

KEMET CORP  
Form 10-Q  
February 03, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended December 31, 2011

**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

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(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**2835 KEMET WAY, SIMPSONVILLE, SOUTH CAROLINA 29681**

(Address of principal executive offices, zip code)

**(864) 963-6300**

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer o

Accelerated filer x

Non-accelerated filer o

Smaller reporting company o

(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). o YES x NO

The number of shares outstanding of the registrant's common stock, par value \$0.01 per share, as of January 30, 2012 was 44,658,542.

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**KEMET CORPORATION AND SUBSIDIARIES**

**Form 10-Q for the Quarter Ended December 31, 2011**

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	<b>December 31, 2011 (Unaudited)</b>	<b>March 31, 2011</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 136,049	\$ 152,051
Accounts receivable, net	102,432	150,370
Inventories, net	212,118	206,440
Prepaid expenses and other	23,536	28,097
Deferred income taxes	4,027	5,301
Total current assets	478,162	542,259
Property and equipment, net of accumulated depreciation of \$770,259 and \$740,773 as of December 31, 2011 and March 31, 2011, respectively	290,045	310,412
Goodwill and intangible assets, net	20,479	20,092
Other assets	12,993	11,546
Total assets	\$ 801,679	\$ 884,309
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 1,219	\$ 42,101
Accounts payable	71,072	90,997
Accrued expenses	65,073	88,291
Income taxes payable	4,239	4,265
Total current liabilities	141,603	225,654
Long-term debt, less current portion	229,847	231,215
Other non-current obligations	58,113	59,727
Deferred income taxes	6,894	7,960
Stockholders' equity:		
Preferred stock, par value \$0.01, authorized 10,000 shares, none issued		
Common stock, par value \$0.01, authorized 175,000 and 300,000 shares, issued 46,508 and 39,508 shares, at December 31, 2011 and March 31, 2011, respectively	465	395
Additional paid-in capital	468,646	479,322
Retained deficit	(69,349)	(87,745)
Accumulated other comprehensive income	8,305	22,555
Treasury stock, at cost (1,854 and 2,370 shares at December 31, 2011 and March 31, 2011, respectively)	(42,845)	(54,774)
Total stockholders' equity	365,222	359,753
Total liabilities and stockholders' equity	\$ 801,679	\$ 884,309

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See accompanying notes to the unaudited condensed consolidated financial statements.

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(Amounts in thousands, except per share data)

(Unaudited)

	Quarters Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
Net sales	\$ 218,795	\$ 264,654	\$ 774,165	\$ 757,036
Operating costs and expenses:				
Cost of sales	178,305	192,132	592,128	553,888
Selling, general and administrative expenses	24,737	27,453	83,368	76,667
Research and development	7,172	6,947	21,620	19,202
Restructuring charges	10,748	1,102	13,378	5,197
Write down of long-lived assets	15,786		15,786	
Net (gain) loss on sales and disposals of assets	9	29	92	(1,406)
Total operating costs and expenses	236,757	227,663	726,372	653,548
Operating income (loss)	(17,962)	36,991	47,793	103,488
Other (income) expense:				
Interest income	(62)	(28)	(136)	(133)
Interest expense	7,036	7,756	21,718	22,548
Other (income) expense, net	716	1,471	1,918	(1,647)
Loss on early extinguishment of debt				38,248
Income (loss) before income taxes	(25,652)	27,792	24,293	44,472
Income tax expense	2,119	625	5,897	2,493
Net income (loss)	\$ (27,771)	\$ 27,167	\$ 18,396	\$ 41,979
Net income (loss) per share:				
Basic	\$ (0.62)	\$ 0.96	\$ 0.43	\$ 1.53
Diluted	\$ (0.62)	\$ 0.52	\$ 0.35	\$ 0.82
Weighted-average shares outstanding:				
Basic	44,644	28,295	42,834	27,464
Diluted	44,644	51,960	52,302	51,124

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)**

	<b>Nine Months Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Sources (uses) of cash and cash equivalents</b>		
<b>Operating activities:</b>		
Net income	\$ 18,396	\$ 41,979
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33,384	41,303
Write down of long-lived assets	15,786	
Amortization of debt discount and debt issuance costs	2,903	3,964
Net (gain) loss on sales and disposals of assets	92	(1,406)
Stock-based compensation expense	1,378	911
Change in deferred income taxes	909	(1,186)
Change in operating assets	46,330	(64,485)
Change in operating liabilities	(48,116)	17,658
Other	841	(1,885)
Loss on early extinguishment of debt		38,248
Net cash provided by operating activities	71,903	75,101
<b>Investing activities:</b>		
Capital expenditures	(31,793)	(19,559)
Acquisition, net of cash received	(11,584)	
Proceeds from sales of assets		5,425
Net cash used in investing activities	(43,377)	(14,134)
<b>Financing activities:</b>		
Proceeds from issuance of debt		227,525
Payments of long-term debt	(40,581)	(230,300)
Net payments under other credit facilities	(3,153)	(2,626)
Proceeds from exercise of stock options	225	21
Debt issuance costs	(36)	(7,750)
Debt extinguishment costs		(207)
Net cash used in financing activities	(43,545)	(13,337)
Net increase (decrease) in cash and cash equivalents	(15,019)	47,630
Effect of foreign currency fluctuations on cash	(983)	943
Cash and cash equivalents at beginning of fiscal period	152,051	79,199
Cash and cash equivalents at end of fiscal period	\$ 136,049	\$ 127,772

See accompanying notes to the unaudited condensed consolidated financial statements.





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**Notes to Condensed Consolidated Financial Statements**

**Note 1. Basis of Financial Statement Presentation**

The condensed consolidated financial statements contained herein are unaudited and have been prepared from the books and records of KEMET Corporation and its subsidiaries ( KEMET or the Company ). In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q, and therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles ( U.S. GAAP ). Although the Company believes 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 fiscal year ended March 31, 2011, Form 10-K (the Company s 2011 Annual Report ).

Net sales and operating results for the three and nine months ended December 31, 2011 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 2011 Annual Report.

***Recently Issued Accounting Pronouncements***

*New accounting standards adopted*

There were no accounting standards adopted in the nine month period ended December 31, 2011.

*New accounting standards issued but not yet adopted*

In June 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2011-05, Presentation of Comprehensive Income. ASU 2011-05 revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in Accounting Standards Codification ( ASC ) 220, Comprehensive Income, and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The ASU does not change the items that must be reported in other comprehensive income. In December 2011, the

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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 will be effective for fiscal years and interim reporting periods within those years beginning after December 15, 2011.

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 the fair value of a reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be needed. ASU 2011-08 will be effective for fiscal and interim reporting periods within those years beginning after December 15, 2011.

The adoption of these accounting standards will not have a material effect on the Company's consolidated financial statements. 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

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money if a valid claim against the bank guarantee is made. The bank guarantee will remain valid until it is discharged by the beneficiary. Restricted cash of \$2.1 million and \$2.3 million is included in the line item "Other assets" on the Condensed Consolidated Balance Sheets as of December 31, 2011 and March 31, 2011, respectively.

***Warrant Liability***

Concurrent with the consummation of the tender offer as discussed in Note 2, "Debt", the Company issued K Financing, LLC ("K Financing") a warrant (the "Platinum Warrant") to purchase up to 26.8 million shares of the Company's common stock, subject to certain adjustments, representing, at the time of issuance, approximately 49.9% of the Company's outstanding common stock on a post-Platinum Warrant basis. The Platinum Warrant was subsequently transferred to K Equity, LLC ("K Equity"). The Platinum Warrant was exercisable at a purchase price of \$1.05 per share.

On December 20, 2010, in connection with a secondary offering in which K Equity was the selling security holder, K Equity exercised a portion of the Platinum Warrant representing the right to purchase 10.9 million shares of the Company's common stock to the underwriters of the secondary offering, who exercised their full portion of the warrant at a price of \$12.80 per share in a cashless exercise and received a net settlement of 10.0 million shares of the Company's common stock. These shares were sold as part of the secondary offering and KEMET did not receive any of the proceeds from the transaction. K Equity retained the remaining portion of the warrant.

On May 31, 2011, K Equity sold a portion of the Platinum Warrant to Deutsche Bank Securities Inc., in connection with the offering of 7.0 million shares of the Company's common stock, at a public offering price of \$14.60 per share. This transaction resulted in a 7.5 million share reduction to the outstanding warrants due to K Equity's cashless exercise. K Equity retains the remaining portion of the warrant, representing the right to purchase 8.4 million shares of the Company's common stock.

***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.

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- 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 measured at fair value on a recurring basis as of December 31, 2011 and March 31, 2011 are as follows (amounts in thousands):

	Fair Value		Fair Value Measurement Using			Fair Value		Fair Value Measurement Using			
	December 31, 2011		Level 1	Level 2 (2)	Level 3	March 31, 2011		Level 1	Level 2 (2)	Level 3	
<b>Assets:</b>											
Money markets (1)	\$	26,203	\$	26,203	\$	\$	51,157	\$	51,157	\$	
Debt		252,025		248,860			307,543		301,379		6,164

(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.

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***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. Products with customer specific requirements are tested and approved by the customer before the Company mass produces and ships the product. 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 nine month periods ended December 31, 2011 and 2010. The Company recognizes warranty costs when they are both probable and reasonably estimable.

***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***

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

	December 31, 2011		March 31, 2011	
Raw materials and supplies	\$	80,346	\$	78,913
Work in process		73,912		78,681
Finished goods		75,052		64,310
		229,310		221,904
Inventory reserves		(17,192)		(15,464)
Total inventory	\$	212,118	\$	206,440

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

	<b>December 31, 2011</b>	<b>March 31, 2011</b>
10.5% Senior Notes, net of discount of \$2,584 and \$2,792 as of December 31, 2011 and March 31, 2011, respectively	\$ 227,416	\$ 227,208
Convertible Notes, net of discount of \$1,569 as of March 31, 2011		39,012
Other	3,650	7,096
Total debt	231,066	273,316
Current maturities	(1,219)	(42,101)
Total long-term debt	\$ 229,847	\$ 231,215

The line item Interest expense on the Condensed Consolidated Statements of Operations for the quarters and nine months ended December 31, 2011 and 2010, is as follows (amounts in thousands):

	<b>Quarters Ended December 31,</b>		<b>Nine Months Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Contractual interest expense	\$ 6,189	\$ 6,546	\$ 18,815	\$ 18,584
Amortization of debt issuance costs	274	262	829	867
Amortization of debt discount	573	948	2,074	3,097
Total interest expense	\$ 7,036	\$ 7,756	\$ 21,718	\$ 22,548

**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). The private placement of the 10.5% Senior Notes resulted in proceeds to the Company of \$222.2 million. The Company used a portion of the proceeds of the private placement to repay all of the outstanding indebtedness under a credit facility with K Financing, a EUR 60 million credit facility and a EUR 35 million credit facility with UniCredit Corporate Banking S.p.A. (UniCredit) and a term loan with a subsidiary of Vishay Intertechnology, Inc. The Company used a portion of the remaining proceeds to fund a previously announced tender offer to purchase \$40.5 million in aggregate principal amount of the 2.25% Convertible Senior Notes and to pay costs incurred in connection with the private placement, the tender offer and the foregoing repayments. Debt issuance costs related to the 10.5% Senior Notes, net of amortization, were \$5.6 million as of December 31, 2011; these costs are being amortized over the term of the 10.5% Senior Notes.

On October 26, 2010, the Company filed a Form S-4 to offer, in exchange for the outstanding 10.5% Senior Notes due 2018 (Old Notes), up to \$230.0 million in aggregate principal amount of 10.5% Senior Notes due 2018 and the guarantees thereof which had been registered under the Securities Act of 1933, as amended. The Form S-4 was declared effective on December 14, 2010 and on January 13, 2011 the Company completed the exchange for all of the Old 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 \$4.0 million and \$10.1 million at December 31, 2011 and March 31, 2011, 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 \$1.0 million and \$1.3 million as of December 31, 2011 and March 31, 2011, respectively. These costs are being amortized over the term of the Loan and Security Agreement. There were no borrowings against the Loan and Security Agreement as of December 31, 2011 or March 31, 2011.



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*Convertible Notes*

In November 2006, the Company sold and issued its 2.25% Convertible Senior Notes due 2026 (the "Convertible Notes") which are unsecured obligations and rank equally with the Company's existing and future unsubordinated and unsecured obligations and are junior to any of the Company's future secured obligations to the extent of the value of the collateral securing such obligations. In connection with the issuance and sale of the Convertible Notes, the Company entered into an indenture (the "Convertible Notes Indenture") dated as of November 1, 2006, with Wilmington Trust Company, as trustee.

The Convertible Notes bore interest at a rate of 2.25% per annum, payable in cash semi-annually in arrears on each May 15 and November 15. The Convertible Notes were convertible into (i) cash in an amount equal to the lesser of the principal amount of the Convertible Notes and the conversion value of the Convertible Notes on the conversion date and (ii) cash or shares of the Company's common stock ("Common Stock") or a combination of cash and shares of the Common Stock, at the Company's option, to the extent the conversion value at that time exceeded the principal amount of the Convertible Notes, at any time prior to the close of business on the business day immediately preceding the maturity date of the Convertible Notes, unless the Company had redeemed or purchased the Convertible Notes, subject to certain conditions. The conversion rate was 34.364 shares of common stock per \$1,000 principal amount of the Convertible Notes, which represented a conversion price of approximately \$29.10 per share, subject to adjustments.

The terms of the Convertible Notes were governed by the Convertible Notes Indenture. The Convertible Notes were to mature on November 15, 2026 unless earlier redeemed, repurchased or converted. The Company was entitled to redeem the Convertible Notes for cash, either in whole or in part, any time after November 20, 2011 at a redemption price equal to 100% of the principal amount of the Convertible Notes to be redeemed plus accrued and unpaid interest, including additional interest, if any, up to but not including the date of redemption. In addition, holders of the Convertible Notes had the right to require the Company to repurchase for cash all or a portion of their Convertible Notes on November 15, 2011, 2016 and 2021, at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased plus accrued and unpaid interest, if any, in each case, up to but not including, the date of repurchase.

On November 15, 2011, holders of the Convertible Notes exercised their right to require the Company to repurchase their Convertible Notes, as such, \$36.5 million of Convertible Notes were extinguished at 100% of the principal amount of the Convertible Notes plus accrued and unpaid interest.

On May 17, 2010, \$40.5 million in aggregate principal amount of the Convertible Notes was extinguished. The extinguishment resulted in \$1.6 million loss on early extinguishment of debt. The calculation of the loss is as follows (amounts in thousands):

Reacquisition price:		
Cash paid	\$	37,867
Tender offer fees		207
		38,074
Extinguished debt:		
Carrying amount of debt		36,770
Unamortized debt cost		(248)
		36,522
Net loss	\$	(1,552)

*Platinum Credit Facility*

On May 5, 2009, the Company executed a credit facility with K Financing, an affiliate of Platinum Equity Capital Partners II, L.P. (the Platinum Credit Facility). The Platinum Credit Facility consisted of a term loan of \$37.8 million ( Platinum Term Loan ), a line of credit loan ( Platinum Line of Credit Loan ) that could be borrowed from time to time (but not reborrowed after being repaid) of up to \$12.5 million and a working capital loan ( Platinum Working Capital Loan ) of up to \$12.5 million. On May 5, 2010, the Company applied a portion of the proceeds of the 10.5% Senior Notes to extinguish the Platinum Term Loan, the Platinum Line of Credit Loan, and the Platinum Working Capital Loan. The extinguishment of the Platinum Credit Facility resulted in a \$33.3 million loss on early extinguishment of debt due to the significant debt discount allocated to the Platinum Credit Facility upon issuance.

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The calculation of the loss is as follows (amounts in thousands):

Reacquisition price:		
Cash paid	\$	57,861
Success fee		5,000
		62,861
Extinguished debt:		
Carrying amount of debt		32,135
Carrying amount of success fee		2,001
Unamortized debt cost		(4,619)
		29,517
Net loss	\$	(33,344)

***UniCredit Credit Facility***

As of March 31, 2010, the Company had two Senior Facility Agreements outstanding with UniCredit. As of March 31, 2010, Facility A had EUR 53.2 million (\$71.7 million) outstanding and Facility B had EUR 33.0 million (\$44.5 million) outstanding.

On May 5, 2010, the Company applied a portion of the proceeds of the 10.5% Senior Notes to extinguish Facility A and Facility B. The extinguishment resulted in a \$3.4 million loss on early extinguishment of debt. The calculation of the loss is as follows (amounts in thousands):

Reacquisition price:		
Cash paid	\$	104,683
Extinguished debt:		
Carrying amount of debt		104,674
Unamortized debt cost		(3,343)
		101,331
Net loss	\$	(3,352)

**Note 3. Impairment Charges**

During the third quarter of fiscal year 2012, the Company incurred impairment charges totaling \$15.8 million related to its Tantalum Business Group ( Tantalum ). Due to customer demands for lower Equivalent Series Resistance ( ESR ) capacitors the Company evaluated the costs it would need to incur in order to modify the product line in Evora, Portugal to enable it to produce lower ESR capacitors. Based on this evaluation, the Company has idled equipment with a net carrying value of \$15.8 million and plans to dispose of the equipment. The impairment amount of \$15.8 million was the carrying amount of the equipment less the scrap value net of disposal costs. The impairment charge is recorded on the Condensed Consolidated Statements of Operations line item Write down of long-lived assets in the three and nine months ended December 31, 2011.

**Note 4. Restructuring Charges**

A summary of the expenses aggregated on the Condensed Consolidated Statements of Operations line item *Restructuring charges* in the quarters and nine months ended December 31, 2011 and 2010, is as follows (amounts in thousands):

	Quarter Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
Manufacturing relocation costs	\$ 261	\$ 1,176	\$ 1,646	\$ 4,256
Personnel reduction costs	10,487	(74)	11,732	941
Restructuring charges	\$ 10,748	\$ 1,102	\$ 13,378	\$ 5,197

*Nine months Ended December 31, 2011*

In the second quarter of fiscal year 2010, the Company initiated the first phase of a plan to restructure the Film and Electrolytic Business Group ( *Film and Electrolytic* ) and to reduce overhead within the Company as a whole. The restructuring plan

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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 nine months ended December 31, 2011 relate to this plan and are primarily comprised of termination benefits of \$6.1 million related to facility closures in Italy that will commence during fiscal year 2013 and the Company incurred charges of \$4.5 million to participate in a plan to save labor costs whereby a company may temporarily lay off employees while the government continues to pay their wages for a certain period of time. These charges are a continuation of the Company's efforts to restructure its manufacturing operations within Europe, primarily within Film and Electrolytic. Construction has commenced on a new manufacturing facility in Pontecchio, Italy, that will allow the closure and consolidation of multiple manufacturing operations located in Italy. In addition, the Company incurred \$1.2 million in personnel reduction costs primarily due to headcount reductions in the Mexican operations of Tantalum. In addition to these personnel reduction costs, the Company incurred manufacturing relocation costs of \$1.6 million for relocation of equipment to China and Mexico.

*Nine months Ended December 31, 2010*

Restructuring expenses in the nine months ended December 31, 2010 are primarily comprised of manufacturing relocation costs of \$4.3 million for relocation of equipment from various plants to Mexico and China as well as a distribution center relocation project. In addition, the Company incurred \$0.9 million in personnel reduction costs due primarily to headcount reductions for twelve individuals at the upper management or executive level related to the Company's initiative to reduce overhead within the Company as a whole.

*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):

	Quarter Ended December 31, 2011		Nine Months Ended December 31, 2011	
	Personnel Reductions	Manufacturing Relocations	Personnel Reductions	Manufacturing Relocations
Beginning of period	\$ 1,121	\$	\$ 1,825	\$
Costs charged to expense	10,487	261	11,732	1,646
Costs paid or settled	(617)	(261)	(2,521)	(1,646)
Change in foreign exchange	(390)		(435)	
End of period	\$ 10,601	\$	\$ 10,601	\$

	Quarter Ended December 31, 2010		Nine Months Ended December 31, 2010	
	Personnel Reductions	Manufacturing Relocations	Personnel Reductions	Manufacturing Relocations
Beginning of period	\$ 6,739	\$	\$ 8,398	\$
Costs charged to expense	(74)	1,176	941	4,256
Costs paid or settled	(1,418)	(1,176)	(4,188)	(4,256)
Change in foreign exchange	(161)		(65)	
End of period	\$ 5,086	\$	\$ 5,086	\$



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Comprehensive income for the quarters and nine months ended December 31, 2011 and 2010 includes the following components (amounts in thousands):

	Quarters Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
Net income (loss)	\$ (27,771)	\$ 27,167	\$ 18,396	\$ 41,979
Amortization of postretirement benefit plan	(82)	(80)	(243)	(230)
Amortization of defined benefit pension plans	118	59	334	171
Currency translation gain (1)	(5,854)	(2,432)	(14,341)	2,736
Net comprehensive income (loss)	\$ (33,589)	\$ 24,714	\$ 4,146	\$ 44,656

(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 nine month periods ended December 31, 2011 and December 31, 2010.

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

	December 31, 2011		March 31, 2011	
Foreign currency translation gain	\$ 12,735	\$ 27,076		
Defined benefit postretirement plan adjustments	1,868	2,111		
Defined benefit pension plans	(6,298)	(6,632)		
Accumulated other comprehensive income	\$ 8,305	\$ 22,555		

**Note 6. Goodwill and Intangible Assets**

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 or minus an adjustment amount, of which \$11.6 million (net of cash received) was paid at closing and \$1.0 million is to be paid on each of the first, second and third anniversaries of the closing date. The Company recorded goodwill of \$1.1 million and amortizable intangibles of \$1.7 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) include the trained workforce. Pro forma results are not presented because the acquisition was not material.

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

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	December 31, 2011		March 31, 2011	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
<b><u>Indefinite Lived Intangibles:</u></b>				
Goodwill	\$ 1,092	\$	\$	\$
Trademarks	7,644		7,644	
Unamortized intangibles	8,736		7,644	