters. Capacitors account for the largest market within the passive component product grouping.

**Our Industry**

We compete with others that manufacture and distribute capacitors both domestically and globally and our success in the market is influenced by many factors, including price, availability, engineering specifications, quality and breadth of offering, performance characteristics, customer service and geographic location of our manufacturing sites. As in all manufacturing industries, there is ongoing pressure on average unit selling prices for capacitors. To help mitigate this effect, KEMET as well as many of our larger competitors have relocated their manufacturing operations to low cost regions and locations in closer proximity to our respective customers.

According to a March 2016 report entitled "Passive Electronic Components: World Market Outlook: 2016-2021" by Paumanok Publications, Inc. ("Paumanok"), a market research firm concentrating on the passive components industry, the global capacitor market in fiscal year 2016 (fiscal year ending March 2016) was estimated to be \$18.8 billion in revenues and 1.87 trillion units. According to the Paumanok report, the global capacitor market is expected to improve substantially and achieve revenue and unit volume increases of 13% and 16%, respectively, by fiscal year 2021.

According to Paumanok, the forecast of the capacitor industry for fiscal year 2016 and the expected growth to fiscal year 2021 are as follows (amounts in billions):

	Fiscal Year 2016	Fiscal Year 2021
Tantalum	\$1.6	\$1.9
Ceramic	10.3	11.3
Aluminum	3.6	3.8
Paper and plastic film	1.7	2.4
Other	0.6	0.7
	\$17.8	\$20.1

Because capacitors are a fundamental component of electronic circuits, demand for capacitors tends to reflect the general demand for electronic products, as well as integrated circuits, which, though cyclical, continues to grow. We believe growth in the electronics market and the resulting growth in demand for capacitors will be driven primarily by a number of recent trends which include:

- the development of new products and applications, such as alternative and renewable energy systems, hybrid transportation systems, electronic controls for engines and industrial machinery, smart phones and mobile personal computing devices;
- the "internet-of-things" products;
- the next generation of automotive electronics to support advance driver assistance systems, as well as the connected car;
- the increase in the electronic content of existing products, such as home appliances, medical equipment and automobiles;
- consumer desire for mobility and connectivity; and
- the enhanced functionality, complexity and convergence of electronic devices that use state-of-the-art microprocessors.

#### Markets and Customers

Our products are sold to a variety of OEMs in a broad range of industries including the computer, communications, automotive, military, consumer, industrial and aerospace industries. We also sell products to EMS providers, which also serve OEMs in these industries. Electronics distributors are an important channel of distribution in the electronics industry and represent the largest channel through which we sell our capacitors. One electronics distributor accounted for over 10% of our net sales in fiscal years 2016, 2015 and 2014. If our relationship with this customer were to terminate, we would need to

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determine alternative means of delivering our products to the end-customers served by them. Our top 50 customers accounted for 86.3% of our net sales during fiscal year 2016.

While we are seeing a merging of major segments as connectivity and “internet-of-things” grow, the following table presents an overview of the diverse industries that incorporate our capacitors into their products and the general nature of those products.

Industry	Products
Automotive	Adaptive cruise control, High intensity discharge headlamps, Light emitting diode electronic modules, Lane departure warning, Camera systems, Audio systems, Tire pressure monitoring, Power train electronics, Instrumentation, Airbag systems, Anti-lock braking and stabilization systems, Hybrid and electric drive vehicles, Electronic engine control modules, Driver comfort controls, Security systems, radar, connectivity systems and advance driver assistance gear
Communications	Smart phones, Telephones, Switching equipment, Relays, Base stations, and Wireless infrastructure
Computer-related	Personal computers (laptops, tablets, netbooks), Workstations, Servers, Mainframes, Computer peripheral equipment, Power supplies, Solid state drives, and Local area networks
Industrial	Electronic controls, Measurement equipment, Instrumentation, Solar and wind energy generation, Down-hole drilling and Medical electronics
Consumer	Digital media devices, Game consoles, Televisions, audio devices, and Global positioning systems
Military/Aerospace	Avionics, Radar, Guidance systems, and Satellite communications
Alternative Energy	Wind generation systems, Solar generation systems, Geothermal generation systems, Tidal generation Systems and Electric drive vehicles

We produce a small percentage of capacitors under military specification standards sold for both military and commercial uses. We do not sell any capacitors directly to the United States government. Certain of our customers purchase capacitors for products in the military and aerospace industries.

It is impracticable to report revenues from external customers for each of the above noted products primarily because approximately 42% of our external sales were to electronics distributors for fiscal year 2016.

#### KEMET in the United States

Our corporate headquarters is located near Greenville, South Carolina.

Commodity manufacturing previously located in the United States has been substantially relocated to our lower-cost manufacturing facilities in Mexico, China and Europe. Production remaining in the United States focuses primarily on early-stage manufacturing of new products and other specialty products for which customers are predominantly located in North America.

On June 13, 2011, we completed the acquisition of KEMET Foil, a Tennessee based manufacturer of etched foils utilized as a core component in the manufacture of electrolytic capacitors. On February 21, 2012, we completed the acquisition of all of the outstanding shares of Blue Powder, a leading manufacturer of tantalum powders. Blue Powder had been a significant supplier of tantalum powder to KEMET for several years. Blue Powder's principal operating location is in Carson City, Nevada.

To accelerate the pace of innovations, KEMET maintains an Innovation Center for Solid Capacitors near Greenville, South Carolina. The primary objectives of the KEMET Innovation Center are to ensure the flow of new product platforms, material sets, and processes that are expected to keep us at the forefront of our customers' product designs, while enabling these products to be transferred rapidly to the most appropriate KEMET manufacturing location in the world for low-cost, high-volume production.

#### KEMET in Mexico

We believe our operations in Mexico are among the most cost efficient in the world, and we expect they will continue to be our primary production facilities supporting North American and European customers for Solid Capacitors. One



of the strengths of KEMET Mexico is that it is a local operation, including local management and workers. These facilities are responsible for maintaining KEMET's tradition of excellence in quality, service, and delivery, while driving costs down. The

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facilities in Victoria and Matamoros are focused primarily on tantalum capacitors, while the facilities in Monterrey are focused on ceramic capacitors.

**KEMET in Asia Pacific**

We have a well-established manufacturing, sales and logistics network in Asia to support our customers' Asian operations. We currently manufacture tantalum and aluminum polymer and Electrolytic products in China. The vision for KEMET China is to be a local operation, with local management and workers, to help achieve our objective of being a global company. These facilities are responsible for maintaining our tradition of excellence in quality, service, and delivery, while accelerating cost-reduction efforts and supporting efforts to grow our customer base in Asia.

**KEMET in Europe**

We currently have one or more manufacturing locations in each of the following countries: Bulgaria, Finland, Italy, Macedonia, Portugal, and Sweden. In addition, we operate product innovation centers in the United Kingdom, Italy, Germany and Sweden. We continue to maintain and enhance our strong European sales and customer service infrastructure, allowing us to continue to meet the local preferences of European customers who remain an important focus for KEMET.

**Global Sales and Logistics**

KEMET serves the needs of our global customer base through three geographic regions: North America and South America ("Americas"), Europe, the Middle East and Africa ("EMEA") and Asia and the Pacific Rim ("APAC"). Each region's sales staff is organized into three areas supported by regional offices. We also have independent sales representatives located in seven countries worldwide including: Brazil, Israel, Canada, and the United States.

In our major markets, we market and sell our products primarily through a direct sales force. With a global sales organization that is customer-focused, our direct sales personnel from around the world serve on KEMET Global Account Teams committed to serving any customer location in the world with a dedicated KEMET representative. The traditional sales team is supported by regional Field Application Engineers who are experts in electronic engineering and market all of KEMET's products by assisting customers with the resolution of capacitor application issues. We believe our direct sales force creates a distinct advantage in the marketplace by enabling us to establish and maintain strong relationships with our customers to efficiently process simple repeat business as well as to consult with customers on new and technically complex custom applications. In addition, where appropriate, we use independent commissioned representatives. This approach requires a blend of accountability and responsibility for specific customer locations, guided by an overall account strategy for each customer. Our sales team works with the customers throughout the entire purchasing process, following opportunities as they progress through concept, design, validation and finally mass production.

Electronics distributors are an important distribution channel in the electronics industry and accounted for 42%, 45%, and 45% of our net sales in fiscal years 2016, 2015 and 2014, respectively. A portion of our net sales to distributors are made under agreements allowing certain rights of return and price protection on unsold merchandise held by distributors. In addition, our distributor policy includes inventory price protection and "ship-from-stock and debit" ("SFSD") programs common in the industry.

**Sales by Geography**

In fiscal years 2016 and 2015, net sales by region were as follows (dollars in millions):

	Fiscal Year		Fiscal Year	
	2016		2015	
	Net	% of	Net	% of
	Sales	Total	Sales	Total
Americas	\$225.7	31 %	Americas	\$260.0 32 %
APAC	275.8	37 %	APAC	281.8 34 %
EMEA	233.3	32 %	EMEA	281.4 34 %
Total	\$734.8		Total	\$823.2

We believe our regional balance of revenues is a benefit to our business. The geographic diversity of our net sales diminishes the impact of regional sales decreases caused by various holiday seasons. While sales in the Americas are the lowest of the three regions, the Americas remains the leading region in the world for product design in activity where engagement with OEM design engineers determines product placement independent of the region of the world where the final product is manufactured.

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## Inventory and Backlog

Our customers often encounter uncertain or changing demand for their products. They historically order products from us based on their forecast and if demand does not meet their forecasts, they may cancel or reschedule the shipments included in our backlog, in many instances without penalty. Additionally, many of our customers have started to require shorter lead times and "just in time" delivery. Consequently, the twelve month order backlog is not a meaningful trend indicator for us.

Although we manufacture and inventory standardized products, a portion of our products are produced to meet specific customer requirements. Cancellations by customers of orders already in production could have an impact on inventories. Historically, however, cancellations have not been significant.

## Competition

The capacitor industry is characterized by, among other factors, a long-term trend toward lower prices, low transportation costs, and few import barriers. Competitive factors influencing the market for our products include: product quality, customer service, technical innovation, pricing, and timely delivery. We believe we compete favorably on the basis of each of these factors.

Our major global competitors include AVX Corporation, Panasonic Corporation, Littelfuse, Inc., Murata Manufacturing Co., Ltd., Samsung, Taiyo Yuden Co., Ltd., TDK-EPC Corporation, WIMA GmbH & Co., KG and Vishay Intertechnology, Inc. ("Vishay").

## Raw Materials

The principal raw materials used in the manufacture of our products are tantalum powder, tantalum ore, palladium, aluminum and silver. These materials are considered commodities and are subject to price volatility. Additionally, any delays in obtaining raw materials for our products could hinder our ability to manufacture our products, negatively impacting our competitive position and our relationships with our customers.

Tantalum is mined principally in the Democratic Republic of Congo, Australia, Brazil, Canada and Mozambique. As a result of our tantalum vertical integration program which began in fiscal year 2012, we have reduced our exposure to price volatility and supply uncertainty in the tantalum supply chain. A majority of our tantalum needs are now met through our direct sourcing of conflict free tantalum ore or tantalum scrap reclaim, which is then processed into the intermediate product potassium heptafluorotantalate (commonly known as K-salt) at our own facility in Mexico, before final processing into tantalum powder at Blue Powder. Price increases for tantalum ore, or for the remaining tantalum powder that we source from third parties, could impact our financial performance as we may not be able to pass all such price increases on to our customers.

Palladium is a precious metal used in the manufacture of multilayer ceramic capacitors ("MLCC") and is mined primarily in Russia and South Africa. We continue to pursue ways to reduce palladium usage in ceramic capacitors to minimize the price risk. The amount of palladium we require has generally been available in sufficient quantities; however, the price of palladium is driven by the market which has shown significant price fluctuations. For instance, in fiscal year 2016 the price of palladium fluctuated between \$470 and \$802 per troy ounce. Price increases and the possibility of our inability to pass such increases on to our customers could have an adverse effect on profitability. Silver and aluminum have generally been available in sufficient quantities, and we believe there are a sufficient number of suppliers from which we can purchase our requirements. An increase in the price of silver and aluminum that we are unable to pass on to our customers, could, however, have an adverse effect on our profitability.

## Patents and Trademarks

As of March 31, 2016, we held the following number of patents and trademarks:

	Patents	Trademarks
United States	124	7
Foreign	47	114

We believe the success of our business is not materially dependent on the existence or duration of any individual patent, license, or trademark other than the trademarks "KEMET" and "KEMET Charged". Our engineering and

research and development staffs have developed and continue to develop proprietary manufacturing processes and equipment designed to enhance our manufacturing facilities and reduce costs.

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### Research and Development

Research and development expenses were \$25.0 million, \$25.8 million and \$24.5 million for fiscal years 2016, 2015 and 2014, respectively. These amounts include expenditures for product development and the design and development of machinery and equipment for new processes and cost reduction efforts. We continue to invest in new technology to improve product performance and production efficiencies.

### Segment Reporting

We are organized into two business groups: Solid Capacitors and Film and Electrolytic. Each business group is responsible for the operations of certain manufacturing sites as well as all related research and development efforts. The sales, marketing and corporate functions are shared by each of the business groups. See Note 6, "Segment and Geographic Information" to our consolidated financial statements.

#### Solid Capacitors Business Group

Solid Capacitors operates nine capacitor manufacturing sites in the United States, Mexico and China and a product innovation center in the United States and primarily produces tantalum, aluminum, polymer and ceramic capacitors which are sold globally. Solid Capacitors also produces tantalum powder used in the production of tantalum capacitors. Solid Capacitors employs over 6,270 employees worldwide. For fiscal years 2016, 2015 and 2014, Solid Capacitors had consolidated net sales of \$556.3 million, \$621.3 million and \$626.5 million, respectively.

We continue to make significant investments in tantalum production within Solid Capacitors and, based on net sales, we believe we are the largest tantalum capacitor manufacturer in the world. We believe we have one of the broadest lines of tantalum product offerings and are one of the leaders in the growing market for high-frequency surface mount tantalum and aluminum polymer capacitors. On February 21, 2012, we acquired Blue Powder which we believe is the largest production facility for tantalum powder in the western hemisphere. The Company continues to review its cost structure and may take actions to improve the cost structure if the anticipated result is advantageous.

Tantalum's broad product portfolio, industry leading process and materials technology, global manufacturing base and on-time delivery capabilities allow us to serve a wide range of customers in a diverse group of end markets, including computing, telecommunications, consumer, medical, military, automotive and general industries.

Our ceramic product line offers an extensive line of multilayer ceramic capacitors in a variety of sizes and configurations. We are one of the two leading ceramic capacitor manufacturers headquartered in the United States and among the ten largest manufacturers worldwide.

Ceramic's high temperature and capacitance stable product lines provide us with what we believe to be a significant advantage over many of our competitors, especially in high reliability markets, such as medical, industrial, defense and aerospace. Our other significant end-markets include computing, telecommunications, automotive and general industries.

#### Film and Electrolytic Business Group

Our Film and Electrolytic Business Group produces film, paper and wet aluminum electrolytic capacitors. In addition, the business group designs and produce EMI filters. For applications requiring high power and high voltages, film capacitors are more suitable. For applications requiring high energy at a reasonable price, aluminum electrolytic capacitors are preferred. EMI filters consist of capacitive and inductive elements that reduce electromagnetic disturbance in the frequency range desired. We believe we are one of the world's largest suppliers of direct current film and one of the leaders in wet aluminum electrolytic capacitors. In addition, we produce capacitor grade aluminum foils utilized as a core component in the manufacture of electrolytic capacitors. For fiscal years 2016, 2015 and 2014, our Film and Electrolytic Business Group had consolidated net sales of \$178.5 million, \$201.9 million and \$207.2 million, respectively. One of the primary drivers of the decreases in sales from fiscal year 2014 to fiscal year 2016 is the reduction of the USD to EURO exchange rate from a weighted average value of 1.34 to 1.10.

Our Film and Electrolytic Business Group primarily serves the industrial and automotive markets. We believe our Film and Electrolytic Business Group's product portfolio, technology and experience allow us to significantly benefit from the continued growth in alternative energy solutions and energy efficiency solutions within both the automotive

and industrial markets especially for demanding applications such as humidity, temperature, voltage, etc. We operate ten film and electrolytic manufacturing sites throughout Europe and Asia and maintain product innovation centers in the United Kingdom, Italy, Germany and Sweden. Our Film and Electrolytic Business Group employs approximately 2,090 employees worldwide.

As part of our restructuring efforts for Film and Electrolytic, we have been executing our plan to reduce the number of operations and headcount. The restructuring plan is now substantially complete even though the full effects of these actions

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have not been reflected in the income statement yet and a few actions are still being completed. During fiscal year 2016, three operations were ceased and we reduced headcount by approximately 160 employees. The total closing, severance, and startup expenses incurred in fiscal year 2016 were approximately \$3.0 million. These actions resulted in approximately a \$4.0 million reduction in our operating costs in fiscal year 2016. We expect an additional \$4.6 million of savings in fiscal year 2017 as a result of our plan, followed by another \$1.8 million in fiscal year 2018.

**Environmental and Regulatory Compliance**

We are subject to various North American, European, and Asian federal, state, and local environmental laws and regulations relating to the protection of the environment, including those governing the handling and management of certain chemicals and materials used and generated in manufacturing electronic components. Based on the annual costs incurred over the past several years, we do not believe compliance with these laws and regulations will have a material adverse effect on our capital expenditures, earnings, or competitive position. We believe, however, it is reasonably likely the trend in environmental litigation, laws, and regulations will continue to be toward stricter standards. Such changes in the laws and regulations may require us to make additional capital expenditures which, while not currently estimable with certainty, are not presently expected to have a material adverse effect on our financial condition.

We are strongly committed to economic, environmental, and socially sustainable development. As a result of this commitment, we have adopted the Electronic Industry Citizenship Coalition ("EICC") Code of Conduct. The EICC Code of Conduct is a comprehensive code of conduct that addresses all aspects of corporate responsibility including labor, health and safety, the environment, business ethics, and related management system elements. It outlines standards to ensure working conditions in the electronic industry supply chain are safe, workers are treated with respect and dignity, manufacturing processes are environmentally sustainable and materials are sourced responsibly. Policies, programs, and procedures implemented throughout KEMET ensure compliance with legal and regulatory requirements, the content of the EICC Code of Conduct, and customer contractual requirements related to social and environmental responsibility.

We fully support the position of the EICC, the Global e-Sustainability Initiative ("GeSI"), the Electronic Components Industry Association ("ECIA") and the Tantalum-Niobium International Study Center ("TIC") in avoiding the use of conflict minerals which directly or indirectly finance or benefit armed groups in the Democratic Republic of Congo or adjoining countries, in line with full compliance to the EICC Code of Conduct. Our tantalum supply base has been and continues to be validated as being sourced conflict free. All of our tantalum raw material providers have been validated as compliant to the EICC/GeSI Conflict Free Smelter Program ("CFSP") program. This policy and validation requirement has been implemented for all conflict minerals. We intend to discontinue doing business with any supplier found to be purchasing materials which directly or indirectly finance or benefit armed groups in the Democratic Republic of Congo or adjoining countries. We will continue to work through the EICC, GeSI, ECIA and TIC towards the goal of greater transparency in the supply chain.

**Summary of Activities to Develop a Transparent Supply Chain**

We are actively involved in developing a transparent supply chain through our membership in the EICC/GeSI Conflict-Free Sourcing Initiative. We were a member of the EICC/GeSI working group that developed the CFSP assessment protocols and participated in the pilot implementation phase of the Organization for Economic Cooperation and Development Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. We participate in smelter engagement to increase the number of conflict-free validated smelters globally, the development of due diligence guidance documents and the advancement of the industry adopted conflict minerals reporting template. We will rely on the EICC/GeSI Conflict-Free Smelter Program independent third party audits to supplement our internal due diligence of conflict mineral suppliers and are monitoring the progress of these audits to ensure our supply chain is conflict free. We fully support section 1502 "Conflict Minerals" of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and will comply with all reporting requirements.



Global Code of Conduct and Mission, Vision and Values

KEMET maintains a Global Code of Conduct ("Code of Conduct"), which became effective August 1, 2010, as well as mission ("Mission"), vision ("Vision") and values ("Values") statements along with a set of core values, which became effective in June 2011. KEMET's Mission is to help make the world a better, safer, more connected place to live. KEMET's Vision is to be the world's most trusted partner for innovative component solutions. KEMET's Values embody the key expectations of how our employees should approach the work they do every day: One KEMET, Unparalleled Customer Experience, Ethics and Integrity, Talent Oriented, No Politics, The Math Must Work and Speed. The Global Code of Conduct and Mission, Vision and Values are applicable to all employees, officers, and directors of the Company. The Code of Conduct, Mission, Vision and Values and any amendments thereto are available at <http://www.kemet.com>.

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Employees

We have approximately 8,800 employees as of March 31, 2016 in the following locations:

Mexico	4,950
Asia	1,825
Europe	1,450
United States	575

The number of employees represented by labor organizations at KEMET locations in each of the following countries is as follows:

Mexico	3,350
Italy	250
Macedonia	25
Bulgaria	125
Indonesia	325
Finland	175
Sweden	100

In fiscal year 2016, we did not experience any major work stoppages. Our labor costs in Mexico, Asia and various locations in Europe are denominated in local currencies, and a significant depreciation or appreciation of the United States dollar against the local currencies would increase or decrease our labor costs.

Securities Exchange Act of 1934 ("Exchange Act") Reports

We maintain an Internet website at the following address: <http://www.kemet.com>. KEMET makes available on or through our Internet website certain reports and amendments to those reports filed or furnished to the Securities and Exchange Commission ("SEC") pursuant to Section 13(a) or 15(d) of the Exchange Act. These include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and beneficial ownership reports on Forms 3, 4 and 5. This information is available on our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC.

ITEM 1A. RISK FACTORS.

This report contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from those expressed in, or implied by, our forward-looking statements. Words such as "expects," "anticipates," "believes," "estimates" and other similar expressions or future or conditional verbs such as "will," "should," "would" and "could" are intended to identify such forward-looking statements. Readers of this report should not rely solely on the forward-looking statements and should consider all uncertainties and risks throughout this report. The statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement.

All forward-looking statements, by their nature, are subject to risks and uncertainties. Our actual future results may differ materially from those set forth in our forward-looking statements. We face risks inherent in the businesses and the market places in which we operate. While management believes these forward-looking statements are accurate and reasonable, uncertainties, risks and factors, including those described below, could cause actual results to differ materially from those reflected in our forward-looking statements.

Factors that may cause actual outcomes and results to differ materially from those expressed in, or implied by, these forward-looking statements include, but are not necessarily limited to, the following: (i) adverse economic conditions could impact our ability to realize operating plans if the demand for our products declines, and such conditions could adversely affect our liquidity and ability to continue to operate; (ii) continued net losses could impact our ability to realize current operating plans and could materially adversely affect our liquidity and our ability to continue to

operate; (iii) adverse economic conditions could cause the write down of long-lived assets or goodwill; (iv) an increase in the cost or a decrease in the availability of our principal or single-sourced purchased materials; (v) changes in the competitive environment; (vi) uncertainty of the timing of customer product qualifications in heavily regulated industries; (vii) economic, political, or regulatory changes in the countries in which we operate; (viii) difficulties, delays or unexpected costs in completing the restructuring plans;

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(ix) equity method investment in NEC TOKIN exposes us to a variety of risks; (x) acquisitions and other strategic transactions expose us to a variety of risks; (xi) possible acquisition of NEC TOKIN may not achieve all of the anticipated results; (xii) our business could be negatively impacted by increased regulatory scrutiny and litigation; (xiii) inability to attract, train and retain effective employees and management; (xiv) inability to develop innovative products to maintain customer relationships and offset potential price erosion in older products; (xv) exposure to claims alleging product defects; (xvi) the impact of laws and regulations that apply to our business, including those relating to environmental matters; (xvii) the impact of international laws relating to trade, export controls and foreign corrupt practices; (xviii) volatility of financial and credit markets affecting our access to capital; (xix) the need to reduce the total costs of our products to remain competitive; (xx) potential limitation on the use of net operating losses to offset possible future taxable income; (xxi) restrictions in our debt agreements that limit our flexibility in operating our business; (xxii) failure of our information technology systems to function properly or our failure to control unauthorized access to our systems may cause business disruptions; (xxiii) additional exercise of the warrant by K Equity which could potentially result in the existence of a significant stockholder who could seek to influence our corporate decisions; and (xxiv) fluctuation in distributor sales could adversely affect our results of operations. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations and could cause actual results to differ materially from those included, contemplated or implied by forward-looking statements made in this report, and the reader should not consider the above list of factors to be a complete set of all potential risks or uncertainties.

Adverse economic conditions could impact our ability to realize operating plans if the demand for our products declines; and such conditions could adversely affect our liquidity and ability to continue to operate.

While our operating plans provide for cash generated from operations to be sufficient to cover our future operating requirements, many factors, including reduced demand for our products, currency exchange rate fluctuations, increased raw material costs, and other adverse market conditions we cannot predict could cause a shortfall in net cash generated from operations. As an example, the electronics industry is a cyclical industry with demand for capacitors reflecting the demand for products in the electronics market. Customers' requirements for our capacitors fluctuate as a result of changes in general economic activity and other factors affecting the demand for their end-products. During periods of increasing demand for their products, they typically seek to increase their inventory of our products to avoid production bottlenecks. When demand for their products peaks and begins to decline, they may rapidly decrease orders for our products while they use accumulated inventory. Business cycles vary somewhat in different geographical regions, such as Asia, and within customer industries. We are also vulnerable to general economic events beyond our control and our sales and profits may suffer in periods of weak demand.

Our ability to realize operating plans is also dependent upon meeting our payment obligations and complying with any applicable financial covenants under our debt agreements. If cash generated from operating, investing and financing activities is insufficient to pay for operating requirements and to cover interest payment obligations under debt instruments, planned operating and capital expenditures may need to be reduced.

Continued net losses could impact our ability to realize current operating plans and could materially adversely affect our liquidity and our ability to continue to operate.

Our liquidity and ability to realize our current operating plans is dependent on an improvement in operating results. If cash generated from operating, investing and financing activities is insufficient to pay for operating requirements and to cover payment obligations under debt instruments, planned operating and capital expenditures may need to be reduced, or the debt instruments may need to be amended or refinanced. There can be no assurances we would be able to secure such amendments or refinancing on satisfactory terms.

However, to provide financial flexibility, if necessary we could explore the sale of certain non-core assets. There can be no assurances we would be successful in this strategic initiative. Our ability to realize current operating plans is also dependent upon meeting our payment obligations and complying with any applicable financial covenants under our debt agreements.

Adverse economic conditions could cause the write down of long-lived assets or goodwill.

Long-lived assets and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of a long-lived asset or group of assets may not be recoverable. In the event the test shows the carrying value of certain long-lived assets is impaired, we would be required to take an impairment charge to earnings under U.S. generally accepted accounting principles. However, such a charge would have no direct effect on our cash. If the economic conditions decline we could incur impairment charges in the future. Goodwill is reviewed for impairment annually and whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. In the event the test shows the carrying value of goodwill is impaired, we would

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be required to take an impairment charge to earnings under U.S. generally accepted accounting principles. However, such a charge would have no direct effect on our cash. If the economic conditions decline we could incur additional charges in the future.

An increase in the cost or decrease in the availability of our principal or single-sourced purchased materials could adversely affect profitability.

The principal raw materials used in the manufacture of our products are tantalum powder, tantalum ore, palladium, aluminum and silver. These materials are considered commodities and are subject to price volatility. Additionally, any delays in obtaining raw materials for our products could hinder our ability to manufacture our products, negatively impacting our competitive position and our relationships with our customers.

Tantalum is mined principally in the Democratic Republic of Congo, Australia, Brazil, Canada and Mozambique. As a result of our tantalum vertical integration program which began in fiscal year 2012, we have reduced our exposure to price volatility and supply uncertainty in the tantalum supply chain. A majority of our tantalum needs are now met through our direct sourcing of conflict free tantalum ore or tantalum scrap reclaim, which is then processed into the intermediate product potassium heptafluorotantalate (commonly known as K-salt) at our own facility in Mexico, before final processing into tantalum powder at Blue Powder. Price increases for tantalum ore, or for the remaining tantalum powder that we source from third parties, could impact our financial performance as we may not be able to pass all such price increases on to our customers.

Palladium is a precious metal used in the manufacture of multilayer ceramic capacitors and is mined primarily in Russia and South Africa. We continue to pursue ways to reduce palladium usage in ceramic capacitors in order to minimize the price risk. The amount of palladium we require has generally been available in sufficient quantities; however, the price of palladium is subject to significant price fluctuations driven by market demand. For instance, in fiscal year 2016 the price of palladium fluctuated between \$470 and \$802 per troy ounce. Price increases and the possibility of our inability to pass such increases on to our customers could have an adverse effect on profitability.

Silver and aluminum have generally been available in sufficient quantities, and we believe there are a sufficient number of suppliers from which we can purchase our requirements. An increase in the price of silver and aluminum that we are unable to pass on to our customers, could, however, have an adverse effect on our profitability.

Changes in the competitive environment could harm our business.

The capacitor business is competitive worldwide, with low transportation costs and few import barriers. Competition is based on factors such as product quality and reliability, availability, customer service, technical innovation, timely delivery and price. The industry has become increasingly consolidated and globalized in recent years, and our primary U.S. and non-U.S. competitors, some of which are larger than us, have significant financial resources. The greater financial resources of such competitors may enable them to commit larger amounts of capital in response to changing market conditions. Some competitors may also have the ability to use profits from other operations to subsidize losses sustained in their businesses with which we compete. Certain competitors may also develop product or service innovations that could put us at a disadvantage.

Uncertainty of the timing of customer product qualifications in heavily regulated industries could affect the timing of product revenues and profitability arising from these industries.

Our capacitors are incorporated into products used in diverse industries. Certain of these industries, such as military, aerospace and medical, are heavily regulated, with long and sometimes unpredictable product approval and qualification processes. Due to such regulatory compliance issues, there can be no assurances as to the timing of product revenues and profitability arising from our product development and sales efforts in these industries.

We manufacture many capacitors in Europe, Mexico and Asia and economic, political or regulatory changes in any of these regions could adversely affect our profitability.

Our international operations are subject to a number of special risks, in addition to the same risks as our domestic business. These risks include currency exchange rate fluctuations, differing protections of intellectual property, trade barriers, labor unrest, exchange controls, regional economic uncertainty, differing (and possibly more stringent) labor

regulation, risk of governmental expropriation, domestic and foreign customs and tariffs, current and changing regulatory regimes, differences in the availability and terms of financing, political instability and potential increases in taxes. These factors could impact our production capability or adversely affect our results of operations or financial condition.

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We may experience difficulties, delays or unexpected costs in completing our restructuring plan and may not realize all of the expected benefits from our restructuring plan.

During fiscal year 2016, we continued our restructuring plan for Film and Electrolytic and took actions to reduce headcount by a total of approximately 160 employees and we expect to further reduce headcount in fiscal year 2017 by an additional 35 employees.

Solid Capacitors took actions to reduce headcount by approximately 230 in fiscal year 2016. The full benefits of this restructuring activity are expected to be realized in fiscal year 2017. We may not realize, in full or in part, the anticipated benefits of the restructuring plan without encountering difficulties, which may include complications in the transfer of production knowledge, loss of key employees and/or customers, the disruption of ongoing business, possible inconsistencies in standards, controls and procedures and potential difficulty in meeting customer demand in the event the market dramatically improves. We are party to collective bargaining agreements in certain jurisdictions in which we operate which could potentially prevent or delay execution of parts of our restructuring plan.

The financial performance of our equity method investment in NEC TOKIN could adversely impact our results of operations.

On February 1, 2013, we closed on KEC's investment in a 34% economic interest in NEC TOKIN with the purchase of 51% of the common stock in NEC TOKIN. The 34% economic interest is calculated based on the number of common shares held by KEC, directly and indirectly, in proportion to the aggregate number of common and preferred shares of NEC TOKIN outstanding as of such date. These businesses are subject to laws, regulations or market conditions, or have risks inherent in their operations, that could adversely affect their performance. We do not have the power to direct significant activities of our equity method investments and therefore the performance of the investment may be negatively impacted. The interests of our partners may differ from the Company's, and they may cause such entities to take actions which are not in the Company's best interest. Any of these factors could adversely impact our results of operations and the value of our investment. In fiscal years 2016, 2015 and 2014 we incurred a loss on our equity investment in NEC TOKIN of \$16.4 million, \$2.2 million and \$7.1 million, respectively.

Acquisitions and other strategic transactions expose us to a variety of operational and financial risks.

Our ability to realize the anticipated benefits of acquisitions depends, to a large extent, on our ability to integrate the acquired companies with our own. Our management devotes significant attention and resources to these efforts, which may disrupt the business of each of the companies and, if executed ineffectively, could preclude realization of the full benefits we expect. Failure to realize the anticipated benefits of our acquisitions could cause an interruption of, or a loss of momentum in, the operations of the acquired company. In addition, the efforts required to realize the benefits of our acquisitions may result in material unanticipated problems, expenses, liabilities, competitive responses, loss of customer relationships, the diversion of management's attention, and may cause our stock price to decline.

Additionally, we may finance acquisitions or future payments with cash from operations, additional indebtedness and/or the issuance of additional securities, any of which may impair the operation of our business or present additional risks, such as reduced liquidity or increased interest expense. Such acquisition financing could result in a decrease of our ratio of earnings to fixed charges. We may also seek to restructure our business in the future by disposing of certain of our assets, which may harm our future operating results, divert significant managerial attention from our operations and/or require us to accept non-cash consideration, the market value of which may fluctuate.

Failure to implement our acquisition strategy, including successfully integrating acquired businesses, could have an adverse effect on our business, financial condition and results of operations.

We may not realize the anticipated synergies and revenue expansion expected to result from completing the acquisition of NEC TOKIN and we may experience difficulties in integrating NEC TOKIN's business which may adversely affect our financial performance.

There can be no assurance we will complete the acquisition of the remaining shares of common stock and preferred stock of NEC TOKIN. KEC's first and second call options to purchase additional capital stock of NEC TOKIN expired on April 30, 2015 and as a result KEC does not currently have the right to purchase the remaining capital stock of



NEC TOKIN. There can be no assurance KEC will be able to negotiate new terms to purchase the additional capital stock of NEC TOKIN. From April 1, 2015 through May 31, 2018, NEC Corporation (“NEC”) of Japan may require KEC to purchase all outstanding capital stock of NEC TOKIN from its stockholders, primarily NEC (the “Put Option”), provided KEC’s payment of the Put Option price is permitted under the 10.5% Senior Notes and Loan and Security Agreement.

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Even if we do complete the acquisition, there can be no assurance we will realize the anticipated operating synergies, tax benefits and revenue expansion from the acquisition of NEC TOKIN or we will not experience difficulties in integrating the operations of NEC TOKIN with our operations. For example, the integration of NEC TOKIN will require the experience and expertise of certain of our key managers and key managers of NEC TOKIN. There can be no assurance, however, that these managers will remain with us for the time period necessary to successfully integrate the operations of NEC TOKIN with our operations. In addition, the acquisition of NEC TOKIN may present significant challenges for our management due to the increased time and resources required to properly integrate our management, employees, information systems, accounting controls, personnel and administrative functions with those of NEC TOKIN and to manage the combined company on a going forward basis. There can be no assurance we will be able to successfully integrate and streamline overlapping functions or, if successfully accomplished, that such integration will not be more costly to accomplish than presently contemplated or that we will not encounter difficulties in managing the combined company due to its increased size and scope. Furthermore, expansions or acquisitions into new geographic markets and services may require us to comply with new and unfamiliar legal and regulatory requirements, which could impose substantial obligations on us and our management, cause us to expend additional time and resources and increase our exposure to penalties or fines for non-compliance with such requirements. Furthermore, there can be no assurance that, as a combined company, we will continue to maintain all of the supplier and customer relationships we and NEC TOKIN enjoyed as separate companies. As a combined company, we may encounter difficulties managing relationships with our suppliers and our customers due to our increased size and scope and to the increased number of relationships we will have with suppliers and customers.

We are currently subject to increased regulatory scrutiny and litigation that may negatively impact our business. The growth of our Company and our expansion into a variety of new products expose us to a variety of new regulatory issues, and we have experienced increased regulatory scrutiny as we have grown. We are subject to various federal, foreign and state laws, including antitrust laws, violations of which can involve civil or criminal sanctions. Beginning in March 2014, NEC TOKIN and certain of its subsidiaries have received inquiries, requests for information and other communications from government authorities in China, the United States, the European Commission, Japan, South Korea, Taiwan, Singapore and Brazil concerning alleged anti-competitive activities within the capacitor industry, and NEC TOKIN has subsequently received significant fines from the United States Department of Justice and the Taiwan Fair Trade Commission arising out of their respective investigations. Given our leading position within several segments of the capacitor industry and our substantial investment in NEC TOKIN, these investigations have exposed us to civil litigation costs and could interfere with our ability to meet certain business objectives. Further, the Company received a request for information from the European Commission in connection with its investigation of NEC TOKIN as the regulators evaluate any potential liability to which shareholders of NEC TOKIN may be subject. In addition, in connection with the antitrust litigation and settlement proceedings involving NEC TOKIN as described in Note 5 to the consolidated financial statements; the line item " Net income (loss) from NEC TOKIN on our Consolidated Statement of Operations reflects our 34% economic interest in NEC TOKIN's litigation and settlement expenses.

Various purported antitrust class actions as described in "Item 3. Legal Proceedings", have been filed in United States district courts (the "U.S. Complaints") and Canada (the "Canadian Complaints") alleging collusion and restraint of trade in capacitors by the named defendants, including KEMET Corporation, KEC and NEC TOKIN.

The Company has not recorded any accrual concerning the U.S. Complaints and the Canadian Complaints.

The impact of these and other investigations could have a material adverse effect on our financial position, liquidity and results of operations.

Our inability to attract, train and retain effective employees and management could harm our business.

Our success depends upon the continued contributions of our executive officers and certain other employees, many of whom have many years of experience with us and would be extremely difficult to replace. We must also attract and retain experienced and highly skilled engineering, sales and marketing and managerial personnel. Competition for

qualified personnel is intense in our industry, and we may not be successful in hiring and retaining these people. If we lost the services of our executive officers or our other highly qualified and experienced employees or cannot attract and retain other qualified personnel, our business could suffer through less effective management due to loss of accumulated knowledge of our business or through less successful products due to a reduced ability to design, manufacture and market our products.

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We must continue to develop innovative products to maintain relationships with our customers and to offset potential price erosion in older products.

While most of the fundamental technologies used in the passive components industry have been available for a long time, the market is nonetheless characterized by rapid changes in product designs and technological advances allowing for better performance, smaller size and/or lower cost. New applications are frequently found for existing technologies, and new technologies occasionally replace existing technologies for some applications or open up new business opportunities in other areas of application. We believe successful innovation is critical for maintaining profitability in order to offset potential erosion of selling prices for existing products and to ensure the flow of new products and robust manufacturing processes that will keep us at the forefront of our customers' product designs. Non-customized commodity products are especially vulnerable to price pressure, but customized products have also experienced price pressure in recent years. Developing and marketing new products requires start-up costs that may not be recouped if these products or production techniques are not successful. There are numerous risks inherent in product development, including the risks we will be unable to anticipate the direction of technological change or we will be unable to develop and market new products and applications in a timely fashion to satisfy customer demands. If this occurs, we could lose customers and experience adverse effects on our results of operations.

We may be exposed to claims alleging product defects.

Our business exposes us to claims alleging product defects or nonconformance with product specifications. We may be held liable for, or incur costs related to, such claims if any of our products, or products in which our products are incorporated, are found to have caused end market product application failures, product recalls, property damage or personal injury. Provisions in our customer and distributor agreements are designed to limit our exposure to potential material product defect claims, including warranty, indemnification, waiver and limitation of liability provisions, but such provisions may not be effective under the laws of some jurisdictions. If we cannot successfully defend ourselves against product defect claims, we may incur substantial liabilities. Regardless of the merits or eventual outcome, defect claims could entail substantial expense and require the time and attention of key management personnel. Our insurance program may not be adequate to cover all liabilities arising out of product defect claims and, at any time, insurance coverage may not be available on commercially reasonable terms or at all. If liability coverage is insufficient, a product defect claim could result in liability to us, which could materially and adversely affect our results of operations or financial condition. Even if we have adequate insurance coverage, product defect claims or recalls could result in negative publicity or force us to devote significant time and attention to those matters.

Various laws and regulations that apply to our business, including those relating to conflict minerals and environmental matters, could limit our ability to operate as we are currently and could result in additional costs. We are subject to various laws and regulations of federal, state and local authorities in the countries in which we operate regarding a wide variety of matters, including conflict minerals, environmental, employment, land use, antitrust, and others that affect the day-to-day operations of our business. The liabilities and requirements associated with the laws and regulations that affect us may be costly and time-consuming. There can be no assurance we have been or will be at all times in compliance with such applicable laws and regulations. Failure to comply may result in the assessment of administrative, civil and criminal penalties, the issuance of injunctions to limit or cease operations, the suspension or revocation of permits and other enforcement measures that could have the effect of limiting our operations. If we are pursued for sanctions, costs or liabilities in respect of these matters, our operations and, as a result, our profitability could be materially and adversely affected.

The SEC requires issuers for whom tantalum, tin, tungsten and gold are necessary to the functionality or production of a product manufactured, or contracted to be manufactured, by such person to disclose annually whether any of those minerals originated in the Democratic Republic of Congo or an adjoining country. As defined by the SEC, tantalum, tin, tungsten and gold are commonly referred to as "conflict minerals" or "3TG". If an issuer's conflict minerals originated in those countries, the rule requires the issuer to submit a report to the Commission that includes a description of the measures it took to exercise due diligence on the conflict minerals' source and chain of custody. We use tantalum, tin

and, to a lesser degree, other of the 3TG minerals in our production processes and in our products. We have exercised due diligence on the source and chain of custody during the reporting period and, as required under the rule, will disclose a description of these measures and certain of our findings in a special disclosure on Form SD. Disclosure in accordance with the rule may cause changes to the pricing of 3TG minerals, which could adversely affect our profitability. In addition, it is possible some of our disclosures pursuant to the rule related to our inquiries and supply chain custody diligence could cause reputational harm and cause the company to lose customers or sales.

In addition, we are subject to a variety of U.S. federal, state and local, as well as foreign, environmental laws and regulations relating, among other things, to wastewater discharge, air emissions, handling of hazardous materials, disposal of solid and hazardous wastes, and remediation of soil and groundwater contamination. We use a number of chemicals or similar

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substances and generate waste that are considered hazardous. We are required to hold environmental permits to conduct many of our operations. Violations of environmental laws and regulations could result in substantial fines, penalties, and other sanctions. Changes in environmental laws or regulations (or in their enforcement) affecting or limiting, for example, our chemical uses, certain of our manufacturing processes, or our disposal practices, could restrict our ability to operate as we are currently operating or impose additional costs. In addition, we may experience releases of certain chemicals or discover existing contamination, which could cause us to incur material cleanup costs or other damages.

Our international sales and operations are subject to applicable laws relating to trade, export controls and foreign corrupt practices, the violation of which could adversely affect our operations.

We must comply with all applicable export control laws and regulations of the United States and other countries. United States laws and regulations applicable to us include the Arms Export Control Act, the International Traffic in Arms Regulations ("ITAR"), the Export Administration Regulations ("EAR") and the trade and trade sanctions laws and regulations administered by the Office of the United States Trade Representative ("OFTR") and the United States Department of the Treasury's Office of Foreign Assets Control ("OFAC"). The import and export of our products from each of our United States and international manufacturing facilities and distribution hubs are subject to international trade agreements, the modification or repeal of which could impact our business. We must comply with the requirements of OFTR and non-U.S. trade representative offices in order to benefit from existing trade agreements. EAR restricts the export of dual-use products and technical data to certain countries, while ITAR restricts the export of defense products, technical data and defense services. The U.S. government agencies responsible for administering EAR and ITAR have significant discretion in the interpretation and enforcement of these regulations. We also cannot provide services to certain countries subject to United States trade sanctions unless we first obtain the necessary authorizations from OFAC. In addition, we are subject to the Foreign Corrupt Practices Act and other anti-bribery laws that, generally, bar bribes or unreasonable gifts to foreign governments or officials.

Violations of these laws or regulations could result in significant additional sanctions including fines, more onerous compliance requirements, more extensive debarments from export privileges, loss of authorizations needed to conduct aspects of our international business and criminal penalties and may harm our ability to enter contracts with customers who have contracts with the U.S. government. A violation of the laws or the regulations enumerated above could materially adversely affect our business, financial condition and results of operations.

Volatility of financial and credit markets could affect our access to capital.

Uncertainty in the global financial and credit markets could impact our ability to implement new financial arrangements or to modify our existing financial arrangements. An inability to obtain new financing or to further modify existing financing could adversely impact the execution of our restructuring plans and delay the realization of the expected cost reductions. Our ability to generate adequate liquidity will depend on our ability to execute our operating plans and to manage costs in light of developing economic conditions. An unanticipated decrease in sales, or other factors that would cause the actual outcome of our plans to differ from expectations, could create a shortfall in cash available to fund our liquidity needs. Being unable to access new capital, experiencing a shortfall in cash from operations to fund our liquidity needs and the failure to implement an initiative to offset the shortfall in cash would likely have a material adverse effect on our business.

We must consistently reduce the total costs of our products to remain competitive.

Our industry is intensely competitive and prices for existing commodity products tend to decrease steadily over their life cycle. There is substantial and continuing pressure from customers to reduce the total cost of capacitors. To remain competitive, we must achieve continuous cost reductions through process and product improvements.

We must also be in a position to minimize our customers' shipping and inventory financing costs and to meet their other goals for rationalization of supply and production. Our growth and the profit margins of our products will suffer if our competitors are more successful in reducing the total cost to customers of their products than we are. We must also continue to introduce new products that offer performance advantages over our existing products and can thereby

achieve premium prices, offsetting the price declines in our more mature products.

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Our use of net operating losses to offset possible future taxable income could be limited by ownership changes. In addition to the general limitations on the carryback and carryforward of net operating losses under Section 172 of the Internal Revenue Code (the "Code"), Section 382 of the Code imposes further limitations on the utilization of net operating losses by a corporation following ownership changes which result in more than a 50 percentage point change in ownership of a corporation within a three-year period. If Section 382 applies, the post-ownership change utilization of our net operating losses may be subject to limitation for federal income tax purposes related to regular and alternative minimum tax. The application of Section 382 of the Code now or in the future could limit a substantial part of our future utilization of available net operating losses. Such limitation could require us to pay substantial additional income taxes and adversely affect our liquidity and financial position.

We do not believe we have experienced an ownership change to date. However, the Section 382 rules are complex and there is no assurance our view is correct. For example, the issuance of a warrant (the "Platinum Warrant") in May 2009 to K Financing, LLC ("K Financing"), in connection with the entry into a credit facility (the "Platinum Credit Facility") with K Financing, may be deemed to have resulted in an "ownership change" for purposes of Section 382 of the Code. If such an ownership change is deemed to have occurred, the amount of our post-ownership change taxable income that could be offset by our pre-ownership change net operating loss carryforwards would be severely limited. While we believe the issuance of the Platinum Warrant did not result in an ownership change for purposes of Section 382 of the Code, there is no assurance our view will be unchallenged.

Even if we have not experienced an ownership change to date, we could experience an ownership change in the near future if there are certain significant purchases of our common stock or other events outside our control.

Our debt agreements contain restrictions that limit our flexibility in operating our business.

The agreement governing our revolving credit facility and the indenture governing the notes and certain of our other debt agreements contain various covenants that, subject to exceptions, limit our ability to, among other things: incur additional indebtedness; create liens on assets; make capital expenditures; engage in mergers, consolidations, liquidations and dissolutions; sell assets (including pursuant to sale leaseback transactions); pay dividends and distributions on or repurchase capital stock; make investments (including acquisitions), loans, or advances; prepay certain junior indebtedness; engage in certain transactions with affiliates; enter into restrictive agreements; amend material agreements governing certain junior indebtedness; and change lines of business. The agreement governing our revolving credit facility also includes a fixed charge coverage ratio covenant that we must satisfy if an event of default occurs or in the event we do not meet certain excess availability requirements under our revolving credit facility. Our ability to comply with this covenant is dependent on our future performance, which may be subject to many factors, some of which are beyond our control.

Failure of our information technology systems to function properly may cause business disruptions.

As a global company we depend on our information technology systems to support our business. Any inability to successfully manage the procurement, development, implementation, execution or maintenance of our information systems, including matters related to system and data security, reliability, compliance or performance could have an adverse effect on our business including our results of operation and timeliness of financial reporting.

In the ordinary course of business, we collect and store sensitive data and information, including our proprietary and regulated business information, as well as personally identifiable information about our employees, in addition to other information upon which our business processes rely. Our information systems, like those of other companies, are susceptible to malicious damage, intrusions and outages due to, among other events, viruses, breaches of security, natural disasters, power loss or telecommunications failures. We have taken steps to maintain adequate data security and address these risks and uncertainties by implementing security technologies, internal controls, network and data center resiliency and recovery processes. However, any operational failure could lead to the loss or disclosure of confidential and other important information which could have the following implications: loss of intellectual property, significant remediation costs, disruption to key business operations and diversion of management's attention and key informational technology resources.



K Equity may obtain significant influence over all matters submitted to a stockholder vote if they exercise Platinum Warrant and retain ownership of the shares, which may limit the ability of other shareholders to influence corporate activities and may adversely affect the market price of our common stock.

As part of the consideration for entering into the Platinum Credit Facility on May 5, 2009, K Financing received the Platinum Warrant to purchase up to 26,848,484 shares of our common stock (subject to certain adjustments), representing 49.9% of our outstanding common stock at the time of issuance on a post-exercise basis. This Platinum Warrant was subsequently transferred to K Equity, LLC ("K Equity"), an affiliate of K Financing. As of March 31, 2016, 8,416,815 shares remain subject to the Platinum Warrant. To the extent K Equity exercises the remainder of the Platinum Warrant in whole or in

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part but does not sell all or a significant part of the shares it acquires upon exercise, K Equity may own up to 15.4% of our outstanding common stock. As a result, K Equity may have substantial influence over the outcome of votes on all matters requiring approval by our stockholders, including the election of directors, the adoption of amendments to our restated certificate of incorporation and by-laws and approval of significant corporate transactions. This concentration of stock ownership may make it difficult for stockholders to replace management. In addition, this significant concentration of stock ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. This concentration of control could be disadvantageous to other stockholders with interests different from those of our officers, directors and principal stockholders, and the trading price of shares of our common stock could be adversely affected.

Sales to distribution channel customers may fluctuate and adversely affect our results of operations.

From time-to-time, if end customer demand decreases, our sales to distributors also decrease while the distributors reduce their inventory levels. In addition, a single customer, a distributor, accounted for over 10% of our net sales in fiscal years 2016, 2015 and 2014. If our relationship with this customer were to terminate, we would need to determine alternative means of delivering our products to the end-customers served by it.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We are headquartered in Simpsonville, South Carolina, and have 19 manufacturing plants located in North America, Europe and Asia. Our manufacturing and research facilities include approximately 3.3 million square feet of floor space and use proprietary manufacturing processes and equipment.

Our facilities in Mexico operate under the Maquiladora program. In general, a company that operates under this program is afforded certain duty and tax preferences and incentives on products brought into the United States. Our manufacturing standards, including compliance with worker safety laws and regulations, are essentially identical in North America, Europe and Asia. Our operations in Mexico, Europe and Asia, similar to our United States operations, have won numerous quality, environmental and safety awards.

We believe substantially all of our property and equipment is in good condition, and overall, we have sufficient capacity to meet our current and projected manufacturing and distribution needs.

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The following table provides certain information regarding our principal facilities:

Location	Square Footage (in thousands)	Type of Interest	Description of Use
Simpsonville, South Carolina U.S.A. Solid Capacitor Business Group	372	Owned	Headquarters, Innovation Center, Advanced Tantalum Manufacturing
Matamoros, Mexico(1)	384	(1)	(1)
Monterrey, Mexico(2)	532	Owned	Manufacturing
Suzhou, China(2)	353	Leased	Manufacturing
Ciudad Victoria, Mexico	265	Owned	Manufacturing
Carson City, Nevada U.S.A. Film and Electrolytic Business Group	87	Owned	Manufacturing
Evora, Portugal	233	Owned	Manufacturing
Skopje, Macedonia	126	Owned	Manufacturing
Granna, Sweden	132	Owned	Manufacturing
Suomussalmi, Finland	93	Leased	Manufacturing
Batam, Indonesia	86	Owned	Manufacturing
Knoxville, Tennessee U.S.A.	78	Owned	Manufacturing
Kyustendil, Bulgaria	83	Owned	Manufacturing
Landsberg, Germany	81	Leased	Innovation Center
Pontecchio, Italy	226	Owned	Manufacturing and Innovation Center
Weymouth, United Kingdom	96	Leased	Innovation Center
Anting, China	38	Owned	Manufacturing
Farjestaden, Sweden	28	Leased	Manufacturing and Innovation Center

1. Includes two manufacturing facilities, one owned and one leased facility. The leased facility processes raw materials.

2. Includes two manufacturing facilities.

### ITEM 3. LEGAL PROCEEDINGS.

We or our subsidiaries are at any one time parties to a number of lawsuits arising out of their respective operations, including workers' compensation or work place safety cases, some of which involve claims of substantial damages. Although there can be no assurance, based upon information known to us, we do not believe that any liability which might result from an adverse determination of such lawsuits would have a material adverse effect on our financial condition or results of operations.

As previously reported, KEMET Corporation and KEC, along with more than 20 other capacitor manufacturers and subsidiaries, are defendants in a purported antitrust class action complaint, In re: Capacitors Antitrust Litigation, No. 3:14-cv-03264-JD, filed on December 4, 2014 with the United States District Court, Northern District of California (the "U.S. Complaint"). The complaint alleges a violation of Section 1 of the Sherman Act, for which it seeks injunctive and equitable relief and money damages. On March 30, 2016, KEMET Corporation and KEC filed a motion for summary judgement with the District Court; response and reply briefs concerning the motion have not yet been filed. In addition, as previously reported, KEMET Corporation and KEC, along with certain other capacitor manufacturers and subsidiaries, were named as defendants in several additional suits that were filed in Canada (collectively, the

“Canadian Complaints”): *Badashmin v. Panasonic Corporation, et al.*, filed August 6, 2014 in the Superior Court, Province of Quebec, District of Montreal; *Herard v. Panasonic Corporation, et al.*, filed August 6, 2014 in the Superior Court, Province of Quebec, District of Montreal; *Cygnus Electronics Corporation v. Panasonic Corporation, et al.*, filed August 6, 2014 in the Superior Court of Justice, Province of Ontario; *LeClaire v. Panasonic Corporation, et al.*, filed August 6, 2014 in the Superior Court, Province of Quebec, District of Montreal; *Taylor v Panasonic Corporation, et al.*, filed August 11, 2014 in the Superior Court of Justice, Province of Ontario; *Ramsay v. Panasonic Corporation, et al.*, filed August 14, 2014 in the Supreme Court, Province of British Columbia; *Martin v. Panasonic Corporation, et al.*, filed September 25, 2014 in the Superior Court, Province of

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Quebec, District of Montreal; Parikh v. Panasonic Corporation, et al., filed October 3, 2014 in the Superior Court of Justice, Province of Ontario; Fraser v. Panasonic Corporation, et al., filed October 3, 2014 in the Court of Queen's Bench, Province of Saskatchewan; Pickering v. Panasonic Corporation, et al., filed October 6, 2014 in the Supreme Court, Province of British Columbia; and McPherson v Panasonic Corporation et al., filed on November 6, 2014 in the Court of Queen's Bench, Province of Manitoba. The Canadian Complaints generally allege the same unlawful acts as in the U.S. Complaint, assert claims under Canada's Competition Act as well as various civil and common law causes of action, and seek injunctive and equitable relief and money damages.

Except for certain attorneys' fees, the Company has not recorded any accrual concerning the U.S. Complaint and the Canadian Complaints.

Beginning in March 2014, NEC TOKIN and certain of its subsidiaries have received inquiries, requests for information and other communications from government authorities in China, the United States, the European Commission, Japan, South Korea, Taiwan, Singapore and Brazil concerning alleged anti-competitive activities within the capacitor industry. In connection with the European Commission ("EC") investigation, EC regulators are evaluating any potential liability to which shareholders of NEC TOKIN, including KEC, may be subject. See Note 5, "Investment in NEC TOKIN".

## ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

## ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The name, age, business experience, positions and offices held and period served in such positions or offices for each of the executive officers and certain key employees of the Company is as listed below. There are no family relationships among our executive officers and directors.

Name	Age	Position	Years with Company
Per-Olof Lööf	65	Chief Executive Officer and Director	11
William M. Lowe, Jr.	62	Executive Vice President and Chief Financial Officer	8
Charles C. Meeks, Jr.	54	Executive Vice President, Solid Capacitor Business Group	32
R. James Assaf	56	Senior Vice President, General Counsel and Secretary	8
Susan B. Barkal	53	Senior Vice President Quality, Chief Compliance Officer and Chief of Staff	16
Dr. Phillip M. Lessner	57	Senior Vice President and Chief Technology Officer	20
Claudio Lollini	36	Senior Vice President of Global Sales and Marketing	11
Stefano Vetralla	53	Senior Vice President and Chief Human Resources Officer	8
Robert S. Willoughby	55	Senior Vice President, Global Supply Chain	30
Andreas Meier	48	Senior Vice President, Film and Electrolytic Business Group	18
Michael L. Raynor	50	Vice President and Corporate Controller	8
Richard J. Vatinelle	52	Vice President and Treasurer	3

## Executive Officers

Per-Olof Lööf, Chief Executive Officer and Director, was named such in April 2005. Mr. Lööf was previously the Managing Partner of QuanStar Group, LLC, a management consulting firm and had served in such capacity since December 2003. Prior thereto, he served as Chief Executive Officer of Sensormatic Electronics Corporation and in various management roles with Andersen Consulting, Digital Equipment Corporation, AT&T and NCR. Mr. Lööf also serves on several charity boards including Boca Raton Regional Hospital and the International Centre for Missing & Exploited Children. He received a "civilekonom examen" degree in economics and business administration from the Stockholm School of Economics.

William M. Lowe, Jr., Executive Vice President and Chief Financial Officer, was named such in July 2008. Mr. Lowe was previously the Vice President, Chief Operating Officer and Chief Financial Officer of Unifi, Inc., a producer and processor of textured synthetic yarns from January 2004 to October 2007. Prior to holding that position, he was Executive Vice President and Chief Financial Officer for Metaldyne, an automotive components manufacturer. He also held various financial management positions with ArvinMeritor, Inc., a premier global supplier of integrated automotive components. He received his B.S. degree in business administration with a major in accounting from Tri-State University and is a Certified Public Accountant in the state of Ohio.

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Charles C. Meeks, Jr., Executive Vice President, Solid Capacitor Business Group, was named such in May 2013. He joined KEMET in December 1983 in the position of Process Engineer, and has held various positions of increased responsibility including the positions of Plant Manager and Director of Operations, Ceramic Business Group. He was named Vice President, Ceramic Business Group in June 2005, Senior Vice President, Ceramic Business Group in October 2007, Senior Vice President, Ceramic and Film and Electrolytic Business Group in March 2010 and Executive Vice President Ceramic and Film and Electrolytic Business Group in May 2011 prior to his appointment to his current position. In addition, since January 2000, Mr. Meeks has served as President of Top Notch Inc., a private company that offers stress management therapy services. Mr. Meeks received a Masters of Business Administration degree and a Bachelor of Science degree in Ceramic Engineering from Clemson University.

R. James Assaf, Senior Vice President, General Counsel and Secretary, was named such in February 2014. Mr. Assaf joined KEMET as Vice President, General Counsel in March 2008, and was appointed Vice President, General Counsel and Secretary in July 2008 prior to his appointment to his current position. Before joining KEMET, Mr. Assaf served as General Manager for InkSure Inc., a start-up seller of product authentication solutions. He had also previously held several positions with Sensormatic Electronics Corporation, including Associate General Counsel and Director of Business Development, Mergers & Acquisitions. Prior to Sensormatic, Mr. Assaf served as an Associate Attorney with the international law firm Squire Sanders & Dempsey. Mr. Assaf received his Bachelor of Arts degree from Kenyon College and his Juris Doctor degree from Case Western Reserve University School of Law.

Susan B. Barkal, Senior Vice President Quality, Chief Compliance Officer and Chief of Staff, was named such in February 2014. Ms. Barkal joined KEMET in November 1999, and has served as Quality Manager for the Tantalum Business Group (now a part of Solid Capacitors), Technical Product Manager for all Tantalum product lines and Director of Tantalum Product Management. Ms. Barkal was appointed Vice President of Quality and Chief Compliance Officer in December 2008 prior to her appointment to her current position. Ms. Barkal holds a Bachelor of Science degree in Chemical Engineering from Clarkson University, a Master of Science degree in Mechanical Engineering from California Polytechnic University and is a 2007 graduate of the KEMET Leadership Forum.

Dr. Philip M. Lessner, Senior Vice President and Chief Technology Officer, was named such in February 2014. He joined KEMET in March 1996 as a Technical Associate in the Tantalum Technology Group. He has held several positions of increasing responsibility in the Technology and Product Management areas including Senior Technical Associate, Director Tantalum Technology, Director Technical Marketing Services and Vice President Tantalum Technology. Dr. Lessner was named Vice President, Chief Technology Officer and Chief Scientist in December 2006, Senior Vice President, Chief Technology Officer and Chief Scientist in May 2011 and Senior Vice President and Chief Technology and Marketing Officer in November 2012 prior to his appointment to his current position.

Dr. Lessner received a PhD in Chemical Engineering from the University of California, Berkeley and a Bachelor of Engineering in Chemical Engineering from Cooper Union.

Claudio Lollini, Senior Vice President of Global Sales and Marketing, was named such in July 2015. He joined KEMET in October 2007 through the Company's acquisition of Arcotronics Italia S.p.A., where he served as Manager, Sales - Great China. Mr. Lollini was appointed Director of Product Management for Film & Electrolytic in January 2009, Director of Sales Taiwan in June 2012, and Vice President, Sales - Asia Pacific in May 2013 prior to his appointment to his current position. Mr. Lollini holds a Bachelor of Science degree in Engineering Management from the University of Bologna and is a 2011 graduate of the KEMET Leadership Forum.

Stefano Vetralla, Senior Vice President and Chief Human Resources Officer, was named such in July 2015. He joined KEMET in May 2008 as Director - HR, Film and Electrolytic Business Group. Mr. Vetralla was appointed Director - HR, Global Sales and Film and Electrolytic Business Group in January 2011; Senior Director HR, Global Sales and Film and Electrolytic Business Group in January 2012; Senior Director - HR, Field in September 2012; Vice President - Global HR Operations in September 2013; and Vice President - Global HR and Chief Human Resources Officer in May 2014 prior to his current appointment. Prior to KEMET, he held Human Resources positions of increasing

responsibility in international corporations including Hewlett-Packard Company, 3Com Corporation and Telindus /Belgacom. Mr. Vetralla holds a Law Degree from the State University of Milan and is a 2011 graduate of the KEMET Leadership Forum.

Robert S. Willoughby, Senior Vice President-Global Supply Chain, was named such in May 2016. He joined KEMET in December 1985 and has held positions of increasing responsibility within Diagnostic, Quality, New Product and Process Engineering. Mr. Willoughby served as Director - Ceramic Operations from July 2007 until March 2010; served as Vice President of Operations - Film and Electrolytic Business Unit from March 2010 until May 2013; served as Vice President, Film and Electrolytic Business Group from May 2013 through December 2014; and served as Senior Vice President-Film and Electrolytic Business Group from January 2015 through April 2016. He holds a Bachelor of Science degree in Industrial Engineering from Clemson University and is a 2007 graduate of the KEMET Leadership Forum.



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Other Key Employees

Andreas Meier, Senior Vice President-Film and Electrolytic Business Group, was named such in May 2016. Mr. Meier joined KEMET in January 1998 and has held several positions of increasing responsibility in the Sales and Product Management areas. Mr. Meier was named Vice President - Product Management, Film and Electrolytic Business Group in January, 2010 and Vice President, Sales - EMEA in December, 2012 prior to his appointment to his current position. Mr. Meier holds a degree in Electronic Engineering from the University of Paderborn in Germany.

Michael L. Raynor, Vice President and Corporate Controller, was named such in November 2012. Mr. Raynor joined the Company in July 2007 as the Assistant Corporate Controller; in November of 2008 Mr. Raynor was named Director of Financial Planning & Analysis prior to his appointment to his current position. Prior to joining KEMET, Mr. Raynor held various controller level positions with distribution and manufacturing companies. Mr. Raynor received a Bachelor of Arts degree in Economics and a Masters of Accounting from the University of North Carolina at Chapel Hill, is a Certified Public Accountant in the state of North Carolina and is a 2015 graduate of the KEMET Leadership Forum.

Richard J. Vatinelle, Vice President and Treasurer, was named such in March 2014. Mr. Vatinelle joined the Company in November 2012 as Controller - Tantalum Business Group. Prior to joining KEMET, Mr. Vatinelle served for two years as Regional Controller - Latin America for Leo Pharma A/S, a global manufacturer of pharmaceutical products. From 2007 to 2009 he served as Director of Finance, Policies and Reporting, for Stiefel Laboratories, a pharmaceutical company specialized in dermatology. Mr. Vatinelle's career in finance includes eight years with Conagra Foods Inc., where he held various international finance roles, and eleven years with Banque Sudameris, an international banking group where he began his career. Mr. Vatinelle holds a Bachelor of Science degree in Finance and International Management from Georgetown University and is a 2015 graduate of the KEMET Leadership Forum.

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## PART II

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

## Market for Common Stock of the Company

Our common stock trades on the NYSE under the ticker symbol "KEM" (NYSE: KEM). We had 112 stockholders of record as of May 17, 2015. The following table represents the high and low sale prices of our common stock for the periods indicated:

Quarter	Fiscal Year		Fiscal Year	
	High	Low	High	Low
First	\$4.57	\$2.88	\$6.07	\$4.51
Second	2.80	1.56	6.13	3.94
Third	2.97	1.87	4.80	3.92
Fourth	2.41	1.30	4.58	3.75

## Dividend Policy

We have not declared or paid any cash dividends on our common stock since our initial public offering in October 1992. We do not anticipate paying dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our Board and will depend upon, among other factors, the capital requirements, operating results, and our financial condition. In addition, we are restricted from paying cash dividends under the terms of the 10.5% Senior Notes Indenture. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

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## PERFORMANCE GRAPH

The following graph compares our cumulative total stockholder return for the past five fiscal years, beginning on March 31, 2011, with the Russell 3000 and a peer group (the "Peer Group") comprised of certain companies which manufacture capacitors and with which we generally compete. The Peer Group is comprised of AVX Corporation, Littelfuse, Inc. and Vishay Intertechnology, Inc.

## COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among KEMET Corporation, the Russell 3000 Index,  
and a Peer Group

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\*\$100 invested on 3/31/11 in stock or index, including reinvestment of dividends.

Fiscal year ending March 31.

## RETURNS

Years Ending March 31,

	2011	2012	2013	2014	2015	2016
KEMET Corporation	100.00	63.12	42.14	39.18	27.92	13.01
Russell 3000	100.00	105.07	117.85	141.70	156.24	152.57
Peer Group	100.00	88.86	92.09	116.20	124.21	144.80

## Unregistered Sales of Equity Securities

We did not sell any of our equity securities during fiscal year 2016 that were not registered under the Securities Act of 1933, as amended (the "Securities Act").

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## Repurchase of Equity Securities

The following table provides information relating to our purchase of shares of our common stock during the quarter ended March 31, 2016 (amounts in thousands, except per share price):

Periods	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Programs	(d) Maximum Number of Shares that may yet be Purchased Under the Programs
January 1 to January 31, 2016	21	\$ 1.49	—	—
February 1 to February 29, 2016	—	—	—	—
March 1 to March 31, 2016	—	—	—	—
Total for Quarter Ended March 31, 2016	21	\$ 1.49		

(1) Represents shares withheld by the Company upon vesting of restricted stock to pay taxes due. The Company does not currently have a publicly announced share repurchase plan or program.

## Equity Compensation Plan Disclosure

The following table summarizes equity compensation plans approved by stockholders and equity compensation plans that were not approved by stockholders as of March 31, 2016:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights	(b) Weighted-average price of outstanding options, warrants, and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders	4,747,780	(1) \$ 8.66	1,095,932
Equity compensation plans not approved by stockholders	—	—	—
Total	4,747,780	\$ 8.66	1,095,932

Includes 1,275,387 shares subject to outstanding LTIP Awards (time-based), 705,500 shares subject to outstanding (1)LTIP Awards (performance-based) and 1,430,021 outstanding non-vested restricted shares of Common Stock; the weighted-average exercise price does not take into account these shares as they have no exercise price.



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## ITEM 6. SELECTED FINANCIAL DATA.

The following table summarizes our selected historical consolidated financial information for each of the last five years. The selected financial information under the captions "Income Statement Data," "Per Share Data," "Balance Sheet Data," and "Other Data" shown below has been derived from our audited consolidated financial statements. This table should be read in conjunction with other consolidated financial information of KEMET, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements, included elsewhere herein. The data set forth below may not be indicative of our future financial condition or results of operations (see Item 1A, "Risk Factors") (amounts in thousands except per share amounts):

	Fiscal Years Ended March 31,				
	2016	2015	2014	2013	2012(1)
<b>Income Statement Data:</b>					
Net sales	\$ 734,823	\$ 823,192	\$ 833,666	\$ 823,903	\$ 924,052
Operating income (loss)	32,326	22,378	(18,211 )	(35,080 )	28,083
Interest income	(14 )	(15 )	(195 )	(139 )	(175 )
Interest expense	39,605	40,701	40,962	41,331	28,567
Income (loss) from continuing operations	(53,629 )	(19,522 )	(64,869 )	(78,512 )	(2,350 )
Income (loss) from discontinued operations, net of income tax expense (benefit)	—	5,379	(3,634 )	(3,670 )	9,042
Net income (loss)	(53,629 )	(14,143 )	(68,503 )	(82,182 )	6,692
<b>Per Share Data:</b>					
Net income (loss) per basic share:					
Income (loss) from continuing operations	\$(1.17 )	\$(0.43 )	\$(1.44 )	\$(1.75 )	\$(0.05 )
Income (loss) from discontinued operations, net of income tax expense (benefit)	\$—	\$0.12	\$(0.08 )	\$(0.08 )	\$0.21
Net income (loss)	\$(1.17 )	\$(0.31 )	\$(1.52 )	\$(1.83 )	\$0.16
Net income (loss) per diluted share:					
Income (loss) from continuing operations	\$(1.17 )	\$(0.43 )	\$(1.44 )	\$(1.75 )	\$(0.04 )
Income (loss) from discontinued operations, net of income tax expense (benefit)	\$—	\$0.12	\$(0.08 )	\$(0.08 )	\$0.17
Net income (loss)	\$(1.17 )	\$(0.31 )	\$(1.52 )	\$(1.83 )	0.13
<b>Balance Sheet Data:</b>					
Total assets (3)	\$ 702,544	\$ 746,693	\$ 841,608	\$ 909,857	\$ 977,855
Working capital	228,793	228,478	227,070	257,801	392,274
Long-term debt, less current portion(2)	388,597	390,409	391,292	372,707	345,380
Other non-current obligations	74,892	57,131	55,864	69,022	101,229
Stockholders' equity	112,481	164,682	221,884	276,916	358,996
<b>Other Data:</b>					
Cash flow provided by (used in) operating activities	\$ 32,365	\$ 24,402	\$(6,746 )	\$(22,827 )	\$ 80,730
Capital expenditures	20,469	22,232	32,147	46,174	49,314
Research and development	24,955	25,802	24,466	26,876	27,765

(1)In fiscal year 2012, the Company acquired KEMET Foil on June 13, 2011 and Blue Powder on February 21, 2012.

(2)In fiscal years 2013 and 2012, the Company issued \$15.0 million and \$110.0 million, respectively of 10.5% Senior Notes. In fiscal year 2013, the Company received a \$24.0 million advance payment from an original equipment manufacturer and in fiscal year 2015 this advance payment was repaid in full. In fiscal years 2016, 2015 and 2014, the Company had \$33.9 million, \$33.5 million and \$18.4 million, respectively, outstanding under a Loan and

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Security Agreement (the "Loan and Security Agreement") with Bank of America, N.A.

Fiscal years 2012 through 2015 have been restated due to the retroactive adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2015-17, Balance Sheet Classification of Deferred Taxes.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis provides information that we believe is useful in understanding our operating results, cash flows, and financial condition for the three fiscal years ended March 31, 2016, 2015, and 2014. The discussion should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements and related notes appearing elsewhere in this report. The discussions in this document contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties. Our actual future results could differ materially from those discussed here. Factors that could cause or contribute to such differences include, but are not limited to, those discussed under the Item 1A, "Risk Factors" and, from time to time, in our other filings with the Securities and Exchange Commission.

**Our Competitive Strengths**

We believe that our Company benefits from the following competitive strengths:

**Strong Customer Relationships**

We have a large and diverse customer base. We believe that our emphasis on quality control and our performance history establishes loyalty with OEMs, EMSs and distributors. Our customer base includes most of the world's major electronics OEMs (including Alcatel-Lucent USA, Inc., Bosch Group, Cisco Systems, Inc., Continental AG, Dell Inc., HP Inc., International Business Machines Corporation, Motorola Solutions, L.M. Ericsson, Siemens AG and TRW Automotive), EMSs (including Celestica Inc., Flextronics International LTD, Jabil Circuit, Inc. and Sanmina-SCI Corporation) and distributors (including TTI, Inc., Arrow Electronics, Inc. and Avnet, Inc.). Our strong, extensive and efficient worldwide distribution network is one of our differentiating factors. We believe our ability to provide innovative and flexible service offerings, superior customer support and focus on speed-to-market results in a more rewarding customer experience, earning us a high degree of customer loyalty.

**Breadth of Our Diversified Product Offering and Markets**

We believe that we have the most complete line of primary capacitor types spanning a full spectrum of dielectric materials including tantalum, multilayer ceramic, solid and electrolytic aluminum and film capacitors. As discussed below, our private label partnership with NEC TOKIN has expanded our product offerings and markets. As a result, we believe we can satisfy virtually all of our customers' capacitance needs, thereby strengthening our position as their supplier of choice. We sell our products into a wide range of end-markets, including computing, industrial, telecommunications, transportation, consumer, defense and healthcare across all geographical regions. No single industry accounted for more than 30% of net sales; although, one customer, an electronics distributor, accounted for more than 10% of our net sales in fiscal year 2016. No single end-use customer accounted for more than 6% of our net sales in fiscal year 2016. We believe that well-balanced product, geographic and customer diversification helps us mitigate some of the negative financial impact through economic cycles.

**Leading Market Positions and Operating Scale**

Based on net sales, we believe that we are the largest manufacturer of tantalum capacitors in the world and one of the largest manufacturers of direct current film capacitors in the world and have a substantial market position in the specialty ceramic and custom wet aluminum electrolytic markets. As discussed below, our private label partnership with NEC TOKIN allows us to achieve true scale in operations to manage raw materials sourcing as well as maximize efficiencies. We believe that our leading market positions and operating scale allow us to realize production efficiencies, leverage economies of scale and capitalize on growth opportunities in the global capacitor market.

**Strong Presence in Specialty Products**

We engage in design collaboration with our customers in order to meet their specific needs and provide them with customized products satisfying their engineering specifications. Whether at the concept or design stage, KEMET provides engineering tools and samples to our customers to enable them to make the best product selections.

KEMET's Field Application Engineers (experts in electrical circuits) and Technical Product Managers (experts in product applications) assist our Sales team as they navigate the product selection process with our customers. During



fiscal years 2016 and 2015, respectively, specialty products accounted for 41.3% and 40.5% of our revenue. By allocating an increasing portion of our management resources and research and development ("R&D") investment (particularly through our partnership with NEC TOKIN as discussed below) to specialty products, we have established ourselves as one of the leading innovators in this fast growing, emerging segment of the market, including healthcare, renewable energy, telecommunication infrastructure and oil and gas.

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### Low-Cost and Strategic Locations

We believe our plants in China, Mexico, Bulgaria and Macedonia have some of the lowest cost production facilities in the industry. Many of our key customers have relocated their production facilities to Asia, particularly China. We believe our manufacturing facilities in China are in close proximity to the large and growing Chinese market. In addition, we have the ability to increase capacity and change product mix to meet our customers' needs.

### Our Brand

Founded by Union Carbide in 1919 as KEMET Laboratories, we believe that we have established a reputation as a high quality, efficient and affordable partner that sets our customers' needs as the top priority. This has allowed us to successfully attract loyal clientele and enabled us to expand our operations and market share over the past few years. We believe our commitment to addressing the needs of the industry in which we operate has differentiated us from our competitors. In addition to our traditional reputation of being the "Easy-To-Buy-From" company by providing excellent customer service and on-time delivery, we have now evolved to being the "Easy-To-Design-In" company with the addition of technical resources like KEMET's online Engineering Center and capacitor selection simulation tools.

### Our People

We believe that we have successfully developed a unique corporate culture based on innovation, customer focus and commitment. We have a strong, highly experienced and committed team in each of our markets. Many of our professionals have developed unparalleled experience in building leadership positions in new markets, as well as successfully integrating acquisitions. Our 14 member executive management team has an average of 18 years of experience with us and an average of 26 years of experience in the manufacturing industry.

### Business Strategy

Our strategy is to use our position as a leading, high-quality manufacturer of capacitors to capitalize on the increasingly demanding requirements of our customers. Key elements of our strategy include:

#### One KEMET Campaign.

We continue to focus on improving our commercial and technological capabilities through various initiatives that all fall under our One KEMET campaign. The One KEMET campaign aims to ensure that we, as a company, are focused on the same goals and working with the same processes and systems to ensure consistent quality and service that allow us to provide our customers with the technologies they require at a competitive "total cost of ownership." This effort was launched to ensure that, as we continue to grow, we not only remain grounded in our core principles but that we also use those principles, operating procedures and systems as the foundation from which to expand. These initiatives include our Lean and Six Sigma culture evolution, our global customer accounts management program and our evolution toward a philosophy of being "easy to design-in."

#### Develop Our Significant Customer Relationships and Industry Presence.

We continue to focus on our responsiveness to our customers' needs and requirements by making order entry and fulfillment easier, faster, more flexible and more reliable for our customers. This will be accomplished by focusing on building products around customers' needs and by giving decision-making authority to customer-facing personnel and by providing purpose-built systems and processes.

#### Leverage Our Technological Competence and Expand Our Leadership in Specialty Products

We continue to leverage our technological competence and partnership with NEC TOKIN by introducing new products in a timely and cost-efficient manner. This allows us to generate an increasing portion of our sales from new and customized solutions that meet our customers' varied and evolving capacitor needs as well as improves our financial performance. We believe that by continuing to build on our strength in the higher growth and higher margin specialty segments of the capacitor market, we will be well-positioned to achieve our long-term growth objectives while also improving our profitability. During fiscal year 2016, we introduced 23,294 new products of which 889 were first to market, and specialty products accounted for 41.3% of our revenue over this period.



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### Further Expand Our Broad Capacitance Capabilities

We identify ourselves as the "Electronic Components" company and strive to be the supplier of choice for all our customers' capacitance needs across the full spectrum of dielectric materials including tantalum, multilayer ceramic, solid and electrolytic aluminum, film and paper. As discussed below, through our partnership with NEC TOKIN we have further expanded our product offerings to other electro-magnetic, electro-mechanical and access devices. While we believe we have the most complete line of capacitor technologies across these primary capacitor types, we intend to continue to research and pursue additional capacitance technologies and solutions in order to maximize the breadth of our product offerings.

### Selectively Target Complementary Acquisitions and Equity Investments

As strategic opportunities are identified, we will evaluate and possibly pursue them if they would enable us to enhance our competitive position and expand our market presence. Our strategy is to acquire complementary capacitor and other related businesses allowing us to leverage our business model, potentially including those involved in other passive components that are synergistic with our customers' technologies and our current product offerings. For example, in fiscal year 2012, we acquired KEMET Foil and Blue Powder which has allowed us to vertically integrate certain manufacturing processes within Film and Electrolytic and Solid Capacitors, respectively. In addition, on February 1, 2013, KEC, a wholly owned subsidiary of the Company, acquired a 34% economic interest in NEC TOKIN, a manufacturer of tantalum capacitors and electro-magnetic, electro-mechanical and access devices.

### Promote the KEMET Brand Globally

We are focused on promoting the KEMET brand globally by highlighting the high-quality and high reliability of our products and our superior customer service. We will continue to market our products to new and existing customers around the world in order to expand our business. We continue to be recognized by our customers as a leading global supplier. For example, in calendar year 2015, we received the "Asia Supplier Excellence Award" and "Global Operations Excellence Award" from TTI, Inc. and the "Excellence in Sustainability" award from Cisco Systems, Inc.

### Global Sales & Marketing Strategy

Our motto "Think Global, Act Local" describes our approach to sales and marketing. Each of our three sales regions (Americas, EMEA and APAC) have account managers, field application engineers and strategic marketing managers. In addition, we also have local customer and quality-control support in each region. This organizational structure allows us to respond to the needs of our customers on a timely basis and in their native language. The regions are managed locally and report to a senior manager who is on the KEMET Leadership Team. Furthermore, this organizational structure ensures the efficient communication of our global goals and strategies and allows us to serve the language, cultural and other region-specific needs of our customers.

### Partnership with NEC TOKIN

Through our cross licensing agreement and Amended and Restated Private Label Agreement with NEC TOKIN, we have expanded product offerings and markets for both KEMET and NEC TOKIN. KEMET's strong presence in the western hemisphere and the excellent NEC TOKIN position in Japan and Asia significantly enhances the customer reach for both companies. Through this partnership, we can achieve true scale in operations allowing us to manage raw materials sourcing as well as maximize efficiencies and best practices in manufacturing and product development. We believe that the international management team of KEMET and NEC TOKIN allows us to be more sensitive and aware of region-specific business needs compared to our competitors. Combining our R&D capabilities and university relationships will allow us to be on the forefront of new developments and technological advancements in the capacitor industry. Leveraging R&D investment in both Japan and the U.S. enables KEMET to diversify beyond capacitors in the passives market as a result of the NEC TOKIN partnership.

### Recent Developments and Trends

### Equity Investment

On March 12, 2012, KEC, a wholly owned subsidiary of the Company, entered into a Stock Purchase Agreement with NEC TOKIN, a manufacturer of tantalum capacitors, electro-magnetic, electro-mechanical and access devices, to acquire 51% of the common stock of NEC TOKIN (which represented a 34% economic interest, as calculated based on the number of common shares held by KEC, directly and indirectly, in proportion to the aggregate number of outstanding common and convertible preferred shares of NEC TOKIN as of such date) from NEC. The transaction closed on February 1, 2013, at which time KEC paid a purchase price of \$50.0 million for new shares of common stock of NEC TOKIN.

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Concurrent with KEC's execution of the Stock Purchase Agreement, KEC was granted First and Second Call Options (as defined in Note 5, "Investment in NEC TOKIN") to purchase additional capital stock of NEC TOKIN, which expired on April 30, 2015 without being exercised. In addition, NEC was granted a Put Option, pursuant to which from April 1, 2015 through May 31, 2018, NEC may require KEC to purchase all outstanding capital stock of NEC TOKIN from its stockholders, primarily NEC, provided that KEC's payment of the Put Option price is permitted under the 10.5% Senior Notes and Loan and Security Agreement.

The Company and NEC have had continued discussions regarding the terms of any potential acquisitions of NEC TOKIN. See Note 5, "Investment in NEC TOKIN" for further discussion of the NEC TOKIN Equity Investment.

In the fiscal year ended March 31, 2016, we incurred a net loss from NEC TOKIN of \$16.4 million primarily due to NEC TOKIN's additional accrual of \$51.6 million for antitrust fines and civil litigation as described in Note 5, "Investment in NEC TOKIN", which resulted in additional expense to KEMET of \$17.5 million related to our 34% economic interest. The civil fines were accrued during the quarter ended March 31, 2016.

In addition, the Company has marked KEC's options to fair value and in the fiscal year ended March 31, 2016 recognized a \$26.3 million loss, which was included on the line item "Change in value of NEC TOKIN options" in the Consolidated Statement of Operations. The line item "Other non-current obligations" on the Consolidated Balance Sheets includes \$20.6 million as of March 31, 2016 related to the Put Option.

### Restructuring

In the fiscal year ended March 31, 2016 we incurred \$4.2 million in restructuring charges including \$1.8 million related to personnel reduction costs and \$2.4 million of manufacturing relocation costs.

### Subsequent Event

#### Revolving Line of Credit and Debt Repurchase

On May 2, 2016, the Loan and Security Agreement, as defined herein, was amended and, as a result, the revolving credit facility has increased to \$65.0 million. In addition, on May 10, 2016, the company repurchased and retired \$2.0 million of our 10.5% Senior Notes.

#### Off-Balance Sheet Arrangements

As of March 31, 2016, other than operating lease commitments as described in Note 16, "Commitments and Contingencies", we are not a party to any material off-balance sheet financing arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

#### Critical Accounting Policies

Our accounting policies are summarized in Note 1, "Organization and Significant Accounting Policies" to the consolidated financial statements. The following identifies a number of policies which require significant judgments and estimates, or are otherwise deemed critical to our financial statements.

Our estimates and assumptions are based on historical data and other assumptions that we believe are reasonable. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. In addition, they affect the reported amounts of revenues and expenses during the reporting period.

Our judgments are based on our assessment as to the effect certain estimates, assumptions, or future trends or events may have on the financial condition and results of operations reported in the consolidated financial statements.

Readers should understand that actual future results could differ from these estimates, assumptions, and judgments. A quantitative sensitivity analysis is provided where that information is reasonably available, can be reliably estimated and provides material information to investors. The amounts used to assess sensitivity (i.e., 1%, 10%, etc.) are included to allow readers of this Annual Report on Form 10-K to understand a general cause and effect of changes in the estimates and do not represent our predictions of variability. For all of these estimates, it should be noted that future events rarely develop exactly as forecast, and estimates require regular review and adjustment. We believe the following critical accounting policies contain the most significant judgments and estimates used in the preparation of the consolidated financial statements:

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**REVENUE RECOGNITION.** We ship products to customers based upon firm orders and revenue is recognized when the sales process is complete. This occurs when products are shipped to the customer in accordance with the terms of an agreement of sale, there is a fixed or determinable selling price, title and risk of loss have been transferred and collectability is reasonably assured. Based on product availability, customer requirements and customer consent, KEMET may ship products earlier than the initial planned ship date. Shipping and handling costs are included in cost of sales.

A portion of sales is related to products designed to meet customer specific requirements. These products typically have stricter tolerances making them useful to the specific customer requesting the product and to customers with similar or less stringent requirements. We recognize revenue when title to the products transfers to the customer. A portion of sales is made to distributors under agreements allowing certain rights of return and price protection on unsold merchandise held by distributors. Our distributor policy includes inventory price protection and SFSD programs common in the industry. The price protection policy protects the value of the distributors' inventory in the event we reduce our published selling price to distributors. This program allows the distributor to debit us for the difference between our list price and the lower authorized price for specific parts. We establish price protection reserves on specific parts residing in distributors' inventories in the period that the price protection is formally authorized by KEMET.

KEMET's SFSD program provides authorized distributors with the flexibility to meet marketplace prices by allowing them, upon a case-by-case pre-approved basis, to adjust their purchased inventory cost to correspond with current market demand. Requests for SFSD adjustments are considered on an individual basis, require a pre-approved cost adjustment quote from their local KEMET sales representative and apply only to a specific customer, part, a specified special price amount, a specified quantity, and is only valid for a specific period of time. To estimate potential SFSD adjustments corresponding with current period sales, KEMET records a sales reserve based on historical SFSD credits, distributor inventory levels, and certain accounting assumptions, all of which are reviewed quarterly. We believe this methodology enables us to make reliable estimates of future adjustments under the SFSD program. If the historical SFSD run rates used in our calculation were changed by 1% in fiscal year 2016, net sales would be impacted by \$0.8 million.

The establishment of these reserves is recognized as a component of the line item "Net sales" on the Consolidated Statements of Operations, while the associated reserves are included in the line item "Accounts receivable" on the Consolidated Balance Sheets. Estimates used in determining sales allowances are subject to various factors. This includes, but is not limited to, changes in economic conditions, pricing changes, product demand, inventory levels in the supply chain, the effects of technological change, and other variables that might result in changes to our estimates.

**INVENTORIES.** Inventories are valued at the lower of cost or market. For most of the inventory, cost is determined under the first-in, first-out method. For tool crib, a component of our raw material inventory, cost is determined under the average cost method. The valuation of inventories requires us to make estimates. We also must assess the prices at which we believe the finished goods inventory can be sold compared to its cost. A sharp decrease in demand could adversely impact earnings as the reserve estimates could increase.

**PENSION AND POST-RETIREMENT BENEFITS.** Our management, with the assistance of actuarial firms, performs actuarial valuations of the fair values of our pension and post-retirement plans' benefit obligations. We make certain assumptions that have a significant effect on the calculated fair value of the obligations such as the:

- discount rate—used to arrive at the net present value of the obligation;
- salary increases—used to calculate the impact future pay increases will have on post-retirement obligations; and

We understand that these assumptions directly impact the actuarial valuation of the obligations recorded on the Consolidated Balance Sheets and the income or expense that flows through the Consolidated Statements of Operations.

We base our assumptions on either historical or market data that we consider reasonable. Variations in these assumptions could have a significant effect on the amounts reported in Consolidated Balance Sheets and the



Consolidated Statements of Operations. The most critical assumption relates to the discount rate. A 25 basis point increase or decrease in the weighted average discount rate would result in changes to the projected benefit obligation of \$(1.9) million and \$2.2 million, respectively.

**GOODWILL AND LONG-LIVED ASSETS.** Goodwill, which represents the excess of purchase price over fair value of net assets acquired, and intangible assets with indefinite useful lives are tested for impairment at least on an annual basis. We perform our impairment test during the fourth quarter of each fiscal year and when otherwise warranted.

We evaluate our goodwill on a reporting unit basis. This requires us to estimate the fair value of the reporting units based on the future net cash flows expected to be generated. The impairment test involves a comparison of the fair value of

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each reporting unit, with the corresponding carrying amounts. If the reporting unit's carrying amount exceeds its fair value, then an indication exists that the reporting unit's goodwill may be impaired. The impairment to be recognized is measured by the amount by which the carrying value of the reporting unit's goodwill being measured exceeds its implied fair value. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the sum of the amounts assigned to identified net assets. As a result, the implied fair value of goodwill is generally the residual amount that results from subtracting the value of net assets including all tangible assets and identified intangible assets from the fair value of the reporting unit's fair value. We determine the fair value of our reporting units using an income-based, discounted cash flow ("DCF") analysis, and market-based approaches (Guideline Publicly Traded Company Method and Guideline Transaction Method) which examine transactions in the marketplace involving the sale of the stocks of similar publicly-owned companies, or the sale of entire companies engaged in operations similar to KEMET. In addition to the above described reporting unit valuation techniques, our goodwill impairment assessment also considers our aggregate fair value based upon the value of our outstanding shares of common stock. Our goodwill balance of \$40.3 million is comprised of \$35.6 million related to Blue Powder, which is within the Tantalum product line of the Solid Capacitors Business Group, and \$4.7 million related to IntelliData (see Note 8, "Acquisitions") which is a corporate asset. As part of our annual impairment testing, we determine the fair value of the relevant reporting unit(s) using an income-based, discounted cash flow ("DCF") analysis for Blue Powder, and an internal rate of return analysis for IntelliData. Recognizing that Blue Powder is now fully integrated and reliant on other facilities within the Tantalum product line, we have updated the reporting unit used this year to evaluate Blue Powder's goodwill at the Tantalum product line level.

Significant assumptions used in the DCF analysis are:

- the discount rate based on the weighted average cost of capital ("WACC"),
- estimated sales growth rates, and
- the estimated market price and production cost for tantalum products

Our WACC is determined through market comparisons combined with small stock and equity risk premiums.

Tantalum's sales growth rates are estimated through KEMET's three-year strategic plan.

Long-lived assets and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset or group of assets may not be recoverable. A long-lived asset classified as held for sale is initially measured and reported at the lower of its carrying amount or fair value less cost to sell.

Long-lived assets to be disposed of other than by sale are classified as held and used until the long-lived asset is disposed of.

Tests for the recoverability of a long-lived asset to be held and used are performed by comparing the carrying amount of the long-lived asset to the sum of the estimated future undiscounted cash flows expected to be generated by the asset. In estimating the future undiscounted cash flows, we use future projections of cash flows directly associated with, and which are expected to arise as a direct result of, the use and eventual disposition of the assets. These assumptions include, among other estimates, periods of operation and projections of sales and cost of sales. Changes in any of these estimates could have a material effect on the estimated future undiscounted cash flows expected to be generated by the asset. If it is determined that the book value of a long-lived asset is not recoverable, an impairment loss would be calculated equal to the excess of the carrying amount of the long-lived asset over its fair value. The fair value is calculated as the discounted cash flows of the underlying assets.

The decline in KEMET's stock price is also a potential indication the carrying amount of certain long-lived asset groups might not be fully recoverable. Therefore, the Company tested long-lived assets for each of our reporting units for impairment as of March 31, 2016 and concluded that they were not impaired. The Company will monitor the Film and Electrolytic long-lived assets in future periods as material changes in certain assumptions could have a material effect on the estimated future undiscounted cash flows expected to be generated by the assets. This, in turn, could result in Film and Electrolytic not passing step 1 of the impairment test which would require the Company to perform

a discounted cash flow analysis to determine the impairment amount (if any).

We evaluate the value of our other indefinite-lived intangible assets (trademarks) using an income-based, relief from royalty analysis.

The Company completed its impairment test on goodwill and intangible assets with indefinite useful lives as of January 1, 2016 and concluded that goodwill and indefinite-lived assets were not impaired nor were they at risk of failing step one of the impairment test as the fair value of each of the assets exceeds the carrying value by more than 10%. A one percent

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increase or decrease in the discount rate used in the goodwill and indefinite-lived assets valuation would have resulted in changes in fair value in the following amounts, and would not have resulted in an impairment change:

	Discount Rate	
	Sensitivity, in	
	millions	
Fair		
Value in		
Excess of	+1%	-1%
Carrying		
Value, %		
Goodwill - Blue Powder	18 %	\$(21.3) \$25.8
Trademarks	870 %	(6.1 ) 7.4
Goodwill - IntelliData	33 %	(1.0 ) 1.3

**INCOME TAXES.** Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates. Valuation allowances are recognized to reduce deferred tax assets to the amount that is more likely than not to be realized.

We believe that it is more likely than not that a portion of the deferred tax assets in various jurisdictions will not be realized, based on the scheduled reversal of deferred tax liabilities, the recent history of cumulative losses, and the insufficient evidence of projected future taxable income to overcome the loss history. We have provided a valuation allowance related to any benefits from income taxes resulting from the application of a statutory tax rate to the deferred tax assets. We continue to have net deferred tax assets (future tax benefits) in several jurisdictions which we expect to realize, assuming, based on certain estimates and assumptions, sufficient taxable income can be generated to utilize these deferred tax benefits. If these estimates and related assumptions change in the future, we may be required to reduce the value of the deferred tax assets resulting in additional tax expense.

The accounting rules require that we recognize in our financial statements, the impact of a tax position, if that position is "more likely than not" of being sustained on audit, based on the technical merits of the position. Any accruals for estimated interest and penalties would be recorded as a component of income tax expense.

To the extent that the provision for income taxes changed by 1% of loss before income taxes, consolidated net loss would change by \$0.3 million in fiscal year 2016.

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## Results of Operations

Historically, revenues and earnings may or may not be representative of future operating results due to various economic and other factors. The following table sets forth the Consolidated Statements of Operations for the periods indicated (amounts in thousands):

	Fiscal Years Ended March 31,		
	2016	2015	2014
Net sales	\$734,823	\$823,192	\$833,666
Operating costs and expenses:			
Cost of sales	571,543	663,683	712,925
Selling, general and administrative expenses	101,446	98,533	95,856
Research and development	24,955	25,802	24,466
Restructuring charges	4,178	13,017	14,122
Write down of long-lived assets	—	—	4,476
Net loss on sales and disposals of assets	375	(221)	32
Operating (loss) income	32,326	22,378	(18,211)
Interest income	(14)	(15)	(195)
Interest expense	39,605	40,701	40,962
Change in value of NEC TOKIN options	26,300	(2,100)	(3,111)
Other (income) expense, net	(2,348)	(4,082)	430
Income (loss) from continuing operations before income taxes and equity income (loss) from NEC TOKIN	(31,217)	(12,126)	(56,297)
Income tax expense (benefit)	6,006	5,227	1,482
Income (loss) from continuing operations before equity income (loss) from NEC TOKIN	(37,223)	(17,353)	(57,779)
Equity income (loss) from NEC TOKIN	(16,406)	(2,169)	(7,090)
Income (loss) from continuing operations	(53,629)	(19,522)	(64,869)
Income (loss) from discontinued operations, net of income tax expense (benefit) of \$0, \$1,976, and \$(98), respectively	—	5,379	(3,634)
Net income (loss)	\$(53,629)	\$(14,143)	\$(68,503)

## Consolidated Comparison of Fiscal Year 2016 to Fiscal Year 2015

## Net sales:

Net sales of \$734.8 million in fiscal year 2016 decreased 10.7% from \$823.2 million in fiscal year 2015. Solid Capacitor and Film and Electrolytic sales decreased by \$65.0 million and \$23.4 million, respectively. The overall Solid Capacitors net sales decrease was primarily driven by a decrease in net sales to the Americas and EMEA distribution channel, typical market price erosion and changes in product line mix. In addition, Solid Capacitor net sales were unfavorably impacted by \$12.0 million from foreign currency exchange primarily due to the change in the value of the Euro compared to the U.S. dollar for the fiscal year 2016 as compared to fiscal year 2015. The overall Film and Electrolytic net sales included a \$18.9 million unfavorable impact from foreign currency exchange primarily due to the change in the value of the Euro compared to the U.S. dollar. Excluding the foreign exchange impact, Film and Electrolytic net sales decreased by \$4.4 million primarily driven by decreased net sales in the APAC and Americas regions partially offset by the marginally improved net sales in the EMEA region.

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In fiscal years 2016 and 2015, net sales by region were as follows (dollars in millions):

	Fiscal Year 2016		Fiscal Year 2015	
	Net Sales	% of Total	Net Sales	% of Total
Americas	\$225.7	31 %	Americas \$260.0	32 %
APAC	275.8	37 %	APAC 281.8	34 %
EMEA	233.3	32 %	EMEA 281.4	34 %
Total	\$734.8		Total \$823.2	

In fiscal years 2016 and 2015, the percentages of net sales by channel to total net sales were as follows:

Fiscal Year	Fiscal Year
2016	2015