KEMET CORP
Form 10-Q
November 05, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from to

Commission File Number: 001-15491

KEMET CORPORATION

(Exact name of registrant as specified in its charter)

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

2835 KEMET WAY, SIMPSONVILLE, SOUTH CAROLINA 29681

(Address of principal executive offices, zip code)

(864) 963-6300

(Registrant s telephone number, including area code)

Former name, former address and former fiscal year, if changed since last report: **N/A**

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

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

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

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

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

The number of shares outstanding of the registrant s common stock, par value $0.01 per share, as of November 1, 2013 was 45,117,411.

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KEMET CORPORATION AND SUBSIDIARIES

Form 10-Q for the Quarter ended September 30, 2013

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Exhibit 101

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PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

KEMET CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Amounts in thousands, except per share data)

	September 30, 2013 (Unaudited)	March 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 57,700	$ 95,978
Accounts receivable, net	103,365	96,564
Inventories, net	208,836	205,615
Prepaid expenses and other	42,713	41,101
Deferred income taxes	4,453	4,167
Total current assets	417,067	443,425
Property and equipment, net of accumulated depreciation of $794,798 and $771,398 as of September 30, 2013 and March 31, 2013, respectively	311,434	304,508
Goodwill	35,584	35,584
Intangible assets, net	38,068	38,646
Investment in NEC TOKIN	46,942	52,738
Restricted cash	14,638	17,397
Deferred income taxes	8,717	7,994
Other assets	7,761	11,299
Total assets	$ 880,211	$ 911,591
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 29,772	$ 10,793
Accounts payable	80,892	73,669
Accrued expenses	86,892	95,944
Income taxes payable and deferred income taxes	1,811	1,074
Total current liabilities	199,367	181,480
Long-term debt, less current portion	373,506	372,707
Other non-current obligations	60,864	71,946
Deferred income taxes	8,567	8,542
Stockholders equity:		
Preferred stock, par value $0.01, authorized 10,000 shares, none issued		
Common stock, par value $0.01, authorized 175,000 shares, issued 46,508 shares at September 30, 2013 and March 31, 2013	465	465
Additional paid-in capital	465,747	467,096
Retained deficit	(211,472)	(163,235)
Accumulated other comprehensive income	15,315	7,694
Treasury stock, at cost (1,391 and 1,519 shares at September 30, 2013 and March 31, 2013, respectively)	(32,148)	(35,104)

Total stockholders equity		237,907		276,916
Total liabilities and stockholders equity	$	880,211	$	911,591

See accompanying notes to the unaudited condensed consolidated financial statements.

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KEMET CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Amounts in thousands, except per share data)

(Unaudited)

	Quarters Ended September 30, 2013	Quarters Ended September 30, 2012	Six Month Periods Ended September 30, 2013	Six Month Periods Ended September 30, 2012
Net sales	$ 212,740	$ 215,991	$ 415,463	$ 439,623
Operating costs and expenses:				
Cost of sales	182,501	183,053	367,690	374,374
Selling, general and administrative expenses	22,662	26,308	49,164	53,563
Research and development	5,861	6,833	12,241	14,566
Restructuring charges	1,365	8,522	5,975	9,786
Goodwill impairment		1,092		1,092
Write down of long-lived assets		4,234		4,234
Net (gain) loss on sales and disposals of assets	42	(31)	42	73
Total operating costs and expenses	212,431	230,011	435,112	457,688
Operating income (loss)	309	(14,020)	(19,649)	(18,065)
Other (income) expense:				
Interest income	(11)	(26)	(175)	(57)
Interest expense	9,908	10,136	19,942	20,593
Other (income) expense, net	947	(996)	1,301	515
Loss before income taxes and equity loss from NEC TOKIN	(10,535)	(23,134)	(40,717)	(39,116)
Income tax expense	1,320	1,787	2,900	3,558
Loss before equity loss from NEC TOKIN	(11,855)	(24,921)	$ (43,617)	$ (42,674)
Equity loss from NEC TOKIN	(1,243)		(4,620)	
Net loss	$ (13,098)	$ (24,921)	$ (48,237)	$ (42,674)
Net loss per share:				
Basic	$ (0.29)	$ (0.55)	$ (1.07)	$ (0.95)
Diluted	$ (0.29)	$ (0.55)	$ (1.07)	$ (0.95)
Weighted-average shares outstanding:				
Basic	45,092	44,911	45,057	44,860
Diluted	45,092	44,911	45,057	44,860

See accompanying notes to the unaudited condensed consolidated financial statements.

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KEMET CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Amounts in thousands)

(Unaudited)

	Quarters Ended September 30, 2013	Quarters Ended September 30, 2012	Six Month Periods Ended September 30, 2013	Six Month Periods Ended September 30, 2012
Net loss	$ (13,098)	$ (24,921)	$ (48,237)	$ (42,674)
Other comprehensive income (loss):				
Foreign currency translation gains (losses)	6,359	3,907	8,631	(4,059)
Defined benefit pension plans, net of tax impact	121	(1,244)	296	(1,142)
Post-retirement plan adjustments	(61)	(232)	(131)	(161)
Equity interest in investee s other comprehensive income	(524)		(1,175)	
Other comprehensive income (loss)	5,895	2,431	7,621	(5,362)
Total comprehensive loss	$ (7,203)	$ (22,490)	$ (40,616)	$ (48,036)

See accompanying notes to the unaudited condensed consolidated financial statements.

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KEMET CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Amounts in thousands)

(Unaudited)

	Six Month Periods Ended September 30, 2013	Six Month Periods Ended September 30, 2012
Net loss	$ (48,237)	$ (42,674)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	25,780	23,177
Equity loss from NEC TOKIN	4,620	
Amortization of debt discount and debt issuance costs	1,959	1,924
Stock-based compensation expense	1,628	2,506
Long-term receivable write down	1,444	
Change in value of NEC TOKIN options	383	
Net loss on sales and disposals of assets	42	73
Pension and other post-retirement benefits	27	205
Write down of long-lived assets		4,234
Settlement gain on benefit plans		(1,675)
Goodwill impairment		1,092
Change in deferred income taxes	(957)	838
Change in operating assets	(6,156)	(18,656)
Change in operating liabilities	(12,107)	2,154
Other	(32)	178
Net cash used in operating activities	(31,606)	(26,624)
Investing activities:		
Capital expenditures	(18,337)	(30,343)
Change in restricted cash	2,874	
Net cash used in investing activities	(15,463)	(30,343)
Financing activities:		
Proceeds from revolving line of credit	21,000	
Proceeds from issuance of debt		15,825
Deferred acquisition payments	(11,452)	(6,617)
Payments of long-term debt	(1,422)	(1,576)
Proceeds from exercise of stock options	57	42
Debt issuance costs		(275)
Net cash provided by financing activities	8,183	7,399
Net decrease in cash and cash equivalents	(38,886)	(49,568)
Effect of foreign currency fluctuations on cash	608	(458)
Cash and cash equivalents at beginning of fiscal period	95,978	210,521
Cash and cash equivalents at end of fiscal period	$ 57,700	$ 160,495

See accompanying notes to the unaudited condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements

Note 1. Basis of Financial Statement Presentation

The condensed consolidated financial statements contained herein are unaudited and have been prepared from the books and records of KEMET Corporation and its subsidiaries (KEMET or the Company). In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q, and therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles (U.S. GAAP). Although the Company believes the disclosures are adequate to make the information presented not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the audited financial statements and notes thereto included in the Company s Form 10-K for the fiscal year ended March 31, 2013 (the Company s 2013 Annual Report).

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. In consolidation, all significant intercompany amounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to current year presentation. Net sales and operating results for the quarter and six month periods ended September 30, 2013 are not necessarily indicative of the results to be expected for the full year.

The Company s significant accounting policies are presented in the Company s 2013 Annual Report.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, assumptions, and judgments based on historical data and other assumptions that management believes 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.

The Company s judgments are based on management s 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 unaudited condensed consolidated financial statements. It is important that readers of these unaudited financial statements understand that actual results could differ from these estimates, assumptions, and judgments.

Recently Issued Accounting Pronouncements

New accounting standards adopted

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-11, Income Taxes (Topic 740). ASU 2013-11 requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with certain exceptions. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. The Company does not expect the adoption of this guidance to have any material impact on its financial position, results of operations, comprehensive income or liquidity.

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (Topic 830). The ASU revised the authoritative guidance on accounting for cumulative translation adjustment specifying that a cumulative translation adjustment should be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or a group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For sales of an equity method investment that is a foreign entity, a pro rata portion of cumulative translation adjustment attributable to the investment would be recognized in earnings upon sale of the investment. The guidance is effective for fiscal years beginning after December 15, 2013. The Company does not expect the adoption of this guidance to have any material impact on its financial position, results of operations, comprehensive income or liquidity.

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220), Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The ASU adds new disclosure requirements for items reclassified out of accumulated other comprehensive income. The ASU does not amend any existing requirements for reporting net income or other comprehensive income in the financial statements. The ASU is effective for the Company for interim and annual periods beginning after April 1, 2013. The adoption of the ASU had no effect on the Company s financial position, results of operations, comprehensive income or liquidity.

In July 2012, the FASB issued ASU No. 2012-02, Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment, which states that an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived

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intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. This provision is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. This accounting guidance is not expected to have a material impact on the Company s financial position, results of operations, comprehensive income or liquidity.

There are currently no other accounting standards that have been issued that will have a significant impact on the Company s financial position, results of operations or cash flows upon adoption.

Restricted Cash

As discussed in Note 2, *Debt*, the Company received a $24.0 million prepayment from an original equipment manufacturer (OEM) and utilized $11.6 million for the purchase of manufacturing equipment; the remaining proceeds of $12.4 million are classified as restricted cash at September 30, 2013.

A bank guarantee in the amount of EUR 1.5 million ($2.0 million) was issued by a European bank on behalf of the Company in August 2006 in conjunction with the establishment of a Value-Added Tax (VAT) registration in The Netherlands. Accordingly, a deposit was placed with the European bank for EUR 1.7 million ($2.2 million). While the deposit is in KEMET s name, and KEMET receives all interest earned by this deposit, the deposit is pledged to the European bank, and the bank can use the funds if a valid claim against the bank guarantee is made. The bank guarantee will remain valid until it is discharged by the beneficiary.

Fair Value Measurement

The Company utilizes three levels of inputs to measure the fair value of (a) nonfinancial assets and liabilities that are recognized or disclosed at fair value in the Company s consolidated financial statements on a recurring basis (at least annually) and (b) all financial assets and liabilities. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

The first two inputs are considered observable and the last is considered unobservable. The levels of inputs are as follows:

- Level 1 Quoted prices in active markets for identical assets or liabilities.

• Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

• Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2013 and March 31, 2013 are as follows (amounts in thousands):

	Carrying Value September 30, 2013	Fair Value September 30, 2013	Fair Value Measurement Using			Carrying Value March 31, 2013	Fair Value March 31, 2013	Fair Value Measurement Using		
			Level 1	Level 2 (2)	Level 3			Level 1	Level 2 (2)	Level 3
Assets:										
Money markets (1)	$ 5,281	$ 5,281	$ 5,281	$	$	$ 29,984	$ 29,984	$ 29,984	$	$
Long-term debt	403,278	357,779	315,950	41,829		383,500	393,928	369,200	24,728	
NEC TOKIN options, net (3)	106	106			106	489	489			489

(1) Included in the line item Cash and cash equivalents on the Condensed Consolidated Balance Sheets.

(2) The valuation approach used to calculate fair value was a discounted cash flow for each respective debt facility.

(3) See Note 5, Investment in NEC TOKIN, for a description of the NEC TOKIN options. The value of the options are interrelated and depend on the enterprise value of NEC TOKIN Corporation and its EBITDA over the duration of the instruments. Therefore, the options have been valued using option pricing methods in a Monte Carlo simulation.

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The table below summarizes NEC TOKIN option valuation activity using significant unobservable inputs (Level 3) (amounts in thousand):

March 31, 2013	$	489
Increase in value of NEC TOKIN options		(383)
September 30, 2013	$	106

Inventories

Inventories are stated at the lower of cost or market. The components of inventories are as follows (amounts in thousands):

		September 30, 2013		March 31, 2013
Raw materials and supplies	$	98,563	$	84,852
Work in process		68,798		70,522
Finished goods		67,996		68,705
		235,357		224,079
Inventory reserves (1)		(26,521)		(18,464)
	$	208,836	$	205,615

(1) During the six month period ended September 30, 2013, the Company recorded a $3.9 million reserve for inventory held by a third party.

Warrant

As of September 30, 2013 and March 31, 2013, 8.4 million shares were subject to the warrant held by K Equity, LLC.

Revenue Recognition

The Company ships products to customers based upon firm orders and recognizes revenue 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. 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. The Company recognizes 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, inventory price protection, and ship-from-stock and debit (SFSD) programs common in the industry.

The SFSD program provides a mechanism for the distributor to meet a competitive price after obtaining authorization from the Company s local sales office. This program allows the distributor to ship its higher-priced inventory and debit the Company for the difference between KEMET s list price and the lower authorized price for that specific transaction. Management analyzes historical SFSD activity to determine the SFSD exposure on the global distributor inventory at the balance sheet date. The establishment of these reserves is recognized as a component of the line item Net sales on the Condensed Consolidated Statements of Operations, while the associated reserves are included in the line item Accounts receivable, net on the Condensed Consolidated Balance Sheets.

Estimates used in determining sales allowances are subject to various factors including, but 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.

The Company provides a limited warranty to customers that the Company s products meet certain specifications. The warranty period is generally limited to one year, and the Company s liability under the warranty is generally limited to a replacement of the product or refund of the purchase price of the product. Warranty costs as a percentage of net sales were 1.5% or less for the

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quarters and six month periods ended September 30, 2013 and 2012. The Company recognizes warranty costs when they are both probable and reasonably estimable.

Note 2. Debt

A summary of debt is as follows (amounts in thousands):

		September 30, 2013		March 31, 2013
10.5% Senior Notes, net of premium of $3,463 and $3,773 as of September 30, 2013 and March 31, 2013, respectively	$	358,463	$	358,773
Advanced payment from OEM, net of discount of $641 and $1,056 as of September 30, 2013 and March 31, 2013, respectively		21,954		22,944
Revolving line of credit		21,000		
Other		1,861		1,783
Total debt		403,278		383,500
Current maturities		(29,772)		(10,793)
Total long-term debt	$	373,506	$	372,707

The line item Interest expense on the Condensed Consolidated Statements of Operations for the quarters ended September 30, 2013 and 2012, is as follows (amounts in thousands):

	Quarters Ended September 30,				Six Month Periods Ended September 30,			
		2013		2012		2013		2012
Contractual interest expense	$	8,963	$	9,182	$	17,983	$	18,669
Amortization of debt issuance costs		426		426		852		852
Amortization of debt (premium) discount		42		(144)		104		(298)
Imputed interest on acquisition related obligations		477		672		1,003		1,370
	$	9,908	$	10,136	$	19,942	$	20,593

Revolving Line of Credit

KEMET Electronics Corporation (KEC) and KEMET Electronics Marketing (S) Pte Ltd. (KEMET Singapore) (each a Borrower and, collectively, the Borrowers) entered into a Loan and Security Agreement (the Loan and Security Agreement) which provides a $50 million revolving line of credit. A portion of the U.S. and Singapore facilities can be used to issue letters of credit Letters of Credit .

On September 24, 2013, the Company borrowed $9.0 million from the revolving line of credit at a rate of 5.75% (Base Rate, as defined in the Loan and Security Agreement, plus 2.5%). As this is a base rate borrowing, there is not a specific repayment date and the amount can be repaid at any time prior to the expiration of the facility. On September 27, 2013, the Company borrowed $12.0 million from the revolving line of credit at a rate of 4.0% (London Interbank Offer Rate (LIBOR) plus 3.75% based upon the fixed charge coverage ratio of KEMET Corporation and its subsidiaries on a consolidated basis as of June 30, 2013). The term on this borrowing is 31 days with total interest and principal payable at maturity on October 28, 2013, however it was extended to November 26, 2013 subsequent to September 30, 2013. These borrowings are classified as current as the facilities expire on September 30, 2014. These were the only borrowings under the revolving line of credit and they remained outstanding as of September 30, 2013.

As described below in the section titled Advance Payment from OEM , a standby Letter of Credit for $16.0 million was delivered to the OEM on October 8, 2012 and in the six months ended September 30, 2013, the Company issued two Letters of Credit for EUR 1.1 million ($1.5 million) and EUR 0.7 million ($0.9 million), respectively, related to the construction of the new manufacturing location in Italy. These three letters of credit reduced the Company s availability under the Loan and Security Agreement. As of September 30, 2013, the Company s borrowing capacity under the revolving line of credit was $3.0 million.

Advanced Payment from OEM

On August 28, 2012, the Company entered into and amended an agreement (the Agreement) with the OEM, pursuant to which the OEM agreed to advance the Company $24.0 million (the Advance Payment). As of September 30, 2013 and March 31, 2013, the Company had $22.6 million and $24.0 million, respectively, outstanding to the OEM. On a monthly basis starting in June 2013, the Company began repaying the OEM an amount equal to a percentage of the aggregate purchase price of the capacitors

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sold to the OEM the preceding month, not to exceed $1.0 million per month. Pursuant to the terms of the Agreement, the percentage of the aggregate purchase price of capacitors sold to the OEM that will be used to repay the Advance Payment will double, not to exceed $2.0 million per month, in the event that (1) the OEM provides evidence that the price charged by KEMET for a particular capacitor during any prior quarter was equal to or greater than 110% of the price paid by the OEM or its affiliates for a third-party part qualified for the same product, and shipping in volume during such period, and (2) agreement cannot be reached between the OEM and the Company for a price adjustment during the current quarter which would bring KEMET s price within 110% of the third-party price. In June 2015, the outstanding balance, if any, is due in full. Pursuant to the terms of the Agreement, the Company delivered to the OEM an irrevocable standby Letter of Credit in the amount of $16.0 million on October 8, 2012 and on October 22, 2012, the Company received the Advance Payment from the OEM.

The OEM may demand repayment of the entire balance outstanding or draw upon the Letter of Credit if any of the following events occur while the Agreement is still in effect: (i) the Company commits a material breach of the Agreement, the statement of work or the master purchase agreement between the OEM and the Company; (ii) the Company s credit rating issued by Standard & Poor s Financial Services LLC or its successor or Moody s Investors Services, Inc. or its successors drops below CCC+ or Caa1, respectively; (iii) the Company s cash balance on the last day of any fiscal quarter is less than $60.0 million; (iv) the Letter of Credit has been terminated without being replaced prior to repayment of the Advance Payment amount; (v) the Company or substantially all of its assets are sold to a party other than a subsidiary of the Company; (vi) all or substantially all of the assets of a subsidiary of the Company, or any of the shares of such subsidiary, are sold, whose assets are used to develop and produce the Goods; (vii) the Company or any subsidiary which accounts for 20% or more of the Company s consolidated total assets (Company Entity) applies for judicial or extra judicial settlement with its creditors, makes an assignment for the benefit of its creditors, voluntarily files for bankruptcy or has a receiver or trustee in bankruptcy appointed by reason of its insolvency, or in the event of an involuntary bankruptcy action, liquidation proceeding, dissolution or similar proceeding is filed against a Company Entity and not dismissed within sixty (60) days. To the Company s best knowledge and belief, none of these triggers have been met including maintaining a minimum cash balance since our cash balance (including restricted cash under the OEM agreement) exceeds the $60.0 million threshold.

10.5% Senior Notes

As of September 30, 2013 and March 31, 2013, the Company had outstanding $355.0 million in aggregate principal amount of the Company s 10.5% Senior Notes due May 1, 2018 (the 10.5% Senior Notes). The Company had interest payable related to the 10.5% Senior Notes included in the line Accrued expenses on its Condensed Consolidated balance sheets of $15.5 million at September 30, 2013 and March 31, 2013.

Note 3. Restructuring Charges

In the second quarter of fiscal year 2010, the Company initiated the first phase of a plan to restructure the Film and Electrolytic Business Group (Film and Electrolytic) and to reduce overhead. Since that time, the restructuring plan was expanded to both business groups and includes implementing programs to make the Company more competitive by removing excess capacity, relocating production to lower cost locations, and eliminating unnecessary costs throughout the Company.

A summary of the expenses aggregated on the Condensed Consolidated Statements of Operations line item Restructuring charges in the quarters ended September 30, 2013 and 2012, are as follows (amounts in thousands):

Cost of relocating manufacturing equipment	$ 548	$ 1,015	$ 1,023	$ 1,161
Personnel reduction costs	817	7,507	4,952	8,625
	$ 1,365	$ 8,522	$ 5,975	$ 9,786

Six month period ended September 30, 2013

The Company incurred $6.0 million in restructuring charges in the six month period ended September 30, 2013 including $5.0 million related to personnel reduction costs which is comprised of the following: $1.9 million related to the closure of a portion of our innovation center in the U.S., $1.2 million related to a reduction of the solid capacitor production workforce in Mexico, $1.1 million related to the Company s initiative to reduce overhead, $0.4 million in termination benefits associated with converting the Weymouth, United Kingdom manufacturing facility into a technology center and $0.4 million related to an additional Cassia Integrazione Guadagni Straordinaria (CIGS) plan in Italy. The additional expense related to CIGS is an agreement with the labor union which allowed the Company to place up to 170 workers, on a rotation basis, on the CIGS plan to save labor costs. CIGS is a temporary plan to save labor costs whereby a company may temporarily lay off employees while the government

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continues to pay their wages for a maximum of 12 months for the program. The employees who are in CIGS are not working, but are still employed by the Company. Only employees that are not classified as management or executive level personnel can participate in the CIGS program. Upon termination of the plan, the affected employees return to work.

In addition to these personnel reduction costs, the Company incurred manufacturing relocation costs of $1.0 million for the consolidation of manufacturing operations within Italy and relocation of equipment to Evora, Portugal and Skopje, Macedonia.

Six month period Ended September 30, 2012

Restructuring charges in the six months ended September 30, 2012 included personnel reduction costs of $8.6 million and manufacturing relocation costs of $1.2 million. The personnel reduction costs were comprised of the following: $2.8 million in termination benefits associated with converting the Landsberg, Germany manufacturing facility into a technology center and $1.7 million in termination benefits associated with converting the Weymouth, United Kingdom manufacturing facility into a technology center. The Company also incurred $4.1 million for reductions in production workforce across the entire Company and reducing overhead. In addition to these personnel reduction costs, the Company incurred manufacturing relocation costs of $1.2 million for relocation of equipment to Bulgaria, China, Macedonia and Mexico and for the consolidation of manufacturing operations within Italy.

Reconciliation of restructuring liability

A reconciliation of the beginning and ending liability balances for restructuring charges included in the line items Accrued expenses and Other non-current obligations on the Condensed Consolidated Balance Sheets for the quarters and six month periods ended September 30, 2013 and 2012 are as follows (amounts in thousands):

	Quarter Ended September 30, 2013				Quarter Ended September 30, 2012			
	Personnel Reductions		Manufacturing Relocations		Personnel Reductions		Manufacturing Relocations	
Beginning of period	$	8,947	$		$	11,184	$	
Costs charged to expense		817		548		7,507		1,015
Costs paid or settled		(4,648)		(548)		(4,048)		(1,015)
Change in foreign exchange		155				376		
End of period	$	5,271	$		$	15,019	$	

	Six Month Period Ended September 30, 2013				Six Month Period Ended September 30, 2012			
	Personnel Reductions		Manufacturing Relocations		Personnel Reductions		Manufacturing Relocations	
Beginning of period	$	13,509	$	567	$	11,474	$	
Costs charged to expense		4,952		1,023		8,625		1,161
Costs paid or settled		(13,517)		(1,590)		(4,851)		(1,161)
Change in foreign exchange		327				(229)		

End of period	$	5,271	$		$	15,019	$

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Note 4. Comprehensive Income (Loss) and Accumulated Other Comprehensive Income

Changes in Accumulated Other Comprehensive Income (Loss) for the quarters ended September 30, 2013 and 2012 includes the following components (amounts in thousands):

	Foreign Currency Translation (1)	Defined Benefit Pension Plans, Net of Tax (2)	Post-Retirement Benefit Plans	Ownership Share of Equity Method Investees Other Comprehensive Income (Loss)	Net Accumulated Other Comprehensive Income (Loss)
Balance at June 30, 2013	$ 15,810	$ (7,487)	$ 1,748	$ (651)	$ 9,420
Other comprehensive income (loss) before reclassifications	6,359			(524)	5,835
Amounts reclassified out of AOCI		121	(61)		60
Other comprehensive income (loss)	6,359	121	(61)	(524)	5,895
Balance at September 30, 2013	$ 22,169	$ (7,366)	$ 1,687	$ (1,175)	$ 15,315
	$				

	Foreign Currency Translation (1)	Defined Benefit Pension Plans, Net of Tax (2)	Post-Retirement Benefit Plans	Net Accumulated Other Comprehensive Income (Loss)
Balance at June 30, 2012	$ 10,141	$ (7,980)	$ 2,066	$ 4,227
Other comprehensive income (loss) before reclassifications	3,907			3,907
Amounts reclassified out of AOCI		(1,244)	(232)	(1,476)
Other comprehensive income (loss)	3,907	(1,244)	(232)	2,431
Balance at September 30, 2012	$ 14,048	$ (9,224)	$ 1,834	$ 6,658

Changes in Accumulated Other Comprehensive Income (Loss) for the six month periods ended September 30, 2013 and 2012 includes the following components (amounts in thousands):

	Foreign Currency Translation (1)	Defined Benefit Pension Plans, Net of Tax (2)	Post-Retirement Benefit Plans	Ownership Share of Equity Method Investees Other Comprehensive Income (Loss)	Net Accumulated Other Comprehensive Income (Loss)
	$ 13,538	$ (7,662)	$ 1,818	$	$ 7,694

Balance at March 31, 2013					
Other comprehensive income (loss) before reclassifications	8,631			(1,175)	7,456
Amounts reclassified out of AOCI		296	(131)		165
Other comprehensive income (loss)	8,631	296	(131)	(1,175)	7,621
Balance at September 30, 2013	$ 22,169	$ (7,366)	$ 1,687	$ (1,175)	$ 15,315

	Foreign Currency Translation (1)	Defined Benefit Pension Plans, Net of Tax (2)	Post-Retirement Benefit Plans	Net Accumulated Other Comprehensive Income (Loss)
Balance at March 31, 2012	$ 18,107	$ (8,082)	$ 1,995	$ 12,020
Other comprehensive income (loss) before reclassifications	(4,059)			(4,059)
Amounts reclassified out of AOCI		(1,142)	(161)	(1,303)
Other comprehensive loss	(4,059)	(1,142)	(161)	(5,362)
Balance at September 30, 2012	$ 14,048	$ (9,224)	$ 1,834	$ 6,658

(1) Due primarily to the Company s permanent re-investment assertion relating to foreign earnings, there was no significant deferred tax effect associated with the cumulative currency translation gains and losses during the quarters and six month periods ended September 30, 2013 and 2012.

(2) Ending balance is net of tax of $2.3 million and $2.9 million as of September 30, 2013 and September 30, 2012, respectively.

Note 5. Investment in NEC TOKIN

On March 12, 2012, KEMET Electronics Corporation (KEC), a wholly owned subsidiary of the Company, entered into a Stock Purchase Agreement (the Stock Purchase Agreement) to acquire 51% of the common stock (representing a 34% economic interest) of NEC TOKIN Corporation (NEC TOKIN), a manufacturer of tantalum capacitors, electro-magnetic, electro-mechanical and access devices, (the Initial Purchase) from NEC Corporation (NEC) of Japan. 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 (the Initial Closing). The

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Company accounts for the equity investment using the equity method in a non-consolidated variable interest entity since KEC does not have the power to direct significant activities of NEC TOKIN.

In connection with KEC s execution of the Stock Purchase Agreement, KEC entered into a Stockholders Agreement (the Stockholders Agreement) with NEC TOKIN and NEC, which provides for restrictions on transfers of NEC TOKIN s capital stock, certain tag-along and first refusal rights on transfer, restrictions on NEC s ability to convert the preferred stock of NEC TOKIN held by it, certain management services to be provided to NEC TOKIN by KEC (or an affiliate of KEC) and certain board representation rights. KEC holds four of seven NEC TOKIN director positions. However, NEC has significant board rights.

Concurrent with execution of the Stock Purchase Agreement and the Stockholders Agreement, KEC entered into an Option Agreement (the Option Agreement) with NEC whereby KEC may purchase additional shares of NEC TOKIN common stock from NEC TOKIN for a purchase price of $50.0 million resulting in an economic interest of approximately 49% while maintaining ownership of 51% of NEC TOKIN s common stock (the First Call Option) by providing notice of the First Call Option between the Initial Closing and August 31, 2014. Upon providing such notice, but not before August 1, 2014, KEC may also exercise an option to purchase all outstanding capital stock of NEC TOKIN from its stockholders, primarily NEC, for a purchase price based on the greater of six times LTM EBITDA (as defined in the Option Agreement) less the previous payments and certain other adjustments, or the outstanding amount of NEC TOKIN s debt obligation to NEC (the Second Call Option) by providing notice of the Second Call Option by May 31, 2018. From August 1, 2014 through May 31, 2018, NEC may require KEC to purchase all outstanding capital stock of NEC TOKIN from its stockholders, primarily NEC. However, NEC may only exercise this right (the Put Option) from August 1, 2014 through April 1, 2016 if NEC TOKIN achieves certain financial performance measures. The purchase price for the Put Option will be based on the greater of six times LTM EBITDA less previous payments and certain other adjustments, or the outstanding amount of NEC TOKIN s debt obligation to NEC as of the date the Put Option is exercised. The purchase price for the Put Option is reduced by the amount of NEC TOKIN s debt obligation to NEC which KEC will assume. The determination of the purchase price will be modified in the event there is a disagreement between NEC and KEC under the Stockholders Agreement. In the event the Put Option is exercised, NEC will be required to maintain in place the outstanding debt obligation owed by NEC TOKIN to NEC. The valuation of these options as of March 31, 2013 resulted in a net long-term asset of $0.5 million which is included in the line item Other assets on the Condensed Consolidated Balance Sheets. As of September 30, 2013, the Company has marked these options to fair value and recognized a $0.4 million loss included on the line item Other expense, net in the Condensed Consolidated Statement of Operations. The value included for the options in the line item Other assets on the Condensed Consolidated Balance Sheets as of September 30, 2013 is $0.1 million.

KEC s total investment in NEC TOKIN including the net options described above on February 1, 2013 was $54.5 million which included $50.0 million cash consideration plus approximately $4.5 million in transaction expenses (fees for legal, accounting, due diligence, investment banking and other various services necessary to complete the transactions). The Company has made a preliminary allocation of the aggregate purchase price, which are based upon estimates that the Company believes are reasonable and are subject to revision as additional information becomes available.

Summarized financial information for NEC TOKIN follows (in thousands):

	September 30, 2013		Six Month Period Ended September 30, 2013
Current assets	$ 230,061	Net sales	$ 258,266
Noncurrent assets	391,929	Gross profit	43,869
Current liabilities	133,267	Net loss	(11,942)
Noncurrent liabilities	397,422		

As of September 30, 2013, the excess of the carrying value for its investment in NEC TOKIN over KEMET s share of NEC TOKIN s equity is $15.9 million. As of September 30, 2013, KEC s maximum loss exposure as a result of its investments in NEC TOKIN is limited to the aggregate of the carrying value of the investment and any accounts receivable balance due from NEC TOKIN. For the six month period ended September 30, 2013, KEMET recorded sales of $1.9 million to NEC TOKIN. As of September 30, 2013 KEMET s accounts receivable and accounts payable balances with NEC TOKIN were $0.2 million and $0.1 million respectively. In accordance with the Stockholders Agreement, KEC entered into a management services agreement to provide services for which KEC would be reimbursed. As of September 30, 2013 KEMET s receivable balances under this agreement is $0.7 million.

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Note 6. Segment and Geographic Information

In the first quarter of fiscal year 2014, the Company reorganized its business by combining its Tantalum Business Group and Ceramic Business Group into one business group, Solid Capacitors Business Group (Solid Capacitors). Following the reorganization, based on information regularly reviewed by the chief operating decision maker, KEMET s two business groups are comprised of the Film and Electrolytic Business Group (Film and Electrolytic) and the Solid Capacitors. These business groups are responsible for their respective manufacturing sites as well as related research and development efforts.

Consistent with management reporting, the Company does not allocate indirect Selling, general and administrative (SG&A) and Research and development (R&D) expenses to the business groups. Prior period information has been reclassified to conform to current year presentation.

Solid Capacitors

Operating in ten manufacturing sites in the United States, Mexico, China and Portugal, Solid Capacitors 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 and has a product innovation center in the United States.

Film and Electrolytic

Film and Electrolytic operates fifteen manufacturing sites throughout Europe, Asia, and the United States and produces film, paper, and electrolytic capacitors which are sold globally. Film and Electrolytic also manufactures etched foils utilized as a core component in the manufacture of electrolytic capacitors and operates a machinery division located in Italy that provides automation solutions for the manufacture, processing and assembly of metalized films, film/foil and electrolytic capacitors; and designs, assembles and installs automation solutions for the production of energy storage devices. In addition, this business group has product innovation centers in the United Kingdom, Italy, Germany and Sweden.

The following table reflects each business group s net sales, operating income (loss), depreciation and amortization expenses and sales by region for the quarters and six month periods ended September 30, 2013 and 2012 (amounts in thousands):

	Quarters Ended September 30,		Six Month Periods Ended September 30,	
	2013	**2012**	**2013**	**2012**
Net sales:				
Solid Capacitors	$ 157,714	$ 162,424	$ 307,115	$ 323,168
Film and Electrolytic	55,026	53,567	108,348	116,455
	$ 212,740	$ 215,991	$ 415,463	$ 439,623
Operating income (loss)(1):				

Solid Capacitors	$ 25,386	$ 23,098	$ 38,194	$ 48,768
Film and Electrolytic (2)	(3,487)	(12,743)	(11,530)	(18,764)
Unallocated operating expenses	(21,590)	(24,375)	(46,313)	(48,069)
	$ 309	$ (14,020)	$ (19,649)	$ (18,065)
Depreciation and amortization expenses:				
Solid Capacitors	$ 7,301	$ 7,336	$ 14,611	$ 14,527
Film and Electrolytic	3,282	3,097	7,789	6,546
Unallocated operating expenses	1,466	1,088	3,380	2,104
	$ 12,049	$ 11,521	$ 25,780	$ 23,177

(1) Restructuring charges included in Operating income (loss) are as follows (amounts in thousands):

	Quarters Ended September 30,		**Six Month Periods Ended September 30,**	
	2013	**2012**	**2013**	**2012**
Restructuring charges:				
Solid Capacitors	$ 99	$ 3,217	3,144	3,210
Film and Electrolytic	1,063	5,305	2,473	6,576
Corporate	203		358	
	$ 1,365	$ 8,522	$ 5,975	$ 9,786

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(2) Film and Electrolytic incurred the following operating expenses (benefits): Goodwill impairment of $1.1 million, Write down of long-lived assets of $4.2 million and a Settlement gain on benefit plan of $(1.7) million in the quarter and six month period ended September 30, 2012.

	Quarters Ended September 30, 2013	Quarters Ended September 30, 2012	Six Month Periods Ended September 30, 2013	Six Month Periods Ended September 30, 2012
Sales by region:				
North and South America (Americas)	$ 67,798	$ 62,243	$ 127,368	$ 122,728
Europe, Middle East, Africa (EMEA)	69,470	70,673	142,511	150,058
Asia and Pacific Rim (APAC)	75,472	83,075	145,584	166,837
	$ 212,740	$ 215,991	$ 415,463	$ 439,623

The following table reflects each business group s total assets as of September 30, 2013 and March 31, 2013 (amounts in thousands):

	September 30, 2013	March 31, 2013
Total assets:		
Solid Capacitors	$ 502,624	$ 517,024
Film and Electrolytic	302,105	308,751
Corporate	75,482	85,816
	$ 880,211	$ 911,591

Note 7. Defined Benefit Pension and Other Postretirement Benefit Plans

The Company sponsors six defined benefit pension plans in Europe, one plan in Singapore and two plans in Mexico. In addition, the Company sponsors a post-retirement plan in the United States. Costs recognized for these benefit plans are recorded using estimated amounts which may change as actual costs for the fiscal year are determined.

The components of net periodic benefit (income) costs relating to the Company s pension and other postretirement benefit plans are as follows for the quarters ended September 30, 2013 and 2012 (amounts in thousands):

	Pension Quarters Ended September 30, 2013	Pension Quarters Ended September 30, 2012	Post-retirement Benefit Plan Quarters Ended September 30, 2013	Post-retirement Benefit Plan Quarters Ended September 30, 2012
Net service cost	$ 332	$ 415	$	$
Interest cost	428	494	7	7
Expected return on net assets	(110)	(172)		
Amortization:				
Actuarial (gain) loss	79	130	(60)	(81)
Prior service cost	1	6		
Curtailment loss on benefit plans		(1,675)		
Total net periodic benefit (income) costs	$ 730	$ (802)	$ (53)	$ (74)

The components of net periodic benefit costs relating to the Company s pension and other postretirement benefit plans are as follows for the six month periods ended September 30, 2013 and 2012 (amounts in thousands):

	Pension Six Month Periods Ended				Postretirement Benefit Plans Six Month Periods Ended September			
	2013		2012		2013		2012	
Net service cost	$	663	$	829	$		$	
Interest cost		856		988		12		14
Expected return on net assets		(219)		(344)				
Amortization:								
Actuarial (gain) loss		157		260		(130)		(161)
Prior service cost		2		12				
Net curtailment and settlement gain on benefit plans				(1,675)				
Total net periodic benefit (income) costs	$	1,459	$	70	$	(118)	$	(147)

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In fiscal year 2014, the Company expects to contribute up to $1.6 million to the pension plans, $0.6 million of which has already been contributed as of September 30, 2013. The Company s policy is to pay benefits as costs are incurred for the postretirement benefit plan.

Note 8. Stock-based Compensation

The Company s stock-based compensation plans are broad-based, long-term retention programs intended to attract and retain talented employees and align stockholder and employee interests. At September 30, 2013, the Company had four stock option plans that reserved shares of common stock for issuance to executives and key employees: the 1992 Key Employee Stock Option Plan, the 1995 Executive Stock Option Plan, the 2004 Long-Term Equity Incentive Plan (collectively, the Prior Plans) and the 2011 Omnibus Equity Incentive Plan (the 2011 Incentive Plan). The 2011 Incentive Plan authorizes the Company to provide equity-based compensation in the form of (1) stock options, including incentive stock options, entitling the optionee to favorable tax treatment under Section 422 of the Code; (2) stock appreciation rights; (3) restricted stock and restricted stock units; (4) other share-based awards; and (5) performance awards. Options issued under these plans vest within one to three years and expire ten years from the grant date. The Company grants restricted stock units to members of the Board of Directors, the Chief Executive Officer and a limited group of executives. Once vested and settled, restricted stock units are converted into restricted stock and cannot be sold until 90 days after the Chief Executive Officer, the executive or the member of the Board of Directors, as applicable, resigns from his or her position, or until the individual achieves the targeted ownership under the Company s stock ownership guidelines, and only to the extent that such ownership exceeds the target. This expense is being recognized over the respective vesting periods.

Historically, the Board of Directors of the Company has approved annual Long Term Incentive Plans (LTIP) which cover two year periods and are primarily based upon the achievement of an Adjusted EBITDA target for the two-year period. At the time of the award, the individual plans entitle the participants to receive cash or restricted stock units, or a combination of both as determined by the Company s Board of Directors. The 2014/2015 LTIP and 2013/2014 LTIP also awarded restricted stock units which vest over the course of three years from the anniversary of the establishment of the plan and are not subject to a performance metric. The Company assesses the likelihood of meeting the Adjusted EBITDA financial metric on a quarterly basis and adjusts compensation expense to match expectations. Any related liability is reflected in the line item Accrued expenses on the Consolidated Balance Sheets and any restricted stock unit commitment is reflected in the line item Additional paid-in capital on the Consolidated Balance Sheets.

The compensation expense associated with stock-based compensation for the quarters ended September 30, 2013 and 2012 are recorded on the Condensed Consolidated Statements of Operations as follows (amounts in thousands):