

KEMET CORP
Form 10-Q
November 09, 2012
[Table of Contents](#)

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, 2012

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

Commission File Number: 001-15491

KEMET CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

57-0923789

Edgar Filing: KEMET CORP - Form 10-Q

(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 ☒ NO ☐

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

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 ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant's common stock, par value \$0.01 per share, as of November 6, 2012 was 44,917,587.

Table of Contents

KEMET CORPORATION AND SUBSIDIARIES

Form 10-Q for the Quarter Ended September 30, 2012

INDEX

| | Page |
|---|-------------|
| <u>PART I FINANCIAL INFORMATION</u> | |
| <u>Item 1. Financial Statements</u> | |
| <u>Condensed Consolidated Balance Sheets at September 30, 2012 and March 31, 2012</u> | 2 |
| <u>Condensed Consolidated Statements of Operations for the Quarters and Six Months Ended September 30, 2012 and September 30, 2011</u> | 3 |
| <u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Quarters and Six Months Ended September 30, 2012 and September 30, 2011</u> | 4 |
| <u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended September 30, 2012 and September 30, 2011</u> | 5 |
| <u>Notes to the Condensed Consolidated Financial Statements</u> | 6 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 26 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 48 |
| <u>Item 4. Controls and Procedures</u> | 48 |
| <u>PART II OTHER INFORMATION</u> | |
| <u>Item 1. Legal Proceedings</u> | 49 |
| <u>Item 1A. Risk Factors</u> | 49 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 49 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 49 |
| <u>Item 4. Mine Safety Disclosures</u> | 49 |
| <u>Item 5. Other Information</u> | 49 |
| <u>Item 6. Exhibits</u> | 50 |
| Exhibit 31.1 | |
| Exhibit 31.2 | |
| Exhibit 32.1 | |
| Exhibit 32.2 | |
| Exhibit 101 | |

[Table of Contents](#)**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, 2012 (Unaudited) | March 31, 2012 |
|--|--------------------------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 160,495 | \$ 210,521 |
| Accounts receivable, net | 99,160 | 104,950 |
| Inventories, net | 224,773 | 212,234 |
| Prepaid expenses and other | 41,041 | 32,259 |
| Deferred income taxes | 5,658 | 6,370 |
| Total current assets | 531,127 | 566,334 |
| Property and equipment, net of accumulated depreciation of \$773,184 and \$761,522 as of September 30, 2012 and March 31, 2012, respectively | 316,182 | 315,848 |
| Goodwill | 35,584 | 36,676 |
| Intangible assets, net | 40,102 | 41,527 |
| Other assets | 17,802 | 15,167 |
| Total assets | \$ 940,797 | \$ 975,552 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 1,576 | \$ 1,951 |
| Accounts payable | 82,156 | 74,404 |
| Accrued expenses | 88,623 | 89,079 |
| Income taxes payable | 622 | 2,256 |
| Total current liabilities | 172,977 | 167,690 |
| Long-term debt, less current portion | 359,621 | 345,380 |
| Other non-current obligations | 90,098 | 101,229 |
| Deferred income taxes | 4,788 | 2,257 |
| 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, 2012 and March 31, 2012 | 465 | 465 |
| Additional paid-in capital | 466,906 | 470,059 |
| Retained deficit | (123,727) | (81,053) |
| Accumulated other comprehensive income | 6,658 | 12,020 |
| Treasury stock, at cost (1,600 and 1,839 shares at September 30, 2012 and March 31, 2012, respectively) | (36,989) | (42,495) |
| Total stockholders' equity | 313,313 | 358,996 |
| Total liabilities and stockholders' equity | \$ 940,797 | \$ 975,552 |

Edgar Filing: KEMET CORP - Form 10-Q

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents**KEMET CORPORATION AND SUBSIDIARIES****Condensed Consolidated Statements of Operations**

(Amounts in thousands, except per share data)

(Unaudited)

| | Quarters Ended September 30, | | Six Months Ended September 30, | |
|--|------------------------------|------------|--------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net sales | \$ 215,991 | \$ 265,514 | \$ 439,623 | \$ 555,370 |
| Operating costs and expenses: | | | | |
| Cost of sales | 183,053 | 203,319 | 374,374 | 413,823 |
| Selling, general and administrative expenses | 27,983 | 28,355 | 55,238 | 58,631 |
| Research and development | 6,833 | 7,362 | 14,566 | 14,448 |
| Restructuring charges | 8,522 | 1,605 | 9,786 | 2,630 |
| Goodwill impairment | 1,092 | | 1,092 | |
| Write down of long-lived assets | 4,234 | | 4,234 | |
| Settlement gain on benefit plan | (1,675) | | (1,675) | |
| Net (gain) loss on sales and disposals of assets | (31) | (40) | 73 | 83 |
| Total operating costs and expenses | 230,011 | 240,601 | 457,688 | 489,615 |
| Operating income (loss) | (14,020) | 24,913 | (18,065) | 65,755 |
| Other (income) expense: | | | | |
| Interest income | (26) | (31) | (57) | (74) |
| Interest expense | 10,136 | 7,282 | 20,593 | 14,682 |
| Other (income) expense, net | (996) | 1,297 | 515 | 1,202 |
| Income (loss) before income taxes | (23,134) | 16,365 | (39,116) | 49,945 |
| Income tax expense | 1,787 | 2,047 | 3,558 | 3,778 |
| Net income (loss) | \$ (24,921) | \$ 14,318 | \$ (42,674) | \$ 46,167 |
| Net income (loss) per share: | | | | |
| Basic | \$ (0.55) | \$ 0.32 | \$ (0.95) | \$ 1.10 |
| Diluted | \$ (0.55) | \$ 0.27 | \$ (0.95) | \$ 0.88 |
| Weighted-average shares outstanding: | | | | |
| Basic | 44,911 | 44,370 | 44,860 | 41,924 |
| Diluted | 44,911 | 52,230 | 44,860 | 52,307 |

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

KEMET CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Amounts in thousands)

(Unaudited)

| | Quarters Ended September 30, | | Six Months Ended September 30, | |
|--|------------------------------|-----------|--------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Net income (loss) | \$ (24,921) | \$ 14,318 | \$ (42,674) | \$ 46,167 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation gains (losses) | 3,907 | (11,592) | (4,059) | (8,487) |
| Defined benefit pension plans, net of tax impact | (1,244) | 100 | (1,142) | 216 |
| Defined benefit post-retirement plan adjustments | (232) | (91) | (161) | (161) |
| Other comprehensive income (loss) | 2,431 | (11,583) | (5,362) | (8,432) |
| Total comprehensive income (loss) | \$ (22,490) | \$ 2,735 | \$ (48,036) | \$ 37,735 |

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents**KEMET CORPORATION AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows****(Amounts in thousands)****(Unaudited)**

| | Six Months Ended September 30, | |
|--|---------------------------------------|-------------|
| | 2012 | 2011 |
| Net income (loss) | \$ (42,674) | \$ 46,167 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 23,177 | 23,011 |
| Amortization of debt discount and debt issuance costs | 1,924 | 2,056 |
| Net loss on sales and disposals of assets | 73 | 83 |
| Stock-based compensation expense | 2,506 | 2,175 |
| Goodwill impairment | 1,092 | |
| Write down of long-lived assets | 4,234 | |
| Settlement gain on benefit plan | (1,675) | |
| Change in deferred income taxes | 838 | 379 |
| Change in operating assets | (18,656) | 18,438 |
| Change in operating liabilities | 2,520 | (42,517) |
| Other | 17 | 1,197 |
| Net cash provided by (used in) operating activities | (26,624) | 50,989 |
| Investing activities: | | |
| Capital expenditures | (30,343) | (20,105) |
| Acquisition, net of cash received | | (11,584) |
| Net cash used in investing activities | (30,343) | (31,689) |
| Financing activities: | | |
| Proceeds from issuance of debt | 15,825 | |
| Deferred acquisition payments | (6,617) | |
| Payments of long-term debt | (1,576) | (4,084) |
| Net borrowings (payments) under other credit facilities | | (3,153) |
| Proceeds from exercise of stock options | 42 | 159 |
| Debt issuance costs | (275) | (29) |
| Change in restricted cash | | (36,497) |
| Net cash provided by (used in) financing activities | 7,399 | (43,604) |
| Net decrease in cash and cash equivalents | (49,568) | (24,304) |
| Effect of foreign currency fluctuations on cash | (458) | (584) |
| Cash and cash equivalents at beginning of fiscal period | 210,521 | 152,051 |
| Cash and cash equivalents at end of fiscal period | \$ 160,495 | \$ 127,163 |

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

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 that 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, 2012 (the Company s 2012 Annual Report).

Net sales and operating results for the three and six months ended September 30, 2012 are not necessarily indicative of the results to be expected for the full year. 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.

The significant accounting policies followed by the Company are presented in the Company s 2012 Annual Report.

Recently Issued Accounting Pronouncements

New accounting standards adopted

In September 2011, the FASB issued ASU 2011-08, Guidance on Testing Goodwill for Impairment. ASU 2011-08 gives entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit in Step 1 of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that it is more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be needed. ASU 2011-08 was effective for the Company on April 1, 2012 and did not have a material effect on the Company s financial position.

In December 2011, the FASB issued ASU 2011-12, Comprehensive Income. ASU 2011-12 defers the requirement in ASU 2011-05 that companies present reclassification adjustments for each component of AOCI in both OCI and net income on the face of the financial statements. ASU 2011-12 requires companies to continue to present amounts reclassified out of AOCI on the face of the financial statements or disclosed in the notes to the financial statements. ASU 2011-12 also defers the requirement to report reclassification adjustments in interim periods and requires companies to present only total comprehensive income in either a single continuous statement or two consecutive statements in interim periods. ASU 2011-05 and ASU 2011-12 was effective for the Company on April 1, 2012 and did not have a material effect on the Company s financial position.

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

A guarantee 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. The bank guarantee is in the amount of EUR 1.5 million (\$1.9 million). A deposit was placed with a European bank for EUR 1.7 million (\$2.1 million). The deposit is in KEMET's name, and KEMET receives any interest earned by this deposit. However, the deposit is pledged to the European bank, and the bank can use the money if a valid claim against the bank guarantee is made. The bank guarantee will remain valid until it is discharged by the beneficiary.

Table of Contents***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, 2012 and March 31, 2012 are as follows (amounts in thousands):

| | Carrying Value September 30, 2012 | Fair Value September 30, 2012 | Fair Value Measurement Using | | | Carrying Value March 31, 2012 | Fair Value March 31, 2012 | Fair Value Measurement Using | | |
|----------------|--|-------------------------------------|------------------------------|-------------|---------|--|---------------------------------|------------------------------|-------------|---------|
| | | | Level 1 | Level 2 (2) | Level 3 | | | Level 1 | Level 2 (2) | Level 3 |
| Assets: | | | | | | | | | | |
| Money markets | | | | | | | | | | |
| (1) | \$ 26,239 | \$ 26,239 | \$ 26,239 | \$ | \$ | \$ 26,215 | \$ 26,215 | \$ 26,215 | \$ | \$ |
| Long-term debt | 361,197 | 362,301 | 360,325 | 1,976 | | 347,331 | 362,086 | 358,700 | 3,386 | |

(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.

Revenue Recognition

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 and price protection on unsold merchandise held by distributors. The Company's distributor policy includes 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.

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 less than 1% for the quarters and six months ended September 30, 2012 and 2011. The Company recognizes warranty costs when they are both probable and reasonably estimable.

Table of Contents*Use of Estimates and Assumptions*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, assumptions, and judgments. Estimates and assumptions are 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.

Inventories

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

| | September 30, 2012 | March 31, 2012 |
|----------------------------|-----------------------|-------------------|
| Raw materials and supplies | \$ 90,403 | \$ 86,845 |
| Work in process | 84,182 | 72,411 |
| Finished goods | 67,594 | 70,122 |
| | 242,179 | 229,378 |
| Inventory reserves | (17,406) | (17,144) |
| | \$ 224,773 | \$ 212,234 |

Note 2. Debt

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

| | September 30, 2012 | March 31, 2012 |
|---|-----------------------|-------------------|
| 10.5% Senior Notes, net of premium of \$4,066 and \$3,539 as of September 30, 2012 and March 31, 2012, respectively | \$ 359,066 | \$ 343,539 |
| Other | 2,131 | 3,792 |
| Total debt | 361,197 | 347,331 |
| Current maturities | (1,576) | (1,951) |
| Total long-term debt | \$ 359,621 | \$ 345,380 |

Edgar Filing: KEMET CORP - Form 10-Q

The line item Interest expense on the Condensed Consolidated Statements of Operations for the quarters and six months ended September 30, 2012 and 2011, is as follows (amounts in thousands):

| | Quarters Ended September 30, | | Six Months Ended September 30, | |
|---|------------------------------|----------|--------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Contractual interest expense | \$ 9,182 | \$ 6,270 | \$ 18,669 | \$ 12,626 |
| Amortization of debt issuance costs | 426 | 280 | 852 | 555 |
| Amortization of debt (premium) discount | (144) | 598 | (298) | 1,254 |
| Imputed interest on acquisition related obligations | 672 | 134 | 1,370 | 247 |
| | \$ 10,136 | \$ 7,282 | \$ 20,593 | \$ 14,682 |

10.5% Senior Notes

On May 5, 2010, the Company completed a private placement of \$230.0 million in aggregate principal amount of the Company's 10.5% Senior Notes due 2018 (the 10.5% Senior Notes). On March 27, 2012 and April 3, 2012, the Company completed the sale of \$110.0 million and \$15.0 million aggregate principal amount of its 10.5% Senior Notes due 2018, respectively, at an issue price of 105.5% of the principal amount plus accrued interest from November 1, 2011. The Senior Notes were issued as additional notes under the indenture, dated May 5, 2010, among the Company, the guarantors party thereto and Wilmington Trust

Table of Contents

Company, as trustee. Debt issuance costs related to the 10.5% Senior Notes, net of amortization, were \$7.4 million as of September 30, 2012; these costs are being amortized over the term of the 10.5% Senior Notes. Debt premium related to the 10.5% Senior Notes as of September 30, 2012 were \$4.1 million which will be amortized over the term of the 10.5% Senior Notes.

The Company had interest payable related to the 10.5% Senior Notes included in the line item *Accrued expenses* on its Condensed Consolidated Balance Sheets of \$15.6 million and \$14.7 million at September 30, 2012 and March 31, 2012, respectively.

Revolving Line of Credit

On September 30, 2010, 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*), with Bank of America, N.A, as the administrative agent and the initial lender. The Loan and Security Agreement provides a \$50 million revolving line of credit, which is bifurcated into a U.S. facility (for which KEC is the *Borrower*) and a Singapore facility (for which KEMET Singapore is the *Borrower*). The size of the U.S. facility and Singapore facility can fluctuate as long as the Singapore facility does not exceed \$30 million and the total facility does not exceed \$50 million. A portion of the U.S. facility and of the Singapore facility can be used to issue letters of credit. The facilities expire on September 30, 2014.

Debt issuance costs related to the Loan and Security Agreement, net of amortization, were \$0.8 million and \$0.9 million as of September 30, 2012 and March 31, 2012, respectively. These costs are being amortized over the term of the Loan and Security Agreement. As discussed in Note 17, *Subsequent Event* , a standby letter of credit for \$16.0 million was delivered to the beneficiary on October 8, 2012. There were no borrowings against the Loan and Security Agreement as of September 30, 2012 and March 31, 2012.

Note 3. Goodwill Impairment

The Company's annual goodwill impairment test is assessed as of May 31 of each fiscal year. Testing was not completed prior to the deadline for filing the Form 10-Q for the first quarter ended June 30, 2012. Due to reduced earnings and cash flows caused by macro-economic factors and excess capacity issues in our industry, the Company revised its earnings forecast; and as a result, recorded a \$1.1 million goodwill impairment charge in the second quarter of fiscal year 2013, which represents all of the goodwill related to the KEMET Foil Manufacturing, LLC (*KEMET Foil*) reporting unit. The Company has evaluated the effect of not recording the impairment in the first quarter of fiscal year 2013 and determined that the goodwill impairment charge is not material to the first or second quarter Condensed Consolidated Financial Statements.

Note 4. Write Down of Long-Lived Assets

During the second quarter of fiscal year 2013, the Company incurred impairment charges totaling \$4.2 million related to the Film and Electrolytic Business Group (*Film and Electrolytic*). In connection with the consolidation of two manufacturing facilities within Italy, the Company obtained appraisals for each of these facilities. These appraisals indicated that there was a decrease in the market price of the

Edgar Filing: KEMET CORP - Form 10-Q

manufacturing facilities, and therefore, the carrying amounts for these manufacturing facilities were reviewed for recoverability. It was determined that the carrying amounts of the manufacturing facilities were not recoverable since they exceeded the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group). The impairment was measured as the amount by which the carrying amount of a long-lived asset (asset group) exceeds its fair value. The Company utilized the market approach to estimate fair value of the long-lived asset group. The impairment charge is recorded on the Condensed Consolidated Statements of Operations line item Write down of long-lived assets in the second quarter of fiscal year 2013.

Note 5. Restructuring Charges

A summary of the expenses aggregated on the Condensed Consolidated Statements of Operations line item Restructuring charges in the quarters and six months ended September 30, 2012 and 2011, is as follows (amounts in thousands):

| | Quarters Ended September 30, | | Six Months Ended September 30, | |
|--|------------------------------|----------|--------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Cost of relocating manufacturing equipment | \$ 1,015 | \$ 638 | \$ 1,161 | \$ 1,385 |
| Personnel reduction costs | 7,507 | 967 | 8,625 | 1,245 |
| | \$ 8,522 | \$ 1,605 | \$ 9,786 | \$ 2,630 |

Table of Contents*Six month period Ended September 30, 2012*

In fiscal year 2010, the Company initiated the first phase of a plan to restructure Film and Electrolytic and to reduce overhead within the Company as a whole. The restructuring plan includes implementing programs to make the Company more competitive, removing excess capacity, moving production to lower cost locations and eliminating unnecessary costs throughout the Company. Restructuring charges in the six months ended September 30, 2012 related to this plan are primarily 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 total termination benefits expected for the conversion of the Weymouth manufacturing facility are \$2.6 million; the expected completion is the third quarter of fiscal year 2014. The Company also incurred \$3.9 million for reductions in production workforce across the entire Company and reducing administrative overhead within the Company as a whole. 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.

Six month period ended September 30, 2011

Restructuring charges in the six month period ended September 30, 2011 were primarily comprised of manufacturing relocation costs of \$1.4 million for relocation of equipment to China and Mexico. In addition, the Company incurred \$1.2 million in personnel reduction costs primarily due to headcount reductions in the Mexican operations of the Tantalum Business Group (Tantalum).

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 are as follows (amounts in thousands):

| | Quarters Ended September 30, 2012 | | Quarters Ended September 30, 2011 | |
|----------------------------|-----------------------------------|------------------------------|-----------------------------------|------------------------------|
| | Personnel Reductions | Manufacturing Relocations | Personnel Reductions | Manufacturing Relocations |
| Beginning of period | \$ 11,184 | \$ | \$ 1,751 | \$ |
| Costs charged to expense | 7,507 | 1,015 | 967 | 638 |
| Costs paid or settled | (4,048) | (1,015) | (1,529) | (638) |
| Change in foreign exchange | 376 | | (68) | |
| End of period | \$ 15,019 | \$ | \$ 1,121 | \$ |

| | Six Months Ended September 30, 2012 | | Six Months Ended September 30, 2011 | |
|----------------------------|-------------------------------------|------------------------------|-------------------------------------|------------------------------|
| | Personnel Reductions | Manufacturing Relocations | Personnel Reductions | Manufacturing Relocations |
| Beginning of period | \$ 11,474 | \$ | \$ 1,827 | \$ |
| Costs charged to expense | 8,625 | 1,161 | 1,245 | 1,385 |
| Costs paid or settled | (4,851) | (1,161) | (1,906) | (1,385) |
| Change in foreign exchange | (229) | | (45) | |

Edgar Filing: KEMET CORP - Form 10-Q

| | | | | | | |
|---------------|----|--------|----|----|-------|----|
| End of period | \$ | 15,019 | \$ | \$ | 1,121 | \$ |
|---------------|----|--------|----|----|-------|----|

10

Table of Contents**Note 6. Comprehensive Income (Loss) and Accumulated Other Comprehensive Income**

Comprehensive income (loss) for the quarters and six months ended September 30, 2012 and 2011 includes the following components (amounts in thousands):

| | Quarters Ended September 30, | | Six Months Ended September 30, | |
|---|------------------------------|-----------|--------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Net income (loss) | \$ (24,921) | \$ 14,318 | \$ (42,674) | \$ 46,167 |
| Currency translation gain (loss)(1) | 3,907 | (11,592) | (4,059) | (8,487) |
| Amortization of defined benefit pension plans | (1,244) | 100 | (1,142) | 216 |
| Amortization of postretirement benefit plan | (232) | (91) | (161) | (161) |
| | \$ (22,490) | \$ 2,735 | \$ (48,036) | \$ 37,735 |

(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 months ended September 30, 2012 and 2011.

The components of Accumulated other comprehensive income on the Condensed Consolidated Balance Sheets are as follows (amounts in thousands):

| | September 30, 2012 | March 31, 2012 |
|---|--------------------|----------------|
| Foreign currency translation gain | \$ 14,048 | \$ 18,107 |
| Defined benefit pension plans | (9,224) | (8,082) |
| Defined benefit postretirement plan adjustments | 1,834 | 1,995 |
| | \$ 6,658 | \$ 12,020 |

Note 7. Acquisitions*Cornell Dubilier Foil, LLC*

On June 13, 2011, the Company completed its acquisition of Cornell Dubilier Foil, LLC (whose name was subsequently changed to KEMET Foil Manufacturing, LLC), a Tennessee based manufacturer of etched foils utilized as a core component in the manufacture of aluminum electrolytic capacitors. The purchase price was \$15 million plus a \$0.5 million working capital adjustment, of which \$11.6 million (net of cash received) was paid at closing and \$1.0 million was paid on the first anniversary of the closing date and \$1.0 million is to be paid on each of the next two anniversaries of the closing date. The Company recorded goodwill of \$1.1 million and amortizable intangibles of \$1.6 million. The allocation of the purchase price to specific assets and liabilities was based on the relative fair value of all assets and liabilities. Factors contributing to the purchase price which resulted in the goodwill (which is tax deductible) included the trained workforce. Pro forma results are not presented because the acquisition was not material to the consolidated financial statements. KEMET Foil is included within Film and

Electrolytic.

As discussed in Note 3, Impairment Charges, the goodwill recorded for KEMET Foil was fully impaired in the second quarter of fiscal year 2013.

Niotan Incorporated

On February 21, 2012, KEMET acquired all of the outstanding shares of Niotan Incorporated, whose name was subsequently changed to KEMET Blue Powder Corporation (Blue Powder), a leading manufacturer of tantalum powders, from an affiliate of Denham Capital Management LP. Blue Powder has its headquarters and principal operating location in Carson City, Nevada. KEMET paid an initial purchase price of \$30.5 million (net of cash received) at the closing of the transaction. Additional deferred payments of \$45 million are payable over a thirty-month period after the closing and a working capital adjustment of \$0.4 million was paid in April 2012. KEMET made the first installment payment of \$5.0 million in August of 2012. KEMET will also be required to make quarterly royalty payments for tantalum powder produced by Blue Powder, in an aggregate amount equal to \$10 million by December 31, 2014. The Company determined that the royalty payments should be treated as part of the consideration for Blue Powder instead of a separate transaction because (i) it is paid to the selling shareholder who is not continuing with Blue Powder, (ii) it was based solely on the negotiation process and (iii) KEMET now owns the technology. The Company recorded goodwill of \$35.6 million and amortizable intangibles of \$22.4 million. The allocation of the purchase price to specific assets and liabilities was

Table of Contents

based on the relative fair value of all assets and liabilities. Factors contributing to the purchase price which resulted in the goodwill (which is not tax deductible) include market recognition of the world class quality of Blue Powder's tantalum powder, the Company's cost savings due to vertical integration and Blue Powder's ability to provide a constant and reliable supply of tantalum powder. Pro forma results are not presented because the acquisition was not material to the consolidated financial statements. Blue Powder is included within Tantalum.

The total discounted purchase price for Blue Powder was \$82.0 million which includes (amounts in thousands):

| | | |
|--------------------------------|----|--------|
| Cash at closing | \$ | 30,656 |
| Deferred payments (discounted) | | 41,938 |
| Royalty payments (discounted) | | 8,975 |
| Working capital adjustment | | 421 |
| | \$ | 81,990 |

The purchase price was determined through arms-length negotiations between representatives of the Company and Denham Capital Management LP.

The following table presents the preliminary allocations of the aggregate purchase price based on the assets and liabilities estimated fair values (amounts in thousands):

| | | Fair Value |
|-------------------------------|----|-------------------|
| Cash | \$ | 153 |
| Accounts receivable | | 479 |
| Inventories | | 7,305 |
| Prepaid expenses | | 186 |
| Property, plant and equipment | | 15,122 |
| Goodwill | | 35,584 |
| Intangible assets | | 22,420 |
| Deferred income taxes | | 311 |
| Other noncurrent assets | | 1,303 |
| Current liabilities | | (873) |
| Total net assets acquired | \$ | 81,990 |

The allocation of the purchase price is preliminary as the Company is still evaluating the inventory valuation and tax attributes of the transaction.

The following table presents the amounts assigned to intangible assets (amounts in thousands except useful life data):

| | | Fair Value | Useful Life (years) |
|----------------------|----|-------------------|----------------------------|
| Developed technology | \$ | 22,300 | 18 |

Edgar Filing: KEMET CORP - Form 10-Q

| | | | |
|----------|----|--------|---|
| Software | | 120 | 4 |
| | \$ | 22,420 | |

The useful life for developed technology is 18 years which is primarily based on the history of the underlying chemical and production processes and an estimate of the future economic benefit.

Table of Contents**Note 8. Goodwill and Intangible Assets**

The following table highlights the Company's intangible assets (amounts in thousands):

| | September 30, 2012 | | March 31, 2012 | |
|--|--------------------|--------------------------|-----------------|--------------------------|
| | Carrying Amount | Accumulated Amortization | Carrying Amount | Accumulated Amortization |
| <u>Indefinite Lived Intangible Assets:</u> | | | | |
| Trademarks | \$ 7,644 | \$ | \$ 7,644 | \$ |
| <u>Amortized Intangibles:</u> | | | | |
| Customer relationships, patents and other (3-18 years) | 43,172 | 10,714 | 43,813 | 9,930 |
| | \$ 50,816 | \$ 10,714 | \$ 51,457 | \$ 9,930 |

The changes in the carrying amount of goodwill for the six month periods ended September 30, 2012 and 2011 are as follows (amounts in thousands):

| | Six Months Ended September 30, | |
|---|--------------------------------|-----------|
| | 2012 | 2011 |
| Gross balance at the beginning of fiscal year | \$ 36,676 | \$ 36,676 |
| Acquisitions | | 36,676 |
| Impairment charges | (1,092) | |
| | \$ 35,584 | \$ 36,676 |

Note 9. Segment and Geographic Information

The Company is organized into three business groups: Tantalum, the Ceramic Business Group (Ceramic), 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, general and administrative functions are shared by the business groups and substantially all expenses are allocated to each business group based on the business group's respective budgeted net sales. Substantially all research and development expenses are direct costs to the respective business group.

Tantalum

Tantalum operates in seven manufacturing sites in the United States, Mexico, China and Portugal. This business group produces tantalum and aluminum polymer capacitors and produces tantalum powder used in the production of tantalum capacitors. Tantalum shares with Ceramic the Company's product innovation center in the United States. Tantalum products are sold in all regions of the world.

Ceramic

Ceramic operates in two manufacturing sites in Mexico. This business group produces ceramic capacitors. The business group shares with Tantalum the Company's product innovation center in the United States. In addition, Ceramic maintains a design and manufacturing plant for electrical transformers, inductors, chokes, coils and filters in the United States. Ceramic products are sold in all regions of the world.

Film and Electrolytic

Film and Electrolytic operates in fourteen manufacturing sites in Europe, Asia and North America. This business group produces film, paper, and electrolytic capacitors. Film and Electrolytic also 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 a product innovation center in Sweden. Film and Electrolytic products are sold in all regions of the world.

Edgar Filing: KEMET CORP - Form 10-Q

Table of Contents

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 months ended September 30, 2012 and 2011 (amounts in thousands):

| | Quarters Ended September 30, | | Six Months Ended September 30, | |
|--|------------------------------|------------|--------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net sales: | | | | |
| Tantalum | \$ 109,308 | \$ 112,290 | \$ 218,507 | \$ 234,733 |
| Ceramic | 53,116 | 56,112 | 104,661 | 115,491 |
| Film and Electrolytic | 53,567 | 97,112 | 116,455 | 205,146 |
| | \$ 215,991 | \$ 265,514 | \$ 439,623 | \$ 555,370 |
| Operating income (loss) (1): | | | | |
| Tantalum | \$ (579) | \$ 10,601 | \$ 1,904 | \$ 28,013 |
| Ceramic | 6,882 | 10,553 | 13,479 | 21,409 |
| Film and Electrolytic (2) | (20,323) | 3,759 | (33,448) | 16,333 |
| | \$ (14,020) | \$ 24,913 | \$ (18,065) | \$ 65,755 |
| Depreciation and amortization expenses: | | | | |
| Tantalum | \$ 6,206 | \$ 6,705 | \$ 12,018 | \$ 12,913 |
| Ceramic | 1,864 | 2,002 | 3,929 | 3,805 |
| Film and Electrolytic | 3,450 | 3,145 | 7,230 | 6,293 |
| | \$ 11,520 | \$ 11,852 | \$ 23,177 | \$ 23,011 |

| | Quarters Ended September 30, | | Six Months Ended September 30, | |
|--------------------------------------|------------------------------|------------|--------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Sales by region: | | | | |
| North and South America (Americas) | \$ 62,243 | \$ 81,663 | \$ 122,728 | \$ 154,422 |
| Europe, Middle East, Africa (EMEA) | 70,673 | 106,897 | 150,058 | 209,609 |
| Asia and Pacific Rim (APAC) | 83,075 | 76,954 | 166,837 | 191,339 |
| | \$ 215,991 | \$ 265,514 | \$ 439,623 | \$ 555,370 |

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

| | Quarters Ended September 30, | | Six Months Ended September 30, | |
|-----------------------------|------------------------------|----------|--------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Total restructuring: | | | | |
| Tantalum | \$ 1,987 | \$ 864 | \$ 2,031 | \$ 899 |
| Ceramic | 1,081 | 49 | 1,179 | 88 |
| Film and Electrolytic | 5,454 | 692 | 6,576 | 1,643 |
| | \$ 8,522 | \$ 1,605 | \$ 9,786 | \$ 2,630 |

(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.

The following table reflects each business group's total assets as of September 30, 2012 and March 31, 2012 (amounts in thousands):

Edgar Filing: KEMET CORP - Form 10-Q

| | September 30, 2012 | | March 31, 2012 | |
|-----------------------|--------------------|---------|----------------|---------|
| Total assets: | | | | |
| Tantalum | \$ | 517,782 | \$ | 511,193 |
| Ceramic | | 183,863 | | 201,971 |
| Film and Electrolytic | | 239,152 | | 262,388 |
| | \$ | 940,797 | \$ | 975,552 |

Table of Contents**Note 10. Defined Benefit Pension and Other Postretirement Benefit Plans**

The Company sponsors defined benefit pension plans which include seven plans in Europe, one plan in Singapore and two plans in Mexico and a postretirement 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.

In July 2012, Film and Electrolytic paid out retirement benefits which represented more than 20% of a plan's pension obligation. As a result, the Company recognized a settlement gain of \$1.7 million.

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, 2012 and 2011 (amounts in thousands):

| | Pension | | Postretirement Benefit Plans | |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Quarters Ended September 30, | Quarters Ended September 30, | Quarters Ended September 30, | Quarters Ended September 30, |
| | 2012 | 2011 | 2012 | 2011 |
| Net service cost | \$ 415 | \$ 331 | \$ | \$ |
| Interest cost | 494 | 533 | 7 | 8 |
| Expected return on net assets | (172) | (175) | | |
| Amortization: | | | | |
| Actuarial (gain) loss | 130 | 96 | (81) | (91) |
| Prior service cost | 6 | 6 | | |
| Settlement gain on benefit plan | (1,675) | | | |
| Total net periodic benefit (income) costs | \$ (802) | \$ 791 | \$ (74) | \$ (83) |

The components of net periodic benefit costs relating to the Company's pension and other postretirement benefit plans are as follows for the six months ended September 30, 2012 and 2011 (amounts in thousands):

| | Pension | | Postretirement Benefit Plans | |
|---|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | Six Months Ended September 30, | Six Months Ended September 30, | Six Months Ended September 30, | Six Months Ended September 30, |
| | 2012 | 2011 | 2012 | 2011 |
| Net service cost | \$ 829 | \$ 663 | \$ | \$ |
| Interest cost | 988 | 1,067 | 14 | 22 |
| Expected return on net assets | (344) | (350) | | |
| Amortization: | | | | |
| Actuarial (gain) loss | 260 | 191 | (161) | (162) |
| Prior service cost | 12 | 12 | | |
| Settlement gain on benefit plan | (1,675) | | | |
| Total net periodic benefit (income) costs | \$ 70 | \$ 1,583 | \$ (147) | \$ (140) |

Edgar Filing: KEMET CORP - Form 10-Q

In fiscal year 2013, the Company expects to contribute up to \$2.4 million to the pension plans of which the Company has contributed \$1.5 million as of September 30, 2012. The Company's policy is to pay benefits as costs are incurred for the postretirement benefit plans.

Note 11. Stock-based Compensation

Stock Options

At September 30, 2012, 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). All of these plans were approved by the Company's stockholders. The 2011 Incentive Plan has authorized the grant of up to 4.8 million shares of the Company's common stock, which is comprised of 4.0 million shares under the new plan and 0.8 million shares which remained under the Prior Plans. 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. Stock options

Table of Contents

granted to the Company's Chief Executive Officer on January 27, 2010 vest 50% on June 30, 2014 and 50% on June 30, 2015. If available, the Company issues shares of Common Stock from treasury stock upon exercise of stock options and vesting of restricted stock units.

Restricted Stock

The Company grants shares of its common stock as restricted stock to members of the Board of Directors, the Chief Executive Officer and a limited group of executives. Restricted stock and restricted stock units granted to the Board of Directors vest within one year. Restricted stock granted to the Chief Executive Officer on January 27, 2010 vests 50% on June 30, 2014 and 50% on June 30, 2015 while restricted stock granted to the Chief Executive Officer on March 28, 2012 vests on June 30, 2017. Once vested, restricted shares 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. Restricted stock granted to the limited group of executives vests 25% per year over four years. In the third quarter of fiscal year 2013, 50 thousand shares of restricted stock units were granted to the non-management members of the Board of Directors. As of September 30, 2012, there was \$2.6 million in unrecognized compensation costs related to the unvested restricted stock based compensation arrangements granted.

Long Term Incentive Plans

The Company has various long term incentive plans (LTIP), the 2013/2014 LTIP is 60% based upon the achievement of an Adjusted EBITDA target over a two year period. For the performance portion of the 2013/2014 LTIP, participants will receive 50% in cash, which, if earned, will be distributed after the end of the two-year measurement period, and 50% in restricted stock units which, if earned, will be distributed 50% after the end of the two-year measurement period and 50% one year after the end of the two-year measurement period. The remaining 40% of the award is in the form of time-based restricted stock units which will vest one-third on the first, second and third anniversary of the establishment of the plan (May 14, 2013, 2014 and 2015). The Company assesses the likelihood of meeting the Adjusted EBITDA financial metric on a quarterly basis. In the six month periods ended September 30, 2012 and September 30, 2011, the Company recorded an expense of \$0.5 million and \$1.4 million, respectively. The expense recorded for the 2013/2014 LTIP relates to the time-based restricted stock units. No expense has been recorded related to the performance piece of the 2013/2014 LTIP, the Company will continue to monitor the likelihood of whether the Adjusted EBITDA financial metric will be realized and will adjust compensation expense to match expectations.

The compensation expense associated with stock-based compensation for the quarters ended September 30, 2012 and 2011 are recorded on the Condensed Consolidated Statements of Operations as follows (amounts in thousands):

| | Quarter Ended September 30, 2012 | | | Quarter Ended September 30, 2011 | | |
|--|----------------------------------|---------------------|--------|----------------------------------|---------------------|--------|
| | Stock Options | Restricted Stock | LTIPs | Stock Options | Restricted Stock | LTIPs |
| Cost of sales | \$ 214 | \$ 121 | \$ 88 | \$ 81 | \$ | \$ 125 |
| Selling, general and administrative expenses | 242 | 356 | 161 | 144 | 135 | 499 |
| Research and development | 32 | | 28 | | | |
| | \$ 488 | \$ 477 | \$ 277 | \$ 225 | \$ 135 | \$ 624 |

Edgar Filing: KEMET CORP - Form 10-Q

The compensation expense associated with stock-based compensation for the six months ended September 30, 2012 and 2011 are recorded on the Condensed Consolidated Statements of Operations as follows (amounts in thousands):

| | Six Months Ended September 30, 2012 | | | Six Months Ended September 30, 2011 | | |
|--|-------------------------------------|---------------------|--------|-------------------------------------|---------------------|----------|
| | Stock Options | Restricted Stock | LTIPs | Stock Options | Restricted Stock | LTIPs |
| Cost of sales | \$ 426 | \$ 242 | \$ 156 | \$ 165 | | \$ 290 |
| Selling, general and administrative expenses | 496 | 754 | 334 | 291 | 270 | 1,159 |
| Research and development | 50 | | 48 | | | |
| | \$ 972 | \$ 996 | \$ 538 | \$ 456 | \$ 270 | \$ 1,449 |

In the Operating activities section of the Condensed Consolidated Statements of Cash Flows, stock-based compensation expense was treated as an adjustment to Net income (loss) for the six month periods ended September 30, 2012 and 2011. Approximately 21 thousand and 52 thousand stock options were exercised in the six months ended September 30, 2012 and 2011, respectively.

Table of Contents**Note 12. Income Taxes**

During the second quarter of fiscal year 2013, the Company incurred \$1.8 million of income tax expense which is entirely related to income taxes for foreign operations. There is no U.S. federal income tax benefit from the second quarter fiscal year 2013 loss due to a valuation allowance on deferred tax assets.

During the second quarter of fiscal year 2012, the Company incurred \$2.0 million of income tax expense which was comprised of \$2.2 million of income tax expense from foreign operations and \$0.2 million of state income tax benefit related to a prior year refund. There was no U.S. federal income tax expense related to the second quarter fiscal year 2012 earnings due to the utilization of net operating loss carryforward deductions and a valuation allowance on net deferred tax assets.

Income tax expense for the six month period ended September 30, 2012 was \$3.6 million, comprised of \$3.5 million related to foreign operations and \$0.1 million of state income tax expense.

Income tax expense for the six month period ended September 30, 2011 was \$3.8 million, comprised of \$4.8 million related to foreign operations, a \$0.9 million U.S. federal income tax benefit related to a prior year settlement, and \$0.1 million of state income tax benefit.

Note 13. Reconciliation of Basic and Diluted Net Income (Loss) Per Common Share

The following table presents a reconciliation of basic EPS to diluted EPS (amounts in thousands, except per share data):

| | Quarters Ended September 30, | | Six Months Ended September 30, | |
|--|------------------------------|-----------|--------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Numerator: | | | | |
| Net income (loss) | \$ (24,921) | \$ 14,318 | \$ (42,674) | \$ 46,167 |
| Denominator: | | | | |
| Weighted-average shares outstanding: | | | | |
| Basic | 44,911 | 44,370 | 44,860 | 41,924 |
| Assumed conversion of employee stock options | | 299 | | 335 |
| Assumed conversion of warrants | | 7,561 | | 10,048 |
| Diluted | 44,911 | 52,230 | 44,860 | 52,307 |
| Net income (loss) per share: | | | | |
| Basic | \$ (0.55) | \$ 0.32 | \$ (0.95) | \$ 1.10 |
| Diluted | \$ (0.55) | \$ 0.27 | \$ (0.95) | \$ 0.88 |

Edgar Filing: KEMET CORP - Form 10-Q

Common stock equivalents that could potentially dilute net income (loss) per basic share in the future, but were not included in the computation of diluted earnings per share because the impact would have been antidilutive, are as follows (amounts in thousands):

| | Quarters Ended September 30, | | Six Months Ended September 30, | |
|--|------------------------------|------|--------------------------------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Assumed conversion of employee stock options | 1,454 | 903 | 1,444 | 710 |
| Assumed conversion of warrants | 6,591 | | 6,929 | |

Note 14. Stockholders' Equity

Concurrent with the consummation of a tender offer in May 2009, the Company issued K Financing, LLC ("K Financing") a warrant (the "Platinum Warrant") to purchase up to 26,848,484 shares of the Company's common stock, subject to certain adjustments, representing approximately 49.9% of the Company's outstanding common stock at the time of issuance on a post-exercise basis. The Platinum Warrant was subsequently transferred to K Equity, LLC ("K Equity"). The Platinum Warrant may be exercised in exchange for cash, by cashless exercise to the extent of appreciation in the value of the Company's common stock above the exercise price of the Platinum Warrant, or by combination of the preceding alternatives.

On December 20, 2010, K Equity sold a portion of the Platinum Warrant equal to 10,893,608 shares which was exercised on a net exercise basis and the resulting 10,000,000 shares of which were sold by underwriters. On May 31, 2011, K Equity sold a portion of the Platinum Warrant equal to 7,538,061 shares which was exercised on a net exercise basis and the resulting 7,000,000 shares of which were sold by underwriters, leaving a remainder of 8,416,815 shares subject to the Platinum Warrant.

Table of Contents**Note 15. Concentrations of Risks***Sales and Credit Risks*

The Company sells to customers globally. Credit evaluations of the Company's customers' financial condition are performed periodically, and the Company generally does not require collateral from its customers. One customer, TTI, Inc., accounted for over 10% of the Company's net sales in the quarters and six months ended September 30, 2012 and 2011. There were no customers' accounts receivable balances exceeding 10% of gross accounts receivable at September 30, 2012 or March 31, 2012.

Electronics distributors are an important distribution channel in the electronics industry and accounted for 44% of the Company's net sales in the six months ended September 30, 2012 and 2011. As a result of the Company's concentration of sales to electronics distributors, the Company may experience fluctuations in the Company's operating results as electronics distributors experience fluctuations in end-market demand or adjust their inventory stocking levels.

Employee Risks

As of September 30, 2012, KEMET had approximately 10,000 employees in the following locations:

| | |
|---------------|-------|
| Mexico | 5,000 |
| Asia | 2,500 |
| Europe | 1,900 |
| United States | 600 |

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

| | |
|-----------|-------|
| Mexico | 3,400 |
| Italy | 700 |
| Bulgaria | 250 |
| Indonesia | 200 |
| China | 200 |
| Finland | 200 |
| Portugal | 100 |
| Sweden | 100 |

For fiscal year 2012 and the current fiscal year to date, the Company has not experienced any major work stoppages. The Company's 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 labor costs.

Note 16. Condensed Consolidating Financial Statements

The 10.5% Senior Notes are fully and unconditionally guaranteed, jointly and severally, on a senior basis by certain of the Company's 100% owned domestic subsidiaries ("Guarantor Subsidiaries") and secured by a first priority lien on 51% of the capital stock of certain of our foreign restricted subsidiaries ("Non-Guarantor Subsidiaries"). The Company's Guarantor Subsidiaries and Non-Guarantor Subsidiaries are not consistent with the Company's business groups or geographic operations; accordingly this basis of presentation is not intended to present the Company's financial condition, results of operations or cash flows for any purpose other than to comply with the specific requirements for subsidiary guarantor reporting. The Company is required to present condensed consolidating financial information in order for the subsidiary guarantors of the Company's public debt to be exempt from reporting under the Securities Exchange Act of 1934, as amended.

In fiscal year 2012, the Company incorrectly reflected transactions between the Parent and the Guarantor Subsidiaries in the Condensed Consolidating Financial Statements which did not impact the consolidated results. As of March 31, 2012, this resulted in an understatement of the Guarantor Subsidiaries' retained earnings, intercompany receivables and net income by \$27.8 million. Management concluded that the correction of prior periods is immaterial; and accordingly, previous filings have not been revised. However, during the current period, the Company has corrected its disclosure of the Condensed Consolidating Balance Sheet as of March 31, 2012. Future filings will be corrected as applicable.

In the second quarter of fiscal year 2013, the Company recorded a year-to-date adjustment to properly reflect transactions between the Parent and Guarantor Subsidiaries in the Condensed Consolidating Financial Statements which did not impact the consolidated results. Management concluded that the correction of the first quarter of fiscal year 2013 is immaterial; and accordingly, the previous filing has not been revised.

Table of Contents

Condensed consolidating financial statements for the Company's Guarantor Subsidiaries and Non-Guarantor Subsidiaries are presented in the following tables (amounts in thousands):

Condensed Consolidating Balance Sheet**September 30, 2012****(Unaudited)**

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Reclassifications and Eliminations | Consolidated |
|---|------------|---------------------------|-------------------------------|---------------------------------------|--------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 8,398 | \$ 118,578 | \$ 33,519 | \$ | \$ 160,495 |
| Accounts receivable, net | | 41,154 | 58,006 | | 99,160 |
| Intercompany receivable | 268,826 | 214,603 | 215,640 | (699,069) | |
| Inventories, net | | 129,429 | 95,344 | | 224,773 |
| Prepaid expenses and other | 276 | 14,258 | 26,507 | | 41,041 |
| Deferred income taxes | | 872 | 4,786 | | 5,658 |
| Total current assets | 277,500 | 518,894 | 433,802 | (699,069) | 531,127 |
| Property and equipment, net | 14 | 114,612 | 201,556 | | 316,182 |
| Investments in subsidiaries | 431,379 | 467,565 | 10,678 | (909,622) | |
| Goodwill | | 35,584 | | | 35,584 |
| Intangible assets, net | | 30,899 | 9,203 | | 40,102 |
| Other assets | 7,404 | 6,347 | 4,051 | | 17,802 |
| Long-term intercompany receivable | 76,659 | 60,250 | 2,881 | (139,790) | |
| Total assets | \$ 792,956 | \$ 1,234,151 | \$ 662,171 | \$ (1,748,481) | \$ 940,797 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Current portion of long-term debt | \$ | \$ 25 | \$ 1,551 | \$ | \$ 1,576 |
| Accounts payable, trade | 57 | 38,862 | 43,237 | | 82,156 |
| Intercompany payable | 60,976 | 451,005 | 159,226 | (671,207) | |
| Accrued expenses | 35,523 | 17,008 | 36,092 | | 88,623 |
| Income taxes payable | (2,947) | 3,055 | 514 | | 622 |
| Total current liabilities | 93,609 | 509,955 | 240,620 | (671,207) | 172,977 |
| Long-term debt, less current portion | 359,066 | | 555 | | 359,621 |
| Other non-current obligations | 26,968 | 4,504 | 58,626 | | 90,098 |
| Deferred income taxes | | 1,007 | 3,781 | | 4,788 |
| Long-term intercompany payable | | 76,659 | 63,131 | (139,790) | |
| Stockholders' equity | 313,313 | 642,026 | 295,458 | (937,484) | 313,313 |
| Total liabilities and stockholders' equity | \$ 792,956 | \$ 1,234,151 | \$ 662,171 | \$ (1,748,481) | \$ 940,797 |

Table of Contents**Condensed Consolidating Balance Sheet****March 31, 2012**

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Reclassifications and Eliminations | Consolidated |
|---|------------|---------------------------|-------------------------------|---------------------------------------|--------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 7,933 | \$ 178,205 | \$ 24,383 | \$ | \$ 210,521 |
| Accounts receivable, net | | 42,706 | 62,244 | | 104,950 |
| Intercompany receivable | 251,970 | 55,863 | 171,921 | (479,754) | |
| Inventories, net | | 121,611 | 90,623 | | 212,234 |
| Prepaid expenses and other | 306 | 13,537 | 18,416 | | 32,259 |
| Deferred income taxes | | 192 | 6,178 | | 6,370 |
| Total current assets | 260,209 | 412,114 | 373,765 | (479,754) | 566,334 |
| Property and equipment, net | 20 | 114,615 | 201,213 | | 315,848 |
| Investments in subsidiaries | 454,517 | 435,970 | (4,622) | (885,865) | |
| Goodwill | | 36,676 | | | 36,676 |
| Intangible assets, net | | 31,630 | 9,897 | | 41,527 |
| Other assets | 7,796 | 6,160 | 1,211 | | 15,167 |
| Long-term intercompany receivable | 79,185 | 62,235 | 1,065 | (142,485) | |
| Total assets | \$ 801,727 | \$ 1,099,400 | \$ 582,529 | \$ (1,508,104) | \$ 975,552 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Current portion of long-term debt | \$ | \$ 25 | \$ 1,926 | \$ | \$ 1,951 |
| Accounts payable, trade | 460 | 35,206 | 39,490 | (752) | 74,404 |
| Intercompany payable | 34,830 | 315,906 | 122,799 | (473,535) | |
| Accrued expenses | 30,747 | 23,007 | 35,325 | | 89,079 |
| Income taxes payable | (2,778) | 3,031 | 2,003 | | 2,256 |
| Total current liabilities | 63,259 | 377,175 | 201,543 | (474,287) | 167,690 |
| Long-term debt, less current portion | 343,539 | | 1,841 | | 345,380 |
| Other non-current obligations | 35,933 | 5,400 | 59,896 | | 101,229 |
| Deferred income taxes | | 272 | 1,985 | | 2,257 |
| Long-term intercompany payable | | 79,185 | 63,300 | (142,485) | |
| Stockholders' equity | 358,996 | 637,368 | 253,964 | (891,332) | 358,996 |
| Total liabilities and stockholders' equity | \$ 801,727 | \$ 1,099,400 | \$ 582,529 | \$ (1,508,104) | \$ 975,552 |

Table of Contents**Condensed Consolidating Statement of Operations****For the Quarter Ended September 30, 2012**

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Reclassifications and Eliminations | Consolidated |
|--|---------------|-----------------------------------|---------------------------------------|---|---------------------|
| Net sales | \$ | \$ 233,867 | \$ 226,355 | \$ (244,231) | \$ 215,991 |
| Operating costs and expenses: | | | | | |
| Cost of sales | 675 | 214,546 | 201,726 | (233,894) | 183,053 |
| Selling, general and administrative expenses | 13,436 | 10,977 | 13,907 | (10,337) | 27,983 |
| Research and development | 59 | 4,741 | 2,033 | | 6,833 |
| Restructuring charges | | 1,797 | 6,725 | | 8,522 |
| Goodwill impairment | | 1,092 | | | 1,092 |
| Write down of long-lived assets | | | 4,234 | | 4,234 |
| Settlement gain on benefit plan | | | (1,675) | | (1,675) |
| Net gain on sales and disposals of assets | | | (31) | | (31) |
| Total operating costs and expenses | 14,170 | 233,153 | 226,919 | (244,231) | 230,011 |
| Operating income (loss) | (14,170) | 714 | (564) | | (14,020) |
| Other (income) expense, net | (3,224) | 11,493 | 845 | | 9,114 |
| Equity in earnings of subsidiaries | 13,975 | | | (13,975) | |
| Income (loss) before income taxes | (24,921) | (10,779) | (1,409) | 13,975 | (23,134) |
| Income tax expense | | 47 | 1,740 | | 1,787 |
| Net income (loss) | \$ (24,921) | \$ (10,826) | \$ (3,149) | \$ 13,975 | \$ (24,921) |

Condensed Consolidating Statement of Comprehensive Income (Loss)**Quarter Ended September 30, 2012**

| | | | | |
|-----------------------------|----------|----------|----------|----------|
| Comprehensive income (loss) | \$ 2,015 | \$ (663) | \$ 1,079 | \$ 2,431 |
|-----------------------------|----------|----------|----------|----------|

Table of Contents**Condensed Consolidating Statement of Operations****For the Quarter Ended September 30, 2011**

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Reclassifications and Eliminations | Consolidated |
|--|---------------|-----------------------------------|---------------------------------------|---|---------------------|
| Net sales | \$ | \$ 249,751 | \$ 245,315 | \$ (229,552) | \$ 265,514 |
| Operating costs and expenses: | | | | | |
| Cost of sales | 124 | 200,097 | 225,122 | (222,024) | 203,319 |
| Selling, general and administrative expenses | 5,617 | 17,496 | 13,621 | (8,379) | 28,355 |
| Research and development | | 5,276 | 2,086 | | 7,362 |
| Restructuring charges | | 1,357 | 248 | | 1,605 |
| Net (gain) loss on sales and disposals of assets | | 10 | (50) | | (40) |
| Total operating costs and expenses | 5,741 | 224,236 | 241,027 | (230,403) | 240,601 |
| Operating income (loss) | (5,741) | 25,515 | 4,288 | 851 | 24,913 |
| Other (income) expense, net | (3,221) | 15,907 | (4,138) | | 8,548 |
| Equity in earnings of subsidiaries | (16,584) | | | 16,584 | |
| Income before income taxes | 14,064 | 9,608 | 8,426 | (15,733) | 16,365 |
| Income tax expense (benefit) | (254) | (506) | 2,807 | | 2,047 |
| Net income | \$ 14,318 | \$ 10,114 | \$ 5,619 | \$ (15,733) | \$ 14,318 |

Condensed Consolidating Statement of Comprehensive Loss**Quarter Ended September 30, 2011**

| | | | | |
|--------------------|------------|------------|------------|-------------|
| Comprehensive loss | \$ (5,633) | \$ (1,300) | \$ (4,650) | \$ (11,583) |
|--------------------|------------|------------|------------|-------------|

Table of Contents**Condensed Consolidating Statement of Operations****For the Six Months Ended September 30, 2012**

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Reclassifications and Eliminations | Consolidated |
|--|---------------|-----------------------------------|---------------------------------------|---|---------------------|
| Net sales | \$ | \$ 474,811 | \$ 455,070 | \$ (490,258) | \$ 439,623 |
| Operating costs and expenses: | | | | | |
| Cost of sales | 1,093 | 432,864 | 409,303 | (468,886) | 374,374 |
| Selling, general and administrative expenses | 15,041 | 31,720 | 29,849 | (21,372) | 55,238 |
| Research and development | 100 | 10,029 | 4,437 | | 14,566 |
| Restructuring charges | | 1,960 | 7,826 | | 9,786 |
| Goodwill impairment | | 1,092 | | | 1,092 |
| Write down of long-lived assets | | | 4,234 | | 4,234 |
| Settlement gain on benefit plan | | | (1,675) | | (1,675) |
| Net loss on sales and disposals of assets | | 33 | 40 | | 73 |
| Total operating costs and expenses | 16,234 | 477,698 | 454,014 | (490,258) | 457,688 |
| Operating income (loss) | (16,234) | (2,887) | 1,056 | | (18,065) |
| Other (income) expense, net | 6,963 | 14,652 | (564) | | 21,051 |
| Equity in earnings of subsidiaries | 19,477 | | | (19,477) | |
| Income (loss) before income taxes | (42,674) | (17,539) | 1,620 | 19,477 | (39,116) |
| Income tax expense | | 107 | 3,451 | | 3,558 |
| Net loss | \$ (42,674) | \$ (17,646) | \$ (1,831) | \$ 19,477 | \$ (42,674) |

Condensed Consolidating Statement of Comprehensive Income (Loss)**Six Months Ended September 30, 2012**

| | | | | |
|-----------------------------|------------|--------|------------|------------|
| Comprehensive income (loss) | \$ (2,526) | \$ 379 | \$ (3,215) | \$ (5,362) |
|-----------------------------|------------|--------|------------|------------|

Table of Contents**Condensed Consolidating Statement of Operations****For the Six Months Ended September 30, 2011**

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Reclassifications and Eliminations | Consolidated |
|--|---------------|-----------------------------------|---------------------------------------|---|---------------------|
| Net sales | \$ | \$ 519,438 | \$ 525,337 | \$ (489,405) | \$ 555,370 |
| Operating costs and expenses: | | | | | |
| Cost of sales | 286 | 426,505 | 459,690 | (472,658) | 413,823 |
| Selling, general and administrative expenses | 17,066 | 33,211 | 25,715 | (17,361) | 58,631 |
| Research and development | | 10,303 | 4,145 | | 14,448 |
| Restructuring charges | | 1,838 | 792 | | 2,630 |
| Net loss on sales and disposals of assets | 3 | 29 | 51 | | 83 |
| Total operating costs and expenses | 17,355 | 471,886 | 490,393 | (490,019) | 489,615 |
| Operating income (loss) | (17,355) | 47,552 | 34,944 | 614 | 65,755 |
| Other (income) expense, net | (7,666) | 23,951 | (544) | 69 | 15,810 |
| Equity in earnings of subsidiaries | (54,664) | | | 54,664 | |
| Income before income taxes | 44,975 | 23,601 | 35,488 | (54,119) | 49,945 |
| Income tax expense (benefit) | (1,192) | 97 | 4,873 | | 3,778 |
| Net income | \$ 46,167 | \$ 23,504 | \$ 30,615 | \$ (54,119) | \$ 46,167 |

Condensed Consolidating Statement of Comprehensive Loss**Six Months Ended September 30, 2011**

| | | | | |
|--------------------|------------|------------|------------|------------|
| Comprehensive loss | \$ (4,174) | \$ (1,059) | \$ (3,199) | \$ (8,432) |
|--------------------|------------|------------|------------|------------|

Condensed Consolidating Statement of Cash Flows**For the Six Months Ended September 30, 2012**

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Reclassifications and Eliminations | Consolidated |
|---|---------------|-----------------------------------|---------------------------------------|---|---------------------|
| Sources (uses) of cash and cash equivalents | | | | | |
| Net cash provided by (used in) operating activities | \$ (9,510) | \$ (48,750) | \$ 31,636 | \$ | \$ (26,624) |
| Investing activities: | | | | | |

Edgar Filing: KEMET CORP - Form 10-Q

| | | | |
|---|----------|------------|------------|
| Capital expenditures | (9,877) | (20,466) | (30,343) |
| Net cash used in investing activities | (9,877) | (20,466) | (30,343) |
| | | | |
| Financing activities: | | | |
| Proceeds from issuance of debt | 15,825 | | 15,825 |
| Deferred acquisition payments | (5,617) | (1,000) | (6,617) |
| Payments of long-term debt | | (1,576) | (1,576) |
| Proceeds from exercise of stock options | 42 | | 42 |
| Debt issuance costs | (275) | | (275) |
| Net cash provided by (used in) financing activities | 9,975 | (1,000) | 7,399 |
| Net increase (decrease) in cash and cash equivalents | 465 | (59,627) | (49,568) |
| Effect of foreign currency fluctuations on cash | | (458) | (458) |
| Cash and cash equivalents at beginning of fiscal period | 7,933 | 178,205 | 210,521 |
| Cash and cash equivalents at end of fiscal period | \$ 8,398 | \$ 118,578 | \$ 160,495 |

Table of Contents**Condensed Consolidating Statement of Cash Flows****For the Six Months Ended September 30, 2011**

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Reclassifications and Eliminations | Consolidated |
|---|----------|---------------------------|-------------------------------|---------------------------------------|--------------|
| Sources (uses) of cash and cash equivalents | | | | | |
| Net cash provided by operating activities | \$ 4,214 | \$ 32,545 | \$ 14,230 | \$ | \$ 50,989 |
| Investing activities: | | | | | |
| Capital expenditures | (1) | (11,505) | (8,599) | | (20,105) |
| Acquisition, net of cash received | | (11,584) | | | (11,584) |
| Net cash used in investing activities | (1) | (23,089) | (8,599) | | (31,689) |
| Financing activities: | | | | | |
| Payments of long-term debt | (4,084) | | | | (4,084) |
| Net payments under other credit facilities | | | (3,153) | | (3,153) |
| Proceeds from exercise of stock options | 159 | | | | 159 |
| Debt issuance costs | | (29) | | | (29) |
| Change in restricted cash | | (36,497) | | | (36,497) |
| Net cash used in financing activities | (3,925) | (36,526) | (3,153) | | (43,604) |
| Net increase (decrease) in cash and cash equivalents | 288 | (27,070) | 2,478 | | (24,304) |
| Effect of foreign currency fluctuations on cash | | | (584) | | (584) |
| Cash and cash equivalents at beginning of fiscal period | 6,417 | 119,326 | 26,308 | | 152,051 |
| Cash and cash equivalents at end of fiscal period | \$ 6,705 | \$ 92,256 | \$ 28,202 | \$ | \$ 127,163 |

Note 17. Subsequent Event

On August 28, 2012, the Company entered into an agreement, as amended on the same date (the "Agreement"), with an original equipment manufacturer (the "OEM") pursuant to which the OEM agreed to advance KEMET \$24.0 million (the "Advance Payment"). The Agreement provides that on a monthly-basis starting eight months following the receipt of the Advance Payment, the Company will pay the OEM an amount equal to a percentage of the aggregate purchase price of the capacitors 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, and the total amount to be repaid will not exceed \$2.0 million per month, in the event that (1) the OEM provides evidence that the price charged by us 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. Thirty-two months after the date of the Advance Payment, 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. On October 22, 2012 the Company received the Advance Payment from the OEM.

On October 26, 2012, the Company expanded the global restructuring plan to include additional headcount reductions which are expected to result in additional termination charges of approximately \$4.0 to \$5.0 million during the second half of fiscal year 2013. In addition, the Company is beginning a restructuring of its Evora, Portugal manufacturing facility, which is expected to be completed during the fourth quarter

Edgar Filing: KEMET CORP - Form 10-Q

ending March 31, 2013. As a part of our ongoing commitment to expand our polymer capacity the Company will be moving certain Tantalum manufacturing equipment from the Evora, Portugal facility to a manufacturing facility in Mexico and the remainder of the equipment will be disposed. The Company estimates that it will write-off approximately \$5.0 to \$7.0 million in equipment and incur termination benefits in the range of \$4.0 to \$4.5 million. The Company will also have the manufacturing facility appraised to determine if there is an indicator of impairment. The expected future total cash expenditures are estimated to be \$8.0 to \$9.5 million for the termination benefits described above.

Table of Contents

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

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 as well as those discussed under Part I, Item 1A of the Company's 2012 Annual Report. The statements are representative only as of the date they are made, and we undertook 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 that are 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 the forward-looking statements.

Factors that may cause actual outcome 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) adverse economic conditions could cause the write down of long-lived assets or goodwill; (iii) an increase in the cost or a decrease in the availability of our raw materials; (iv) changes in the competitive environment; (v) uncertainty of the timing of customer product qualifications in heavily regulated industries; (vi) economic, political, or regulatory changes in the countries in which we operate; (vii) difficulties, delays or unexpected costs in completing the restructuring plan; (viii) equity method investments expose us to a variety of risks; (ix) acquisitions and other strategic transactions expose us to a variety of risks; (x) the inability to attract, train and retain effective employees and management; (xi) the inability to develop innovative products to maintain customer relationships and offset potential price erosion in older products; (xii) exposure to claims alleging product defects; (xiii) the impact of laws and regulations that apply to our business, including those relating to environmental matters; (xiv) subject to international laws relating to trade, export controls and foreign corrupt practices; (xv) volatility of financial and credit markets affecting our access to capital; (xvi) the need to reduce the total costs of our products to remain competitive; (xvii) potential limitation on the use of net operating losses to offset possible future taxable income; (xviii) restrictions in our debt agreements that limit our flexibility in operating our business; and (xix) additional exercise of the warrant by K Equity, LLC which could potentially result in the existence of a significant stockholder who could seek to influence our corporate decisions.

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 the 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.

ACCOUNTING POLICIES AND ESTIMATES

The following discussion and analysis of financial condition and results of operations are based on the unaudited condensed consolidated financial statements included herein. Our significant accounting policies are described in Note 1 to the consolidated financial statements in our 2012 Annual Report. Our critical accounting policies are described under the caption Critical Accounting Policies in Item 7 of our 2012 Annual Report.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates, assumptions, and judgments. Estimates and assumptions are 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.

Our 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.

Table of Contents

Business Overview

We are a leading global manufacturer of a wide variety of capacitors. Our product offerings include tantalum, multilayer ceramic, solid and electrolytic aluminum and film and paper capacitors. Capacitors are fundamental components of most electronic circuits and are found in communication systems, data processing equipment, personal computers, cellular phones, automotive electronic systems, defense and aerospace systems, consumer electronics, power management systems and many other electronic devices and systems. Capacitors are typically used to filter out interference, smooth the output of power supplies, block the flow of direct current while allowing alternating current to pass and for many other purposes. We manufacture a broad line of capacitors in many different sizes and configurations using a variety of raw materials. Our product line consists of over 250,000 distinct part configurations distinguished by various attributes, such as dielectric (or insulating) material, configuration, encapsulation, capacitance level and tolerance, 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. In fiscal year 2012, we shipped approximately 32 billion capacitors and in the six month period ended September 30, 2012, we shipped approximately 17 billion capacitors. We believe the long term demand for 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.

We operate 22 production facilities and employ approximately 10,000 employees worldwide. We manufacture capacitors in Europe, North America, and Asia. Commodity manufacturing in the United States has been substantially relocated to our lower-cost manufacturing facilities in Mexico and China. Production that remains 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. For the six month period ended September 30, 2012 and for fiscal year 2012, our consolidated net sales were \$439.6 million and \$984.8 million, respectively.

We are organized into three business groups: Tantalum, Ceramic, and Film and Electrolytic. The Film and Electrolytic business group 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. Each business group is responsible for the operations of certain manufacturing sites as well as all related research and development efforts. The sales and marketing functions are shared by each of the business groups and the costs of these functions are allocated to the business groups. In addition, all corporate costs are allocated to the business groups.

Our Competitive Strengths

We believe that we benefit from the following competitive strengths:

Strong Customer Relationships. We have a large and diverse customer base. We believe that our persistent emphasis on quality control and history of performance establishes loyalty with original equipment manufacturers (OEMs), electronics manufacturing services providers (EMSs) and distributors. Our customer base includes most of the world's major electronics OEMs (including Alcatel-Lucent USA, Inc., Apple Inc., Bosch Group, Cisco Systems, Inc., Continental AG, Dell Inc., Hewlett-Packard Company, International Business Machines Corporation, Intel Corporation, Motorola, Inc., Nokia Corporation, and TRW Automotive), EMSs (including Celestica Inc., Elcoteq SE, 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 result 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, across a full spectrum of dielectric materials including tantalum, ceramic, solid and electrolytic aluminum, film and paper. 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 different end markets, including computing, industrial, telecommunications, transportation, consumer, defense and healthcare markets across all geographic regions. No single end market segment accounted for more than 30% and only one customer, TTI, Inc., accounted for more than 10% of our net sales in the six month period ended September 30, 2012. Our largest customer is a distributor, and no single end use customer accounted for more than 7% of our net sales in the six month period ended September 30, 2012. 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

Table of Contents

significant market position in the specialty ceramic and custom wet aluminum electrolytic markets. 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. During the six month periods ended September 30, 2012 and 2011, respectively, specialty products accounted for 40.5% and 37.4% of our revenue. By allocating an increasing portion of our management resources and research and development investment to specialty products, we have established ourselves as one of the leading innovators in this fast growing emerging segment of the market, which includes healthcare, renewable energy, telecommunication infrastructure, and oil and gas. For example, in August 2009, we were selected as one of thirty companies to receive a grant from the Department of Energy. Our \$15.1 million award has enabled us to produce film capacitors within the United States to support alternative energy products and green technologies such as hybrid electric drive vehicles. Producing these parts in the United States will allow us to compete effectively in the alternative energy market domestically. We began production in the fourth quarter of fiscal year 2012.

Low-Cost Production. We believe we 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 have low production costs and 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. We believe our operations in Mexico are among the most cost-efficient in the world. In addition, we believe our manufacturing facility in Bulgaria has low production costs and in the second quarter of fiscal year 2013 we expanded our manufacturing to Macedonia which we believe will also have low production costs.

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 and established us as the Easy-To-Buy-From company.

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 16 member executive management team has an average of over 15 years of experience with us and an average of 25 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 business 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. This effort was launched to ensure that as we continue to grow we not only

Edgar Filing: KEMET CORP - Form 10-Q

remain grounded in our core principles but that we use those principles, operating procedures and systems as the foundation from which to expand. These initiatives include our global Oracle software implementation which we expect to complete in the first half of fiscal year 2014, our Lean and Six Sigma culture evolution and our global customer accounts management system which is now in place and growing.

Develop Our Significant Customer Relationships and Industry Presence. We intend to continue to be responsive to our customers' needs and requirements and to make order entry and fulfillment easier, faster, more flexible and more reliable for our customers, by focusing on building products around customers' needs, by giving decision making authority to customer-facing personnel and by providing purpose-built systems and processes, such as our Easy-To-Buy-From order entry system.

Continue to Pursue Low-Cost Production Strategy. We continue to evaluate and are actively pursuing measures that will allow us to maintain our position as a low-cost producer of capacitors with facilities close to our customers. We have shifted and will continue to shift production to low cost locations in order to reduce material and labor costs. We plan to expand our manufacturing to Macedonia which we believe will have low production costs. Additionally, we are focused on developing more cost-efficient manufacturing equipment and processes, designing manufacturing plants for more efficient production and reducing work-in-process (WIP) inventory by building products from start to finish in one factory. Furthermore, we continue to implement the Lean and Six Sigma methodology to drive towards zero product defects so that quality remains a given in the minds of our customers.

Table of Contents

Leverage Our Technological Competence and Expand Our Leadership in Specialty Products. We continue to leverage our technological competence to introduce new products in a timely and cost-efficient manner and generate an increasing portion of our sales from new and customized solutions to meet our customers' varied and evolving capacitor needs as well as to improve 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 the second quarter of fiscal year 2013, we introduced 31,126 new products of which 19,166 were first to market, and specialty products accounted for 40.5% of our revenue over this period.

Further Expand Our Broad Capacitance Capabilities. We identify ourselves as The Capacitance Company and strive to be the supplier of choice for all our customers' capacitance needs across the full spectrum of dielectric materials including tantalum, ceramic, solid and electrolytic aluminum, film and paper. 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 that would allow 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, on February 21, 2012, the Company completed its acquisition of Niotan Incorporated (whose name was subsequently changed to KEMET Blue Powder Corporation (Blue Powder)), a leading manufacturer of tantalum powders, from an affiliate of Denham Capital Management LP.

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 2012 we received Rockwell Collins' Top Supplier Award and in calendar year 2011, we received the Supplier of the Year Award from TTI, Inc. and from Arrow Electronics, Inc., both of which are electronics distributors.

Global Sales & Marketing Strategy. Our motto "Think Global Act Local" describes our approach to sales and marketing. Each of our three sales regions (North America and South America (Americas), Europe, Middle East and Africa (EMEA) and Asia and Pacific Rim (APAC)) has account managers, field application engineers and strategic marketing managers in the region. 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.

Recent Developments and Trends

Net sales for the quarter ended September 30, 2012 were \$216.0 million, which is an 18.7% decrease over the same quarter last fiscal year. Net sales for the six month period ended September 30, 2012 were \$439.6 million, which is a 20.8% decrease over the same period last fiscal year.

Shift to Lower Cost Production

In September 2012 we began production in Skopje, Macedonia; this facility will allow for a significant reduction in cost while increasing our total production capability. In addition, we initiated the relocation of some of our Film and Electrolytic manufacturing operations to our manufacturing facility in Evora, Portugal.

Impairment Charge

Our annual goodwill impairment test is assessed as of May 31st of each fiscal year. Testing was not completed prior to the deadline for filing our Form 10-Q for the first quarter ended June 30, 2012. Due to reduced earnings and cash flows caused by macro-economic factors and excess capacity issues in our industry, we revised our earnings forecast; and as a result, recorded a \$1.1 million goodwill impairment charge in the second quarter of fiscal year 2013, which represents all of the goodwill related to the KEMET Foil Manufacturing, LLC (KEMET Foil) reporting unit.

Table of Contents

Write Down of Long-Lived Assets

During the second quarter of fiscal year 2013, the Company incurred impairment charges totaling \$4.2 million related to Film and Electrolytic Business Group (Film and Electrolytic). In connection with the consolidation of two manufacturing facilities within Italy, the Company obtained appraisals for these facilities. These appraisals indicated that there was a decrease in the market price of the manufacturing facilities; and therefore, the carrying amounts for these manufacturing facilities were reviewed for recoverability. It was determined that the carrying amounts of the manufacturing facilities were not recoverable since they exceeded the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group). The impairment was measured as the amount by which the carrying amount of a long-lived asset (asset group) exceeds its fair value.

Issuance of 10.5% Senior Notes Add-On

On March 27, 2012 and April 3, 2012, the Company completed the sale of \$110.0 million and \$15.0 million aggregate principal amount of its 10.5% Senior Notes due 2018, respectively, at an issue price of 105.5% of the principal amount plus accrued interest from November 1, 2011. The Senior Notes were issued as additional notes under the indenture, dated May 5, 2010, among the Company, the guarantors party thereto and Wilmington Trust Company, as trustee.

Equity Investment

On July 11, 2012, we received antitrust clearance from the European Commission under the European Union Merger Regulation for the previously announced intent to acquire a 34% economic interest in NEC Tokin by KEMET Electronics Corporation, our wholly owned subsidiary. On October 29, 2012 we were informed by the Chinese Ministry of Commerce (MOFCOM) that its regulatory review of this proposed transaction would be extended by a period of no more than 60 days, expiring December 31, 2012. Such an extended review period is not uncommon, and MOFCOM can grant regulatory clearance at any time during such review period. MOFCOM has not informed us of any substantive concerns regarding the proposed transaction. While a definitive closing date cannot yet be determined, we now expect that the transaction will close either near the end of our third fiscal quarter ending December 31, 2012, or during our fourth fiscal quarter ending March 31, 2013.

Advance

On August 28, 2012, we entered into an agreement, as amended on the same date (the Agreement), with an original equipment manufacturer (the OEM) pursuant to which the OEM agreed to advance us \$24.0 million (the Advance Payment). The Agreement provides that on a monthly-basis starting eight months following the receipt of the Advance Payment, we will pay the OEM an amount equal to a percentage of the aggregate purchase price of the capacitors 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, and the total amount to be repaid will not exceed \$2.0 million per month, in the event that (1) the OEM provides evidence that the price charged by us 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 KEMET for a price adjustment during the current quarter which would bring our price within 110% of the third-party

price. Thirty-two months after the date of the Advance Payment, the outstanding balance, if any, is due in full. Pursuant to the terms of the Agreement, we delivered to the OEM an irrevocable standby letter of credit in the amount of \$16.0 million on October 8, 2012. On October 22, 2012 we received the Advance Payment from the OEM.

Restructuring

On July 25, 2012, we committed to a global restructuring plan to respond to the continued economic slowdown and in the quarter ended September 30, 2012 we incurred a \$7.5 million charge to earnings related to termination benefits. On October 26, 2012, we expanded the global restructuring plan to include additional headcount reductions, which are expected to result in additional termination charges of approximately \$4.0 to \$4.5 million during the second half of fiscal year 2013. In addition, we are beginning the restructuring of our Evora, Portugal manufacturing facility which is expected to be completed during our fourth quarter ending March 31, 2013. As a part our ongoing commitment to expand our polymer capacity we will be moving certain Tantalum manufacturing equipment from the Evora, Portugal facility to our manufacturing facility in Mexico and the remainder of the equipment will be disposed. We will write-off approximately \$5.0 to \$7.0 million in equipment and incur termination benefits in the range of \$4.0 to \$4.5 million. We will also have the manufacturing facility appraised to determine if there is an indicator of impairment. In addition to facilitating our polymer expansion in Mexico this action will reduce Tantalum's operating costs as well as reduce our inventories and in turn, improve cash flow as we complete this fiscal year. The expected future total cash expenditures are estimated to be \$8.0 to \$9.5 million for the termination benefits described above.

Table of Contents

Outlook

For the third quarter of fiscal year 2013, we expect net sales to decrease 4 to 9% compared to the quarter ended September 30, 2012.

CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

Comparison of the Second Quarter of Fiscal Year 2013 with the Second Quarter of Fiscal Year 2012

The following table sets forth the operating income (loss) for each of our business segments for the quarters ended September 30, 2012 and September 30, 2011. The table also sets forth each of the segments' net sales as a percent to total net sales and the net income (loss) components as a percent to total net sales (dollars in thousands):

Table of Contents

| | Quarters Ended | | | |
|--|--------------------|------------------|--------------------|------------------|
| | September 30, 2012 | | September 30, 2011 | |
| | Amount | % to Total sales | Amount | % to Total sales |
| Net sales | | | | |
| Tantalum | \$ 109,308 | 50.6% | \$ 112,290 | 42.3% |
| Ceramic | 53,116 | 24.6% | 56,112 | 21.1% |
| Film and Electrolytic | 53,567 | 24.8% | 97,112 | 36.6% |
| | \$ 215,991 | 100.0% | \$ 265,514 | 100.0% |
| Gross margin | | | | |
| Tantalum | \$ 17,168 | | \$ 26,747 | |
| Ceramic | 15,984 | | 18,387 | |
| Film and Electrolytic | (214) | | 17,061 | |
| | 32,938 | 15.2% | 62,195 | 23.4% |
| SG&A expenses | | | | |
| Tantalum | 12,278 | | 11,659 | |
| Ceramic | 6,293 | | 6,083 | |
| Film and Electrolytic | 9,412 | | 10,613 | |
| | 27,983 | 13.0% | 28,355 | 10.7% |
| R&D expenses | | | | |
| Tantalum | 3,488 | | 3,623 | |
| Ceramic | 1,726 | | 1,702 | |
| Film and Electrolytic | 1,619 | | 2,037 | |
| | 6,833 | 3.2% | 7,362 | 2.8% |
| Restructuring charges | | | | |
| Tantalum | 1,987 | | 864 | |
| Ceramic | 1,081 | | 49 | |
| Film and Electrolytic | 5,454 | | 692 | |
| | 8,522 | 3.9% | 1,605 | 0.6% |
| Other operating expenses | | | | |
| Tantalum | (6) | | | |
| Ceramic | 2 | | | |
| Film and Electrolytic | 3,624 | | (40) | |
| | 3,620 | 1.7% | (40) | 0.0% |
| Operating income (loss) | | | | |
| Tantalum | (579) | | 10,601 | |
| Ceramic | 6,882 | | 10,553 | |
| Film and Electrolytic | (20,323) | | 3,759 | |
| | (14,020) | -6.5% | 24,913 | 9.4% |
| Other (income) expense, net | 9,114 | 4.2% | 8,548 | 3.2% |
| Income (loss) before income taxes | (23,134) | -10.7% | 16,365 | 6.2% |
| Income tax expense | 1,787 | 0.8% | 2,047 | 0.8% |
| Net income (loss) | \$ (24,921) | -11.5% | \$ 14,318 | 5.4% |

Table of Contents***Consolidated Comparison of the Second Quarter of Fiscal Year 2013 with the Second Quarter of Fiscal Year 2012****Net Sales*

Net sales for the quarter ended September 30, 2012 were \$216.0 million compared to \$265.5 million in the second quarter of fiscal year 2012, an 18.6% decrease primarily due to a 6.1% decrease in unit sales volume. The decrease in Ceramic and Film and Electrolytic unit sales volumes are due to a general softening of the market. The decrease in unit sales volume for Ceramic and Film and Electrolytic was partially offset by an increase in average selling prices due to favorable product mix shifts. Tantalum incurred a unit sales volume increase due to a shift from EMEA to Asia, however, this was offset by a 14.8% decrease in average selling prices due to the regional shift to sales in Asia. The other driver for the decrease in net sales related to Film and Electrolytic's machinery division net sales which had a decrease of \$11.5 million in the second quarter of fiscal year 2013 compared to the second quarter of fiscal year 2012 due to a decrease in unit sales volume.

The following table reflects the percentage of net sales by region for the quarters ended September 30, 2012 and 2011:

| | Quarters Ended September 30, | |
|----------|-------------------------------------|-------------|
| | 2012 | 2011 |
| Americas | 29% | 31% |
| EMEA | 33% | 40% |
| APAC | 38% | 29% |
| | 100% | 100% |

The following table reflects the percentage of net sales by channel for the quarters ended September 30, 2012 and 2011:

| | Quarters Ended September 30, | |
|--------------|-------------------------------------|-------------|
| | 2012 | 2011 |
| Distributors | 42% | 43% |
| EMS | 18% | 12% |
| OEM | 40% | 45% |
| | 100% | 100% |

Gross Margin

Gross margin as a percentage of net sales decreased from 23.4% in the second quarter of fiscal year 2012 to 15.2% in the second quarter of fiscal year 2013. The primary contributors to the decline in gross margin were lower unit sales volume and our inability to reduce our operating costs in proportion with the decline in production volumes. In addition, for Tantalum, efforts to reduce costs through vertical integration and lean/process engineering improvements are ongoing, but have not been able to offset the significant unfavorable shift in regional sales mix. In addition, we incurred \$1.9 million of plant start-up costs in the second quarter of fiscal year 2013 compared to \$0.7 million in the second quarter of fiscal year 2012.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$28.0 million, or 13.0% of net sales for the second quarter of fiscal year 2013 compared to \$28.4 million or 10.7% of net sales for second quarter of fiscal year 2012. The \$0.4 million decrease in SG&A expenses primarily consist of a \$1.7 million decrease in selling and incentive expense consistent with the decrease in net sales and a \$0.4 million decrease in professional fees. Partially offsetting these decreases was a \$0.9 million increase in costs related to our anticipated equity investment in NEC Tokin, we incurred a \$0.6 million expense related to contributions to charitable organizations involved in the establishment and improvement of health and educational facilities in the Democratic Republic of the Congo and a \$0.2 million increase in ERP integration costs due to an increase in activities as we work toward completing Oracle ERP implementations during the first half of fiscal year 2014.

Research and Development

Research and development (R&D) expenses were \$6.8 million or 3.2% of net sales for the second quarter of fiscal year 2013, compared to \$7.4 million, or 2.8% of net sales for the second quarter of fiscal year 2012. The 7.2% decrease resulted from a headcount reduction taken in the second quarter of fiscal year 2013 to align the R&D expenses with an acceptable percentage of Net sales.

Table of Contents

Restructuring Charges

We incurred \$8.5 million in restructuring charges in the second quarter of fiscal year 2013 compared to \$1.6 million in restructuring charges in the second quarter of fiscal year 2012. Restructuring charges in the second quarter of fiscal year 2013 included \$3.9 million for reductions in workforce across the Company as a whole in response to lower volumes and demand, and reducing overhead within the Company as a whole. In addition, we incurred \$2.8 million in termination benefits associated with the initial phase of converting the Landsberg, Germany manufacturing facility into a technology center, and \$0.8 million in termination benefits associated with converting the Weymouth, United Kingdom manufacturing facility into a technology center. The total termination benefits expected for the conversion of the Weymouth manufacturing facility are \$2.6 million of which \$1.7 million have been recognized, the expected completion is the third quarter of fiscal year 2014. In addition to these personnel reduction costs, the Company incurred manufacturing relocation costs of \$1.0 million for relocation of equipment to China, Bulgaria, Macedonia and Mexico and for the consolidation of manufacturing operations within Italy. The restructuring charges in the second quarter of fiscal year 2012 included \$1.0 million for headcount reductions in Tantalum's Mexico operations and \$0.6 million for the relocation of equipment to Mexico and China.

Operating Income (Loss)

Operating loss for the quarter ended September 30, 2012 was \$14.0 million compared to operating income of \$24.9 million for the quarter ended September 30, 2011 primarily due to a \$29.3 million decrease in gross margin for the second quarter of fiscal year 2013 as compared to the second quarter of fiscal year 2012. During the second quarter of fiscal year 2013, a \$4.2 million loss was realized on the impairment of two manufacturing facilities in Italy. In addition, \$1.1 million was recognized for goodwill impairment in the second quarter of fiscal year 2013. This was offset by a \$1.7 million settlement gain on a defined benefit pension plan recognized in the second quarter of fiscal year 2013. Additionally, restructuring charges increased \$6.9 million in the second quarter of fiscal year 2013 as compared to the second quarter of fiscal year 2012. These expense increases were offset by decreases in R&D and SG&A expenses of \$0.5 million and \$0.4 million, respectively in the second quarter of fiscal year 2013 as compared to the second quarter of fiscal year 2012.

Other (Income) Expense, net

Other (income) expense, net was an expense of \$9.1 million in the second quarter of fiscal year 2013 compared to an expense of \$8.5 million in the second quarter of fiscal year 2012. Interest expense for the second quarter of fiscal year 2013 increased \$2.9 million compared to the second quarter of fiscal year 2012 due to an \$125 million increase in our 10.5% Senior Notes. In addition, during the second quarter of fiscal year 2013, we recognized a \$0.4 million foreign currency exchange gain as compared to a \$1.4 million loss on foreign currency exchange in the second quarter of fiscal year 2012, primarily due to the change in the value of the Euro and Mexican Peso compared to the U.S. dollar.

Income Taxes

Income tax expense for the second quarter of fiscal year 2013 was \$1.8 million compared to a \$2.0 million of income tax expense for the second quarter fiscal year 2012. Income tax expense for the second quarter of fiscal year 2013 was comprised of \$1.8 million related to income taxes for foreign operations. There is no U.S. federal income tax benefit from the second quarter of fiscal year 2013 loss due to a valuation allowance on deferred tax assets.

Income tax expense for the second quarter of fiscal year 2012 was comprised of \$2.2 million of income tax expense from foreign operations and \$0.2 million of state income tax benefit. There was no U.S. federal income tax expense related to the second quarter of fiscal year 2012 earnings due to the utilization of net operating loss carryforward deductions.

Table of Contents***Business Groups Comparison of the Quarter Ended September 30, 2012 with the Quarter Ended September 30, 2011******Tantalum***

The following table sets forth Net sales, Gross margin, Gross margin as a percentage of Net sales, Operating income (loss) and Operating income (loss) as a percentage of Net sales for our Tantalum business group for the quarters ended September 30, 2012 and 2011 (amounts in thousands, except percentages):

| | Quarters Ended | | | |
|-------------------------|--------------------|----------------|--------------------|----------------|
| | September 30, 2012 | | September 30, 2011 | |
| | Amount | % to Net sales | Amount | % to Net sales |
| Net sales | \$ 109,308 | | \$ 112,290 | |
| Gross margin | 17,168 | 15.7% | 26,747 | 23.8% |
| Operating income (loss) | (579) | -0.5% | 10,601 | 9.4% |

Net Sales

Net sales decreased 2.7% during the second quarter of fiscal year 2013 as compared to the second quarter of fiscal year 2012. Average selling prices decreased 14.8% for the second quarter of fiscal year 2013 as compared to the second quarter of fiscal year 2012. The decrease in average selling prices was primarily due to a regional shift from EMEA to Asia. The decrease in average selling prices was partially offset by a 14.3% increase in unit sales volume during the second quarter of fiscal year 2013 as compared to the second quarter of fiscal year 2012. The current difficult economic environment in EMEA decreased net sales to \$23.5 million in the second quarter of fiscal year 2013 as compared to \$39.8 million in the second quarter of fiscal year 2012. Net sales in Asia increased to \$57.5 million in the second quarter of fiscal year 2013 as compared to \$42.8 million in the second quarter of fiscal year 2012.

Gross Margin

Gross margin decreased by \$9.6 million during the quarter ended September 30, 2012, as compared to the quarter ended September 30, 2011. The decrease in gross margin was significantly impacted by the shift in net sales from higher margin EMEA products to lower margin products sold into Asia. In addition, plant start-up cost related to the vertical integration efforts totaled \$0.5 million in the quarter ended September 30, 2012. Efforts to reduce costs through vertical integration and lean/process engineering improvements are ongoing, but have not been able to offset the significant unfavorable shift in regional sales mix.

Operating Income (Loss)

Edgar Filing: KEMET CORP - Form 10-Q

Operating loss for the second quarter of fiscal year 2013 was \$(0.6) million compared to operating income of \$10.6 million in the second quarter of fiscal year 2012. The \$11.2 million decrease was attributable to a decrease in gross margin of \$9.6 million, a \$1.1 million increase in restructuring charges and an increase in SG&A expenses of \$0.6 million when comparing the second quarter of fiscal year 2013 to the second quarter of fiscal year 2012. This decrease was partially offset by a \$0.1 million decrease in R&D expenses in the second quarter of fiscal year 2013 as compared to the same quarter of fiscal year 2012.

Ceramic

The following table sets forth Net sales, Gross margin, Gross margin as a percentage of Net sales, Operating income and Operating income as a percentage of Net sales for our Ceramic business group for the quarters ended September 30, 2012 and 2011 (amounts in thousands, except percentages):

| | Quarters Ended | | | |
|-------------------------|--------------------|----------------|--------------------|----------------|
| | September 30, 2012 | | September 30, 2011 | |
| | Amount | % to Net sales | Amount | % to Net sales |
| Net sales | \$ 53,116 | | \$ 56,112 | |
| Gross margin | 15,984 | 30.1% | 18,387 | 32.8% |
| Operating income (loss) | 6,882 | 13.0% | 10,553 | 18.8% |

Table of Contents*Net Sales*

Net sales decreased by 5.3% during the second quarter of fiscal year 2013 as compared to the second quarter of fiscal year 2012 primarily due to a decrease in unit sales volume. Unit sales volume decreased 6.4% during the second quarter of fiscal year 2013, as compared to the second quarter of fiscal year 2012 due to excess capacity in the marketplace in the second quarter of fiscal year 2013. In the second quarter of fiscal year 2012, we increased our unit sales volume due to the market's response to the tsunami in Japan.

Gross Margin

Gross margin as a percentage of Ceramic net sales decreased to 30.1% as compared to 32.8% in the second quarter of fiscal year 2012. The driver of the gross margin percentage decrease was primarily attributable to a decrease in unit sales volume.

Operating Income

Operating income for the second quarter of fiscal year 2013 decreased \$3.7 million due to a \$2.4 million decrease in gross margin when comparing the second quarter of fiscal year 2013 to the second quarter of fiscal year 2012. In addition, restructuring charges increased \$1.0 million and SG&A expenses increased \$0.2 million when comparing the second quarter of fiscal year 2013 to the second quarter of fiscal year 2012.

Film and Electrolytic

The following table sets forth Net sales, Gross margin (loss), Gross margin (loss) as a percentage of Net sales, Operating income (loss) and Operating income (loss) as a percentage of Net sales for our Film and Electrolytic business group for the quarters ended September 30, 2012 and 2011 (amounts in thousands, except percentages):

| | Quarters Ended | | | |
|-------------------------|--------------------|----------------|--------------------|----------------|
| | September 30, 2012 | | September 30, 2011 | |
| | Amount | % to Net sales | Amount | % to Net sales |
| Net sales | \$ 53,567 | | \$ 97,112 | |
| Gross margin (loss) | (214) | -0.4% | 17,061 | 17.6% |
| Operating income (loss) | (20,323) | -37.9% | 3,759 | 3.9% |

Net Sales

Edgar Filing: KEMET CORP - Form 10-Q

Net sales decreased 44.8% in the second quarter of fiscal year 2013 compared to the second quarter of fiscal year 2012. Average selling prices for capacitors increased 7.8% in the second quarter of fiscal year 2013 as compared to the same quarter last year. Average selling prices improved due to a favorable shift in product line mix. Capacitor unit sales volume for the second quarter of fiscal year 2013 decreased 36.9% compared to the second quarter of fiscal year 2012 due to an overall decrease in customer demand seen across all regions and channels. Capacitor net sales were unfavorably impacted by \$4.3 million related to foreign exchange, primarily the Euro. The Film and Electrolytic machinery division's net sales decreased by \$11.5 million in the second quarter of fiscal year 2013 compared to the second quarter of fiscal year 2012. The decrease in the Film and Electrolytic machinery division's net sales is primarily due to a decrease in unit sales volume and a \$0.8 million unfavorable impact related to foreign exchange.

Gross Margin (Loss)

Gross margin (loss) as a percentage of Film and Electrolytic net sales decreased to (0.4)% in the second quarter of fiscal year 2013 as compared to 17.6% in the second quarter of fiscal year 2012. The decrease is primarily due to a decrease in capacitor unit sales volumes and lower production levels. In addition, we incurred \$1.4 million of plant start-up costs related to the Skopje, Macedonia and Evora, Portugal facilities in the second quarter of fiscal year 2013 compared to \$0.7 million in the second quarter of fiscal year 2012. In addition, the machinery division's gross margin decreased to \$(0.1) million in the second quarter of fiscal year 2013 as compared to \$5.0 million in the second quarter of fiscal year 2012.

Operating Income (Loss)

Operating loss for the second quarter of fiscal year 2013 was \$(20.3) million as compared to operating income of \$3.8 million in the second quarter of fiscal year 2012. The \$24.1 million decrease is primarily attributable to a \$17.3 million decrease in gross margin

Table of Contents

and a \$4.8 million increase in restructuring charges. During the second quarter of fiscal year 2013, a \$4.2 million loss was realized on the impairment of two manufacturing facilities in Italy. In addition, \$1.1 million was recognized for goodwill impairment in the second quarter of fiscal year 2013. These decreases were partially offset by a \$1.7 million settlement gain on a defined benefit pension plan recognized in the second quarter of fiscal year 2013, a \$1.2 million decrease in SG&A and a \$0.4 million decrease in R&D expenses in the second quarter of fiscal year 2013 as compared to the same quarter of fiscal year 2012.

Comparison of the Six Month Period Ended September 30, 2012 with the Six Month Period Ended September 30, 2011

The following table sets forth the operating income (loss) for each of our business segments for the six months ended September 30, 2012 and September 30, 2011. The table also sets forth each of the segments' net sales as a percent to total net sales and the net income components as a percent to total net sales (dollars in thousands):

Table of Contents

| | Six Months Ended | | | |
|--|--------------------|------------------|--------------------|------------------|
| | September 30, 2012 | | September 30, 2011 | |
| | Amount | % to Total sales | Amount | % to Total sales |
| Net sales | | | | |
| Tantalum | \$ 218,507 | 49.7% | \$ 234,733 | 42.3% |
| Ceramic | 104,661 | 23.8% | 115,491 | 20.8% |
| Film and Electrolytic | 116,455 | 26.5% | 205,146 | 36.9% |
| | \$ 439,623 | 100.0% | \$ 555,370 | 100.0% |
| Gross margin | | | | |
| Tantalum | \$ 35,453 | | \$ 59,547 | |
| Ceramic | 30,441 | | 37,124 | |
| Film and Electrolytic | (645) | | 44,876 | |
| | 65,249 | 14.8% | 141,547 | 25.5% |
| SG&A expenses | | | | |
| Tantalum | 23,868 | | 23,617 | |
| Ceramic | 12,308 | | 12,269 | |
| Film and Electrolytic | 19,062 | | 22,745 | |
| | 55,238 | 12.6% | 58,631 | 10.6% |
| R&D expenses | | | | |
| Tantalum | 7,630 | | 6,966 | |
| Ceramic | 3,450 | | 3,353 | |
| Film and Electrolytic | 3,486 | | 4,129 | |
| | 14,566 | 3.3% | 14,448 | 2.6% |
| Restructuring charges | | | | |
| Tantalum | 2,031 | | 899 | |
| Ceramic | 1,179 | | 88 | |
| Film and Electrolytic | 6,576 | | 1,643 | |
| | 9,786 | 2.2% | 2,630 | 0.5% |
| Other operating expenses | | | | |
| Tantalum | 20 | | 49 | |
| Ceramic | 25 | | 2 | |
| Film and Electrolytic | 3,679 | | 32 | |
| | 3,724 | 0.8% | 83 | 0.0% |
| Operating income (loss) | | | | |
| Tantalum | 1,904 | | 28,016 | |
| Ceramic | 13,479 | | 21,412 | |
| Film and Electrolytic | (33,448) | | 16,327 | |
| | (18,065) | -4.1% | 65,755 | 11.8% |
| Other (income) expense, net | 21,051 | 4.8% | 15,810 | 2.8% |
| Income (loss) before income taxes | (39,116) | -8.9% | 49,945 | 9.0% |
| Income tax expense | 3,558 | 0.8% | 3,778 | 0.7% |
| Net income (loss) | \$ (42,674) | -9.7% | \$ 46,167 | 8.3% |

Table of Contents***Consolidated Comparison of the Six Month Period Ended September 30, 2012 with the Six Month Period Ended September 30, 2011****Net Sales*

Net sales for the six month period ended September 30, 2012 decreased by \$115.7 million, or 20.8% to \$439.6 million compared to the same period in fiscal year 2012 primarily due to a decrease in unit sales volumes. The decrease in unit sales volume for Ceramic, and Film and Electrolytic are due to a general softening of the market. The decrease in unit sales volume for Film and Electrolytic was partially offset by an increase in average selling prices due to favorable product mix shifts. Tantalum incurred a unit sales volume increase due to a shift from EMEA to Asia; however, this was offset by a 4.3% decrease in average selling prices due to the regional shift to sales in Asia. The other driver for the decrease in net sales related to Film and Electrolytic's machinery division net sales decrease of \$29.4 million in the second quarter of fiscal year 2013 compared to the second quarter of fiscal year 2012.

The following table reflects the percentage of net sales by region for the six months ended September 30, 2012 and 2011:

| | Six Months Ended September 30, | |
|----------|---------------------------------------|-------------|
| | 2012 | 2011 |
| Americas | 28% | 28% |
| EMEA | 34% | 38% |
| APAC | 38% | 34% |
| | 100% | 100% |

The following table reflects the percentage of net sales by channel for the six months ended September 30, 2012 and 2011:

| | Six Months Ended September 30, | |
|--------------|---------------------------------------|-------------|
| | 2012 | 2011 |
| Distributors | 44% | 44% |
| EMS | 17% | 14% |
| OEM | 39% | 42% |
| | 100% | 100% |

Gross Margin

Gross margin was \$65.2 million or 14.8% of net sales for the six month period ended September 30, 2012 compared to \$141.5 million or 25.5% of net sales for the six month period ended September 30, 2011. The primary contributors to the decline in gross margin were lower unit sales volume and our inability to reduce our operating costs in proportion with the decline in production volumes. In addition, for Tantalum, efforts to reduce costs through vertical integration and lean/process engineering improvements are ongoing, but have not offset the significant unfavorable shift in regional sales mix. In addition, we incurred \$3.3 million of plant start-up costs in the six month period ended September 30, 2012 compared to \$0.7 million in the six month period ended September 30, 2011.

Selling, General and Administrative Expenses

SG&A expenses for the six month period ended September 30, 2012 were \$55.2 million, or 12.6% of net sales, as compared to \$58.6 million, or 10.6% of net sales for the same period in fiscal year 2012. The \$3.4 million decrease in SG&A expenses included a decrease of \$3.1 million in selling and incentive expenses consistent with the decrease in sales and a \$2.1 million decrease in incentive compensation. Partially offsetting these decreases was a \$0.8 million increase in costs related to our anticipated equity investment in NEC Tokin, an increase of \$0.7 million related to ERP integration costs due to an increase in activities as we work toward completing Oracle ERP implementations during the first half of fiscal year 2014 and we incurred a \$0.6 million expense related to contributions to charitable organizations involved in the establishment and improvement of health and educational facilities in the Democratic Republic of the Congo.

Research and Development Expenses

R&D expenses for the six month period ended September 30, 2012 were \$14.6 million, or 3.3% of net sales compared to \$14.4 million, or 2.6% of net sales for the same period in fiscal year 2012. Our goal is to reduce R&D expenses for fiscal year 2013

Table of Contents

through headcount reductions taken in the second quarter of fiscal year 2013 to align the R&D expenses with an acceptable percentage of net sales; the increase of only \$0.1 million is consistent with this objective.

Restructuring Charges

During the six month period ended September 30, 2012, we incurred \$9.8 million in restructuring charges compared to \$2.6 million in restructuring charges for the six month period ended September 30, 2011. The restructuring charges in the six month period ended September 30, 2012 included \$4.1 million for reductions in workforce across the Company as a whole in response to lower volumes and demand, and reducing overhead within the Company as a whole. In addition, we incurred \$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 total termination benefits expected for the conversion of the Weymouth manufacturing facility are \$2.6 million; the expected completion is the third quarter of fiscal year 2014. 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. The restructuring charges in the six month period ended September 30, 2011 included \$1.4 million in charges for the relocation of equipment to Mexico and China and \$1.2 million for reductions in workforce.

Operating Income (Loss)

Operating loss for the six month period ended September 30, 2012 was \$18.1 million, compared to operating income of \$65.8 million for the six month period ended September 30, 2011. Gross margin decreased \$76.3 million and restructuring charges increased to \$9.8 million compared to \$2.6 million of restructuring charges for the six month period ended September 30, 2011. In addition, during the six month period ended September 30, 2012, a \$4.2 million loss was realized on the impairment of two manufacturing facilities in Italy compared to a \$0.1 million loss on sales and disposals of assets in the six month period ended September 30, 2011. Also, \$1.1 million was recognized for goodwill impairment in the six month period ended September 30, 2012. These expenses were offset by a \$1.7 million settlement gain on a defined benefit pension plan recognized in the six month period ended September 30, 2012 and a \$3.4 million decrease in SG&A expenses.

Other (Income) Expense, net

Other (income) expense, net was an expense of \$21.1 million in the first half of fiscal year 2013 compared to an expense of \$15.8 million in the first half of fiscal year 2012. Interest expense for the first half of fiscal year 2013 increased \$5.9 million compared to the second quarter of fiscal year 2012 due to an \$125 million increase in our 10.5% Senior Notes.

Income Taxes

For the six month period ended September 30, 2012, income tax expense of \$3.6 million was comprised of a \$3.5 million income tax expense related to foreign operations and \$0.1 million of state income tax expense. During the six month period ended September 30, 2011, we

Edgar Filing: KEMET CORP - Form 10-Q

recognized net income tax expense of \$3.8 million comprised of a \$4.8 million income tax expense related to foreign operations, \$0.1 million of federal and state income tax benefits, and a \$0.9 million U.S. federal income tax benefit related to a prior year settlement.

Business Groups Comparison of the Six Month Period Ended September 30, 2012 with the Six Month Period Ended September 30, 2011

Tantalum

The table sets forth Net sales, Gross margin, Gross margin as a percentage of net sales, Operating income and Operating income as a percentage of net sales for our Tantalum business group for the quarters ended September 30, 2012 and 2011 (amounts in thousands, except percentages):

| | Six Months Ended | | | |
|------------------|--------------------|----------------|--------------------|----------------|
| | September 30, 2012 | | September 30, 2011 | |
| | Amount | % to Net sales | Amount | % to Net sales |
| Net sales | \$ 218,507 | | \$ 234,733 | |
| Gross margin | 35,453 | 16.2% | 59,547 | 25.4% |
| Operating income | 1,904 | 0.9% | 28,016 | 11.9% |

Table of Contents

Net Sales

Net sales decreased 6.9% during the six month period ended September 30, 2012, as compared to the same period of fiscal year 2012. Average selling prices decreased 4.3% for the six month period ended September 30, 2012 as compared to the same period ended September 30, 2011. In addition to the decrease in average selling prices, unit sales volumes decreased 2.8% during the six month period ended September 30, 2012 as compared to the six month period ended September 30, 2011. The decrease in average selling prices was primarily related to a regional shift from the Americas and EMEA to Asia. The current economic situation in EMEA caused a decline in net sales to \$50.1 million for the six month period ended September 30, 2012 as compared to \$68.7 million in the period ended September 30, 2011. The slowdown in the Americas decreased net sales by \$5.1 million from \$63.7 million to \$58.5 million. Asia revenue increased to \$109.8 million for the six month period ended September 30, 2012 as compared to \$102.4 million in the period ended September 30, 2011.

Gross Margin

Gross margin decreased by \$24.1 million or 40.5% during the six month period ended September 30, 2012, as compared to the six month period ended September 30, 2011. Gross margin as a percentage of Tantalum net sales decreased to 16.2% in the six month period ended September 30, 2012 as compared to 25.4% in the six month period ended September 30, 2011. The decrease in gross margin was significantly impacted by the shift in revenue from higher margin Americas and EMEA to lower margin products sold into the Asia region. In addition, plant start-up costs related to the vertical integration efforts totaled \$0.9 million during the six month period ended September 30, 2012. Efforts to reduce costs through vertical integration are ongoing as well as lean/process engineering improvements, but have offset the significant shift in regional sales mix.

Operating Income

Operating income for the six month period ended September 30, 2012 was \$1.9 million, as compared to an operating income of \$28.0 million in the first half of fiscal year 2012. The decline is attributable to the decrease in gross margin of \$24.1 million as compared to the six month period ended September 30, 2011. This decrease was also attributable to an increase in SG&A and R&D expenses of \$0.9 million and an increase in restructuring charges of \$1.1 million during the six month period ended September 30, 2012 as compared to the six month period ended September 30, 2011.

Ceramic

The table sets forth Net sales, Gross margin, Gross margin as a percentage of net sales, Operating income and Operating income as a percentage of net sales for our Ceramic business group for the six months ended September 30, 2012 and 2011 (amounts in thousands, except percentages):

| Six Months Ended | |
|--------------------|--------------------|
| September 30, 2012 | September 30, 2011 |
| Amount | Amount |

Edgar Filing: KEMET CORP - Form 10-Q

| | | % to Net sales | | % to Net sales |
|------------------|------------|-------------------|------------|-------------------|
| Net sales | \$ 104,661 | | \$ 115,491 | |
| Gross margin | 30,441 | 29.1% | 37,124 | 32.1% |
| Operating income | 13,479 | 12.9% | 21,412 | 18.5% |

Net Sales

Net sales decreased by 9.4% during the six month period ended September 30, 2012 as compared to the same period of fiscal year 2011. The decrease was primarily attributable to the 4.3% decrease in average sales price during the six month period ended September 30, 2012 as compared to the same period of fiscal year 2011. The decrease in average sales price is due to excess capacity in the marketplace which is driving aggressive price competition. In addition, unit sales volumes decreased 5.3% due primarily to excess capacity in the marketplace in the six month period ended September 30, 2012. In the six month period ended September 30, 2011, we increased our unit sales volume due to the markets response to the tsunami in Japan.

Gross Margin

Gross margin decreased by \$6.7 million during the six month period ended September 30, 2012, as compared to the six month period ended September 30, 2011. Gross margin as a percentage of Ceramic net sales decreased to 29.1% in the six month period ended September 30, 2012 as compared to 32.1% in the six month period ended September 30, 2011. The decrease in gross

Table of Contents

margin is primarily attributable to a decrease in average selling prices. In addition, gross margin for the six month period ended September 30, 2012 included a \$1.4 million decrease in manufacturing costs net of a \$3.5 million decrease related to favorable foreign exchange for the Mexican Peso.

Operating Income

Operating income declined from \$21.4 million in the first half of fiscal year 2012 to \$13.5 million in the first half of fiscal year 2013. The decrease in operating income of \$7.9 million was attributable to the \$6.7 million decrease in gross margin in the first half of fiscal year 2013 compared the first half of fiscal year 2012. In addition, restructuring expenses in the first half of fiscal year 2013 were \$1.1 million higher than the first half of fiscal year 2012.

Film and Electrolytic

The table sets forth Net sales, Gross margin (loss), Gross margin (loss) as a percentage of net sales, Operating income (loss) and Operating income (loss) as a percentage of net sales for our Film and Electrolytic business group for the six months ended September 30, 2012 and 2011 (amounts in thousands, except percentages):

| | Six Months Ended | | | |
|-------------------------|--------------------|----------------|--------------------|----------------|
| | September 30, 2012 | | September 30, 2011 | |
| | Amount | % to Net sales | Amount | % to Net sales |
| Net sales | \$ 116,455 | | \$ 205,146 | |
| Gross margin (loss) | (645) | -0.6% | 44,876 | 21.9% |
| Operating income (loss) | (33,448) | -28.7% | 16,327 | 8.0% |

Net Sales

Net sales decreased by 43.2% from \$205.1 million in the first half of fiscal year 2012 to \$116.5 million in the first half of fiscal year 2013. Capacitor unit sales volume for the first half of fiscal year 2013 decreased 41.8% compared to the same period in fiscal year 2012 due to an overall decrease in customer demand seen across all regions and channels. Capacitor sales were unfavorably impacted by \$8.2 million related to foreign exchange. The Film and Electrolytic machinery division's net sales decreased net sales by \$29.4 million in the six month period ended September 30, 2012 compared to the same period of fiscal year 2012. The decrease in the Film and Electrolytic machinery division net sales is primarily due to a decrease in unit sales volume and an unfavorable impact of \$1.8 million related to foreign exchange. These decreases were partially offset by an increase in capacitor average selling prices which increased 16.4% at comparable exchange rates for the six month period ended September 30, 2012 as compared to the same six month period in fiscal year 2012 due to a favorable shift in product line mix.

Gross Margin (Loss)

Gross margin decreased \$45.5 million in the first half of fiscal year 2013 compared to the first half of fiscal year 2012. The decrease in gross margin was primarily due to a decrease in capacitor unit sales volumes and lower production levels (for both capacitors and the machinery division). In addition we incurred \$2.4 million of plant start-up costs related to the Skopje, Macedonia and Evora, Portugal manufacturing facilities in the first half of fiscal year 2013 compared to \$0.7 million in the first half of fiscal year 2012. Gross margin as a percentage of Film and Electrolytic net sales decreased to (0.6)% in the six month period ended September 30, 2012 as compared to 21.9% in the same six month period in fiscal year 2012.

Operating Income (Loss)

Operating loss was \$(33.4) million in the first half of fiscal year 2013 compared to an operating income of \$16.3 million in the first half of fiscal year 2012. The decrease in operating income of \$49.8 million was attributable primarily to the \$45.5 million decrease in gross margin, an increase in restructuring charges of \$4.9 million during the six month period ended September 30, 2012 as compared to the six month period ended September 30, 2011, and a loss of \$4.2 million in the first half of fiscal year 2013 related to the impairment of manufacturing facilities in Italy as compared to no write downs in the corresponding period during the prior fiscal year. In addition, a \$1.1 million charge was recognized for goodwill impairment in the second quarter of fiscal year 2013. These expenses were offset by a \$1.7 million settlement gain on benefit plan recognized in the six month period ended September 30, 2012, a \$3.7 million decrease in SG&A expenses and a \$0.6 million decrease in R&D expenses.

Table of Contents

Liquidity and Capital Resources

Our liquidity needs arise from working capital requirements, capital expenditures, acquisitions, principal and interest payments on debt, and costs associated with the implementation of our restructuring plans. Historically, these cash needs have been met by cash flows from operations, borrowings under our loan agreements and existing cash balances.

Issuance of 10.5% Senior Notes

On May 5, 2010, we completed a private placement of \$230.0 million in aggregate principal amount of our 10.5% Senior Notes due 2018 (the "10.5% Senior Notes"). On March 27, 2012 and April 3, 2012, we completed the sale of \$110.0 million and \$15.0 million aggregate principal amount of its 10.5% Senior Notes due 2018, respectively, at an issue price of 105.5% of the principal amount plus accrued interest from November 1, 2011. The Senior Notes were issued as additional notes under the indenture, dated May 5, 2010, among the Company, the guarantors party thereto and Wilmington Trust Company, as trustee.

Revolving Line of Credit

On September 30, 2010, 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"), with Bank of America, N.A., as the administrative agent and the initial lender. The Loan and Security Agreement provides a \$50 million revolving line of credit, which is bifurcated into a U.S. facility (for which KEC is the Borrower) and a Singapore facility (for which KEMET Singapore is the Borrower). The size of the U.S. facility and Singapore facility can fluctuate as long as the Singapore facility does not exceed \$30 million and the total facility does not exceed \$50 million. A portion of the U.S. facility and of the Singapore facility can be used to issue letters of credit. The facilities expire on September 30, 2014.

On August 28, 2012, we entered into an Agreement, with an OEM pursuant to which the OEM agreed to an Advance Payment. The Agreement provides that on a monthly-basis starting eight months following the receipt of the Advance Payment, we will pay the OEM an amount equal to a percentage of the aggregate purchase price of the capacitors 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, and the total amount to be repaid will not exceed \$2.0 million per month, in the event that (1) the OEM provides evidence that the price charged by us 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 KEMET for a price adjustment during the current quarter which would bring our price within 110% of the third-party price. Thirty-two months after the date of the Advance Payment, the outstanding balance, if any, is due in full. Pursuant to the terms of the Agreement, we delivered to the OEM an irrevocable standby letter of credit in the amount of \$16.0 million on October 8, 2012. On October 22, 2012 we received the Advance Payment from the OEM. There were no other borrowings against the Loan and Security Agreement as of September 30, 2012 or March 31, 2012.

Short Term Liquidity

Cash and cash equivalents totaled \$160.5 million as of September 30, 2012, a decrease of \$50.0 million as compared to \$210.5 million as of March 31, 2012. Our net working capital (current assets less current liabilities) as of September 30, 2012 was \$358.2 million compared to \$398.6 million of net working capital as of March 31, 2012. Cash and cash equivalents held by our foreign subsidiaries totaled \$33.5 million and \$24.4 million at September 30, 2012 and March 31, 2012, respectively. Our operating income outside the U.S. is deemed to be permanently reinvested in foreign jurisdictions. As a result, we currently do not intend nor foresee a need to repatriate cash and cash equivalents held by foreign subsidiaries. If these funds are needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds. Based on our current operating plans, we believe that domestic cash and cash equivalents and cash from the revolving line of credit will continue to be sufficient to fund our operating requirements for the next twelve months, including \$36.9 million in interest payments, expected capital expenditures in the range of \$65.0 million to \$70.0 million including \$24.0 million related to the Advance Payment discussed above, deferred acquisition payments of \$71.0 million, payments related to restructuring liabilities, and \$1.5 million in debt principal payments.

Should we require more capital in the U.S. than is generated by our operations domestically, for example to fund significant discretionary activities, such as business acquisitions, we believe we could raise capital in the U.S. through debt issuances. The incurrence of additional debt would result in increased interest expense. We have borrowed funds domestically and expect to continue to have the ability to do so at competitive interest rates.

Cash and cash equivalents decreased by \$50.0 million for the six month period ended September 30, 2012 as compared with a decrease of \$24.9 million during the six month period ended September 30, 2011.

Table of Contents

The following table provides a summary of cash flows for the quarters presented (amounts in thousands):

| | Quarters Ended September 30, | |
|---|-------------------------------------|-------------|
| | 2012 | 2011 |
| Net cash provided by (used in) operating activities | \$ (26,624) | \$ 50,989 |
| Net cash used in investing activities | (30,343) | (31,689) |
| Net cash provided by (used in) financing activities | 7,399 | (43,604) |
| Effects of foreign currency fluctuations on cash | (458) | (584) |
| Net decrease in cash and cash equivalents | \$ (50,026) | \$ (24,888) |

Operations

Cash used in operating activities in the six month period ended September 30, 2012 totaled \$26.6 million compared to cash provided by operating activities of \$51.0 million in the six month period ended September 30, 2011. This decrease was primarily a result of a \$84.9 million decrease in cash flows related to operations (net income (loss) adjusted for the change in: depreciation and amortization, net (gain) loss on sales and disposals of assets, amortization of debt discounts and debt issuance costs, goodwill impairment, write down of long-lived assets, settlement gain on benefit plan and stock-based compensation) for fiscal year 2013 compared to fiscal year 2012.

The change in operating assets resulted in a \$37.1 million decrease in cash generation in the six month period ended September 30, 2012 as compared to the six month period ended September 30, 2011. The decrease is primarily related to a decrease in cash generated through a decrease in accounts receivable, in the six month period ended September 30, 2012, we generated \$5.6 million due to a decrease in accounts receivable compared to the six month period ended September 30, 2011 where we generated \$30.4 million due to a decrease in accounts receivable. In addition, we used \$9.0 million through an increase in prepaid expenses in the six month period ended September 30, 2012, compared to the six month period ended September 30, 2011 where we generated \$3.4 million due to a decrease in prepaid expenses.

Offsetting these uses of cash was \$2.5 million of cash provided by operating liabilities in the six month period ended September 30, 2012 compared to \$42.5 million of cash used in operating liabilities in the six month period ended September 30, 2011. Within operating liabilities, an increase in accounts payable and accrued expenses accounted for \$3.9 million of the increase in cash provided in the six month period ended September 30, 2012 compared to \$33.5 million cash used related to the decrease in accounts payable and accrued expenses in the six month period ended September 30, 2011. In addition we used \$7.8 million in the six month period ended September 30, 2011 related to other long-term obligations compared to a \$0.3 million use of cash for long term obligations in the six month period ended September 30, 2012.

Investing

Cash used in investing activities increased \$1.3 million in the six month period ended September 30, 2012 compared to the six month period ended September 30, 2011. The variance is comprised of a \$10.2 million increase in capital expenditures in the six month period ended September 30, 2012 compared to the six month period ended September 30, 2011. For the six month period ended September 30, 2012, capital expenditures are primarily related to the new manufacturing facilities in Skopje, Macedonia and Pontecchio, Italy and other restructuring related activities as well as efforts to reduce costs and increase capacity. This increase in the use of cash was offset by a \$11.6 million decrease in cash

Edgar Filing: KEMET CORP - Form 10-Q

used for acquisitions. During the six month period ended September 30, 2011, we paid \$11.6 million for the acquisition of Cornell Dubilier Foil, LLC.

Financing

Cash provided by financing activities increased \$51.0 million in the six month period ended September 30, 2012 as compared to the six month period ended September 30, 2011. In the six month period ended September 30, 2012, the \$15.8 million in proceeds from the issuance of debt resulted from the private placement of our 10.5% Senior Notes. In the six month period ended September 30, 2012 we used \$6.6 million for deferred acquisition payments related to the KEMET Foil and KEMET Blue Powder acquisitions and \$1.6 million for debt payments. In the six month period ended September 30, 2011, the significant use of cash related to a restriction that was placed on a portion of our cash balance on August 15, 2011 arising from our potential \$36.5 million principle payment on the Convertible Notes. In addition, in the six month period ended September 30, 2011, we used \$7.2 million for payments related to debt.

Table of Contents**Commitments**

In addition to the contractual obligations disclosed in the Company's 2012 Annual Report, we had contractual obligations related to the OEM Advanced Payment as of September 30, 2012 as follows (amounts in thousands):

| | Payments Due by Period | | | | |
|----------|------------------------|----------|-----------|-----------|-------------------|
| | Total | Year 1 | Years 2-3 | Years 4-5 | More than 5 years |
| OEM loan | \$ 24,000 | \$ 4,000 | \$ 20,000 | \$ | \$ |

Non-U.S. GAAP Financial Measures

To complement our Condensed Consolidated Statements of Operations and Cash Flows, we use non-U.S. GAAP financial measures of Adjusted operating income, Adjusted net income (loss) and Adjusted EBITDA. Management believes that Adjusted operating income, Adjusted net income and Adjusted EBITDA are complements to U.S. GAAP amounts and such measures are useful to investors. The presentation of these non-U.S. GAAP measures is not meant to be considered in isolation or as an alternative to net income as an indicator of our performance, or as an alternative to cash flows from operating activities as a measure of liquidity.

Adjusted operating income is calculated as follows (amounts in thousands):

| | Quarters Ended September 30, | | Six Months Ended September 30, | |
|---|------------------------------|-----------|--------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Operating income (loss) | \$ (14,020) | \$ 24,913 | \$ (18,065) | \$ 65,755 |
| Adjustments: | | | | |
| Restructuring charges | 8,522 | 1,605 | 9,786 | 2,630 |
| Write down of long-lived assets | 4,234 | | 4,234 | |
| ERP integration costs | 2,099 | 1,918 | 3,775 | 3,123 |
| Plant start-up costs | 1,930 | 718 | 3,291 | 718 |
| Stock-based compensation expense | 1,242 | 984 | 2,506 | 2,175 |
| Goodwill impairment | 1,092 | | 1,092 | |
| Acquisition related fees | 866 | | 1,408 | 610 |
| Settlement gain on benefit plan | (1,675) | | (1,675) | |
| Net loss on sales and disposals of assets | (31) | (40) | 73 | 83 |
| Registration related fees | | 77 | 20 | 281 |
| Adjusted operating income | \$ 4,259 | \$ 30,175 | \$ 6,445 | \$ 75,375 |

Edgar Filing: KEMET CORP - Form 10-Q

Table of Contents

Adjusted net income (loss) is calculated as follows (amounts in thousands):

| | Quarters Ended September 30, | | Six Months Ended September 30, | |
|--|------------------------------|-----------|--------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Net income (loss) | \$ (24,921) | \$ 14,318 | \$ (42,674) | \$ 46,167 |
| Adjustments: | | | | |
| Restructuring charges | 8,522 | 1,605 | 9,786 | 2,630 |
| Write down of long-lived assets | 4,234 | | 4,234 | |
| ERP integration costs | 2,099 | 1,918 | 3,775 | 3,123 |
| Plant start-up costs | 1,930 | 718 | 3,291 | 718 |
| Stock-based compensation expense | 1,242 | 984 | 2,506 | 2,175 |
| Goodwill impairment | 1,092 | | 1,092 | |
| Amortization included in interest expense | 954 | 1,012 | 1,924 | 2,056 |
| Acquisition related fees | 866 | | 1,408 | 610 |
| Settlement gain on benefit plan | (1,675) | | (1,675) | |
| Net foreign exchange (gain) loss | (442) | 1,391 | 1,347 | 1,268 |
| Net (gain) loss on sales and disposals of assets | (31) | (40) | 73 | 83 |
| Registration related fees | | 77 | 20 | 281 |
| Income tax impact of adjustments (1) | (90) | 406 | (87) | 390 |
| Adjusted net income (loss) | \$ (6,220) | \$ 22,389 | \$ (14,980) | \$ 59,501 |

(1) The income tax effect of the excluded items is calculated by applying the applicable jurisdictional income tax rate, considering the deferred tax valuation for each applicable jurisdiction.

Adjusted EBITDA is calculated as follows (amounts in thousands):

| | Quarters Ended September 30, | | Six Months Ended September 30, | |
|----------------------------------|------------------------------|-----------|--------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Net income (loss) | \$ (24,921) | \$ 14,318 | \$ (42,674) | \$ 46,167 |
| Adjustments: | | | | |
| Interest expense, net | 10,110 | 7,251 | 20,536 | 14,608 |
| Income tax expense | 1,787 | 2,047 | 3,558 | 3,778 |
| Depreciation and amortization | 11,521 | 11,852 | 23,177 | 23,011 |
| Restructuring charges | 8,522 | 1,605 | 9,786 | 2,630 |
| Write down of long-lived assets | 4,234 | | 4,234 | |
| ERP integration costs | 2,099 | 1,918 | 3,775 | 3,123 |
| Plant start-up costs | 1,930 | 718 | 3,291 | 281 |
| Stock-based compensation expense | 1,242 | 984 | 2,506 | 718 |
| Goodwill impairment | 1,092 | | 1,092 | |
| Acquisition related fees | 866 | | 1,408 | |
| Settlement gain on benefit plan | (1,675) | | (1,675) | |
| Net foreign exchange (gain) loss | (442) | 1,391 | 1,347 | 1,268 |

Edgar Filing: KEMET CORP - Form 10-Q

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Net (gain) loss on sales and disposals of assets | (31) | (40) | 73 | 83 |
| Registration related fees | | 77 | 20 | |
| Adjusted EBITDA | \$ 16,334 | \$ 42,121 | \$ 30,454 | \$ 95,667 |

Adjusted operating income represents operating income, excluding adjustments which are outlined in the quantitative reconciliation provided above. We use Adjusted operating income to facilitate our analysis and understanding of our business operations and believe that Adjusted operating income is useful to investors because it provides a supplemental way to understand our underlying operating performance. Adjusted operating income should not be considered as an alternative to operating income or any other performance measure derived in accordance with U.S. GAAP.

Table of Contents

Adjusted net income represents net income (loss), excluding adjustments which are more specifically outlined in the quantitative reconciliation provided above. We use Adjusted net income to evaluate our operating performance and believe that Adjusted net income is useful to investors because it provides a supplemental way to understand our underlying operating performance. Adjusted net income should not be considered as an alternative to net income (loss), operating income or any other performance measures derived in accordance with U.S. GAAP.

Adjusted EBITDA represents net income (loss) before interest expense, net, income tax expense, and depreciation and amortization expense, adjusted to exclude goodwill impairment, write down of long-lived assets, settlement gain on benefit plan, restructuring charges, plant start-up costs, net foreign exchange gain/loss, stock-based compensation expense, net gain/loss on sales and disposals of assets, ERP integration costs, registration related fees, and acquisition related fees. We present Adjusted EBITDA as a supplemental measure of our performance and ability to service debt. We also present Adjusted EBITDA because we believe such measure is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry.

We believe Adjusted EBITDA is an appropriate supplemental measure of debt service capacity, because cash expenditures on interest are, by definition, available to pay interest, and tax expense is inversely correlated to interest expense because tax expense goes down as deductible interest expense goes up; and depreciation and amortization are non-cash charges. The other items excluded from Adjusted EBITDA are excluded in order to better reflect our continuing operations.

In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses similar to the adjustments noted above. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by these types of adjustments. Adjusted EBITDA is not a measurement of our financial performance under U.S. GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with U.S. GAAP or as an alternative to cash flow from operating activities as a measure of our liquidity.

Our Adjusted EBITDA measure has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under U.S. GAAP. Some of these limitations are:

- it does not reflect our cash expenditures, future requirements for capital expenditures or contractual commitments;
- it does not reflect changes in, or cash requirements for, our working capital needs;
- it does not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and our Adjusted EBITDA measure does not reflect any cash requirements for such replacements;

- it is not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;
- it does not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations;
- it does not reflect limitations on or costs related to transferring earnings from our subsidiaries to us; and
- other companies in our industry may calculate this measure differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business or as a measure of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our U.S. GAAP results and using Adjusted EBITDA only supplementally.

Off-Balance Sheet Arrangements

Other than operating lease commitments, 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.

Table of Contents

Impact of Recently Issued Accounting Standards

New accounting standards adopted

In September 2011, the FASB issued ASU 2011-08, Guidance on Testing Goodwill for Impairment. ASU 2011-08 gives entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit in Step 1 of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that it is more likely than not that the fair value of a reporting unit is not less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be needed. ASU 2011-08 was effective for the Company on April 1, 2012 and did not have a material effect on the Company's financial position.

In December 2011, the FASB issued ASU 2011-12, Comprehensive Income. ASU 2011-12 defers the requirement in ASU 2011-05 that companies present reclassification adjustments for each component of AOCI in both OCI and net income on the face of the financial statements. ASU 2011-12 requires companies to continue to present amounts reclassified out of AOCI on the face of the financial statements or disclosed in the notes to the financial statements. ASU 2011-12 also defers the requirement to report reclassification adjustments in interim periods and requires companies to present only total comprehensive income in either a single continuous statement or two consecutive statements in interim periods. ASU 2011-05 and ASU 2011-12 was effective for the Company on April 1, 2012 and did not have a material effect on the Company's financial position.

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material changes regarding the Company's market risk position from the information included in the Company's 2012 Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of September 30, 2012, an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure

controls and procedures are effective to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

We are in the process of implementing Oracle EBS on a worldwide basis. This software implementation project has resulted in changes in our business processes and related internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act). Management will continue to monitor, evaluate and update the related processes and internal controls as necessary during the post implementation period to ensure adequate internal control over financial reporting.

Other than the change described above, there has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1. Legal Proceedings

At any one time we or our subsidiaries may be party to one or more lawsuits arising out of our respective operations, including customer warranty or negligence claims, workers' compensation claims and/or work place safety claims. 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.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A, of the Company's 2012 Annual Report.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

Exhibit 31.1 Rule 13a-14(a)/15d-14(a) Certification - Principal Executive Officer

Exhibit 31.2 Rule 13a-14(a)/15d-14(a) Certification - Principal Financial Officer

Exhibit 32.1 Section 1350 Certification - Principal Executive Officer

Exhibit 32.2 Section 1350 Certification - Principal Financial Officer

Exhibit 101 The following financial information from KEMET Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2012 and 2011, (ii) Condensed Consolidated Balance Sheets at September 30, 2012 and March 31, 2012, (iii) Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2012 and 2011, and (iv) the Notes to Condensed Consolidated Financial Statements.

*The Registrant has long-term debt but has not filed the instruments evidencing such debt as part of Exhibit 4 as none of such instruments authorize the issuance of debt exceeding 10 percent of the total consolidated assets of the Registrant. The Registrant agrees to furnish a copy of each such agreement to the Securities and Exchange Commission upon request.

SIGNATURE

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

Date: November 9, 2012

KEMET Corporation

/s/ WILLIAM M. LOWE, JR.

William M. Lowe, Jr.

Executive Vice President and Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

(Duly Authorized Officer)

Table of Contents

EXHIBIT INDEX

Exhibit 31.1 Rule 13a-14(a)/15d-14(a) Certification - Principal Executive Officer

Exhibit 31.2 Rule 13a-14(a)/15d-14(a) Certification - Principal Financial Officer

Exhibit 32.1 Section 1350 Certification - Principal Executive Officer

Exhibit 32.2 Section 1350 Certification - Principal Financial Officer

Exhibit 101 The following financial information from KEMET Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2012 and 2011, (ii) Condensed Consolidated Balance Sheets at September 30, 2012 and March 31, 2012, (iii) Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2012 and 2011, and (iv) the Notes to Condensed Consolidated Financial Statements.

*The Registrant has long-term debt but has not filed the instruments evidencing such debt as part of Exhibit 4 as none of such instruments authorize the issuance of debt exceeding 10 percent of the total consolidated assets of the Registrant. The Registrant agrees to furnish a copy of each such agreement to the Securities and Exchange Commission upon request.