

KEMET CORP  
Form 10-Q  
August 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 June 30, 2012

**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  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 July 31, 2012 was 44,907,420.

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**KEMET CORPORATION AND SUBSIDIARIES**

**Form 10-Q for the Quarter Ended June 30, 2012**

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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)**

|   | <b>June 30,<br/>2012<br/>(Unaudited)</b> | <b>March 31, 2012</b> |
|---|--|-----------------------|
| <b>ASSETS</b>   |  |                       |
| Current assets:   |  |                       |
| Cash and cash equivalents   | \$ 187,846                               | \$ 210,521            |
| Accounts receivable, net  | 106,168                                  | 104,950               |
| Inventories, net  | 216,303                                  | 212,234               |
| Prepaid expenses and other  | 34,460                                   | 32,259                |
| Deferred income taxes   | 6,958                                    | 6,370                 |
| Total current assets  | 551,735                                  | 566,334               |
| Property and equipment, net of accumulated depreciation of \$765,629 and \$761,522 as of June 30, 2012 and March 31, 2012, respectively | 310,586                                  | 315,848               |
| Goodwill  | 36,676                                   | 36,676                |
| Intangible assets, net  | 40,402                                   | 41,527                |
| Other assets  | 17,371                                   | 15,167                |
| Total assets  | \$ 956,770                               | \$ 975,552            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |  |                       |
| Current liabilities:  |  |                       |
| Current portion of long-term debt   | \$ 1,535                                 | \$ 1,951              |
| Accounts payable  | 86,556                                   | 74,404                |
| Accrued expenses  | 69,834                                   | 89,079                |
| Income taxes payable  | 2,186                                    | 2,256                 |
| Total current liabilities   | 160,111                                  | 167,690               |
| Long-term debt, less current portion  | 359,751                                  | 345,380               |
| Other non-current obligations   | 96,890                                   | 101,229               |
| Deferred income taxes   | 5,448                                    | 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 June 30, 2012 and March 31, 2012                     | 465                                      | 465                   |
| Additional paid-in capital  | 465,685                                  | 470,059               |
| Retained deficit  | (98,806)                                 | (81,053)              |
| Accumulated other comprehensive income  | 4,227                                    | 12,020                |
| Treasury stock, at cost (1,601 and 1,839 shares at June 30, 2012 and March 31, 2012, respectively)                                      | (37,001)                                 | (42,495)              |
| Total stockholders' equity  | 334,570                                  | 358,996               |
| Total liabilities and stockholders' equity  | \$ 956,770                               | \$ 975,552            |

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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)**

|  | <b>Quarters Ended June 30,</b> |             |
|--|--------------------------------|-------------|
|  | <b>2012</b>                    | <b>2011</b> |
| Net sales                                    | \$ 223,632                     | \$ 289,856  |
| Operating costs and expenses:                |                                |             |
| Cost of sales                                | 191,321                        | 210,504     |
| Selling, general and administrative expenses | 27,255                         | 30,276      |
| Research and development                     | 7,733                          | 7,086       |
| Restructuring charges                        | 1,264                          | 1,025       |
| Net loss on sales and disposals of assets    | 104                            | 123         |
| Total operating costs and expenses           | 227,677                        | 249,014     |
| Operating income (loss)                      | (4,045)                        | 40,842      |
| Other (income) expense:                      |                                |             |
| Interest income                              | (31)                           | (43)        |
| Interest expense                             | 10,457                         | 7,400       |
| Other (income) expense, net                  | 1,511                          | (95)        |
| Income (loss) before income taxes            | (15,982)                       | 33,580      |
| Income tax expense                           | 1,771                          | 1,731       |
| Net income (loss)                            | \$ (17,753)                    | \$ 31,849   |
| Net income (loss) per share:                 |                                |             |
| Basic  | \$ (0.40)                      | \$ 0.81     |
| Diluted                                      | \$ (0.40)                      | \$ 0.61     |
| Weighted-average shares outstanding:         |                                |             |
| Basic  | 44,808                         | 39,452      |
| Diluted                                      | 44,808                         | 52,338      |

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)**

|  | <b>Quarters Ended June 30,</b> |             |
|--|--------------------------------|-------------|
|  | <b>2012</b>                    | <b>2011</b> |
| Net income (loss)                                | \$ (17,753)                    | \$ 31,849   |
| Other comprehensive income (loss):               |                                |             |
| Foreign currency translation gains (losses)      | (7,966)                        | 3,105       |
| Defined benefit pension plans, net of tax impact | 102                            | 115         |
| Defined benefit post-retirement plan adjustments | 71                             | (71)        |
| Other comprehensive income (loss)                | (7,793)                        | 3,149       |
| Total comprehensive income (loss)                | \$ (25,546)                    | \$ 34,998   |

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)**

|  | Quarters Ended |               |
|--|----------------|---------------|
|  | June 30, 2012  | June 30, 2011 |
| Net income (loss)  | \$ (17,753)    | \$ 31,849     |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                |               |
| Depreciation and amortization  | 11,656         | 11,159        |
| Amortization of debt discount and debt issuance costs  | 971            | 1,044         |
| Net loss on sales and disposals of assets  | 104            | 123           |
| Stock-based compensation expense   | 1,264          | 1,191         |
| Change in deferred income taxes  | 122            | 270           |
| Change in operating assets   | (12,029)       | (21,298)      |
| Change in operating liabilities  | (5,490)        | (19,193)      |
| Other  | (52)           | 183           |
| Net cash provided by (used in) operating activities  | (21,207)       | 5,328         |
| Investing activities:  |                |               |
| Capital expenditures   | (13,101)       | (5,738)       |
| Acquisition, net of cash received  | (1,439)        | (11,584)      |
| Net cash used in investing activities  | (14,540)       | (17,322)      |
| Financing activities:  |                |               |
| Proceeds from issuance of debt   | 15,825         |               |
| Payments of long-term debt   | (1,576)        | (3,015)       |
| Net borrowings (payments) under other credit facilities  |                | (3,081)       |
| Proceeds from exercise of stock options  | 41             | 16            |
| Debt issuance costs  | (275)          | (29)          |
| Net cash provided by (used in) financing activities  | 14,015         | (6,109)       |
| Net decrease in cash and cash equivalents  | (21,732)       | (18,103)      |
| Effect of foreign currency fluctuations on cash  | (943)          | 50            |
| Cash and cash equivalents at beginning of fiscal period  | 210,521        | 152,051       |
| Cash and cash equivalents at end of fiscal period  | \$ 187,846     | \$ 133,998    |

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 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 months ended June 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 June 30, 2012 and March 31, 2012 are as follows (amounts in thousands):

|                   | Carrying Value June 30, 2012 | Fair Value June 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 |
| <b>Assets:</b>    |                              |                          |                              |             |         |                               |                           |                              |             |         |
| Money markets (1) | \$ 26,227                    | \$ 26,227                | \$ 26,227                    | \$          | \$      | \$ 26,215                     | \$ 26,215                 | \$ 26,215                    | \$          | \$      |
| Long-term debt    | 361,286                      | 369,349                  | 367,425                      | 1,924       |         | 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 ended June 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):

|                            | June 30,<br>2012 |    | March 31,<br>2012 |
|----------------------------|------------------|----|-------------------|
| Raw materials and supplies | \$ 86,673        | \$ | 86,845            |
| Work in process            | 82,513           |    | 72,411            |
| Finished goods             | 64,343           |    | 70,122            |
|                            | 233,529          |    | 229,378           |
| Inventory reserves         | (17,226)         |    | (17,144)          |
|                            | \$ 216,303       | \$ | 212,234           |

**Note 2. Debt**

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

|  | June 30,<br>2012 |    | March 31,<br>2012 |
|--|------------------|----|-------------------|
| 10.5% Senior Notes, net of premium of \$4,210 and \$3,539 as of June 30, 2012 and March 31, 2012, respectively | \$ 359,210       | \$ | 343,539           |
| Other  | 2,076            |    | 3,792             |
| Total debt   | 361,286          |    | 347,331           |
| Current maturities   | (1,535)          |    | (1,951)           |
| Total long-term debt   | \$ 359,751       | \$ | 345,380           |

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

|   | Quarters Ended June 30, |        |    |       |
|---|-------------------------|--------|----|-------|
|   |                         | 2012   |    | 2011  |
| Contractual interest expense                        | \$                      | 9,486  | \$ | 6,356 |
| Amortization of debt issuance costs                 |                         | 426    |    | 276   |
| Amortization of debt (premium) discount             |                         | (153)  |    | 656   |
| Imputed interest on acquisition related obligations |                         | 698    |    | 112   |
|   | \$                      | 10,457 | \$ | 7,400 |

### *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

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additional notes under the indenture, dated May 5, 2010, among the Company, the guarantors party thereto and Wilmington Trust Company, as trustee. Debt issuance costs related to the 10.5% Senior Notes, net of amortization, were \$7.7 million as of June 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 June 30, 2012 were \$4.2 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 \$6.2 million and \$14.7 million at June 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 \$0.9 million as of June 30, 2012 and March 31, 2012. 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 June 30, 2012 and March 31, 2012.

**Note 3. Restructuring Charges**

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

|  | Quarters Ended June 30, |       |      |       |
|--|-------------------------|-------|------|-------|
|  | 2012                    |       | 2011 |       |
| Cost of relocating manufacturing equipment | \$                      | 146   | \$   | 747   |
| Personnel reduction costs                  |                         | 1,118 |      | 278   |
|  | \$                      | 1,264 | \$   | 1,025 |

*Quarter Ended June 30, 2012*

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In 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 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 quarter ended June 30, 2012 relate to this plan and are primarily comprised of termination benefits associated with converting the Weymouth, United Kingdom manufacturing facility into a technology center. The total termination benefits expected for this conversion are \$2.6 million and are expected to be completed in the third quarter of fiscal year 2014. In addition to these personnel reduction costs, the Company incurred manufacturing relocation costs of \$0.2 million for relocation of equipment to China and Macedonia.

### *Quarter Ended June 30, 2011*

Restructuring charges in the quarter ended June 30, 2011 were primarily comprised of manufacturing relocation costs of \$0.7 million for relocation of equipment from Italy to Mexico and China. In addition, the Company incurred \$0.3 million in personnel reduction costs due primarily to headcount reductions related to the Company's initiative to reduce overhead within the Company as a whole.



Table of Contents*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 June 30, 2012 |                              | Quarter Ended June 30, 2011 |                              |
|-------------------------------|-----------------------------|------------------------------|-----------------------------|------------------------------|
|                               | Personnel<br>Reductions     | Manufacturing<br>Relocations | Personnel<br>Reductions     | Manufacturing<br>Relocations |
| Beginning of period           | \$ 11,474                   | \$                           | \$ 1,827                    | \$                           |
| Costs charged to expense      | 1,118                       | 146                          | 278                         | 747                          |
| Costs paid or settled         | (803)                       | (146)                        | (377)                       | (747)                        |
| Change in foreign<br>exchange | (605)                       |                              | 23                          |                              |
| End of period                 | \$ 11,184                   | \$                           | \$ 1,751                    | \$                           |

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

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

|   | Quarter Ended June 30, |           |
|---|------------------------|-----------|
|   | 2012                   | 2011      |
| Net income (loss)                             | \$ (17,753)            | \$ 31,849 |
| Currency translation gain (loss)(1)           | (7,966)                | 3,105     |
| Amortization of defined benefit pension plans | 102                    | 115       |
| Amortization of postretirement benefit plan   | 71                     | (71)      |
|   | \$ (25,546)            | \$ 34,998 |

(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 ended June 30, 2012 and 2011.

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

|   | June 30, 2012 | March 31, 2012 |
|---|---------------|----------------|
| Foreign currency translation gain               | \$ 10,141     | \$ 18,107      |
| Defined benefit postretirement plan adjustments | 2,066         | 1,995          |
| Defined benefit pension plans                   | (7,980)       | (8,082)        |
|   | \$ 4,227      | \$ 12,020      |

**Note 5. 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 ( KEMET Foil )), 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) include 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.

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The total discounted purchase price for KEMET Foil was \$15.3 million and is comprised of (amounts in thousands):

|                                |    |        |
|--------------------------------|----|--------|
| Cash at closing                | \$ | 12,000 |
| Deferred payments (discounted) |    | 2,815  |
| Working capital adjustment     |    | 526    |
|                                | \$ | 15,341 |

The purchase price was determined through arms-length negotiations between representatives of the Company and Cornell Dubilier Marketing, Inc.

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

|                               | <b>Fair Value</b> |
|-------------------------------|-------------------|
| Cash                          | \$ 416            |
| Accounts receivable           | 2,577             |
| Inventories                   | 3,382             |
| Other current assets          | 84                |
| Property, plant and equipment | 9,534             |
| Goodwill                      | 1,092             |
| Intangible assets             | 1,660             |
| Current liabilities           | (3,404)           |
| Total net assets acquired     | \$ 15,341         |

### *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 which was paid in April 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 as it is paid to the selling shareholder who is not continuing with Blue Powder, was based solely on the negotiation process and now KEMET 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 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 Niotan's tantalum powder, the Company's cost savings due to vertical integration and it provides 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 the Tantalum Business Group ( 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.

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

|                               | <b>Fair Value</b> |
|-------------------------------|-------------------|
| Cash                          | \$ 153            |
| Accounts receivable           | 479               |
| Prepaid expenses              | 186               |
| Inventories                   | 7,305             |
| 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):

|                      | <b>Fair Value</b> | <b>Useful Life (years)</b> |
|----------------------|-------------------|----------------------------|
| Developed technology | \$ 22,300         | 18                         |
| Software             | 120               | 4                          |
|                      | \$ 22,420         |                            |

The useful life for developed technology is 18 years which is based on the history of the underlying chemical processes and an estimate of the future. The Company also considered that the technology was completed approximately 4 years ago and considered functional obsolescence. The useful life for software is based upon its completion in 2011 and taking into consideration functional obsolescence.

**Note 6. Goodwill and Intangible Assets**

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

|   | <b>June 30, 2012</b>   |                                 | <b>March 31, 2012</b>  |                                 |
|---|------------------------|---------------------------------|------------------------|---------------------------------|
|   | <b>Carrying Amount</b> | <b>Accumulated Amortization</b> | <b>Carrying Amount</b> | <b>Accumulated Amortization</b> |
| <b><u>Indefinite Lived Intangible Assets:</u></b> |                        |                                 |                        |                                 |
| Goodwill  | \$ 36,676              | \$                              | \$ 36,676              | \$                              |
| Trademarks  | 7,644                  |                                 | 7,644                  |                                 |

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|                               |        |        |
|-------------------------------|--------|--------|
| Unamortized intangible assets | 44,320 | 44,320 |
|-------------------------------|--------|--------|

**Amortized Intangibles:**

|  |           |          |           |          |
|--|-----------|----------|-----------|----------|
| Customer relationships, patents and other (3-18 years) | 42,702    | 9,944    | 43,813    | 9,930    |
|  | \$ 87,022 | \$ 9,944 | \$ 88,133 | \$ 9,930 |

The Company has initiated its annual impairment test on indefinite lived intangible assets. The annual testing date is May 31st and the Company expects to complete the testing during the second quarter of fiscal year 2013. The Company does not anticipate that the testing will result in any impairment charges.

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**Note 7. 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 and marketing functions are shared by the business groups and are allocated to each business group based on the business group's respective budgeted net sales. In addition, all corporate costs are allocated to the business groups based on the business group's respective budgeted net sales.

*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 and a manufacturing site in China. 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 Sasso Marconi, 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, the business group has a product innovation center in Sweden. Film and Electrolytic products are sold in all regions of the world.

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The following table reflects each business group's net sales, operating income (loss), depreciation and amortization expenses and sales by region for the quarters ended June 30, 2012 and 2011 (amounts in thousands):

|  | Quarters Ended June 30, |            |
|--|-------------------------|------------|
|  | 2012                    | 2011       |
| <b>Net sales:</b>                              |                         |            |
| Tantalum                                       | \$ 109,199              | \$ 122,443 |
| Ceramic  | 51,545                  | 59,378     |
| Film and Electrolytic                          | 62,888                  | 108,035    |
|  | \$ 223,632              | \$ 289,856 |
| <b>Operating income (loss) (1):</b>            |                         |            |
| Tantalum                                       | \$ 2,483                | \$ 17,414  |
| Ceramic  | 6,597                   | 10,860     |
| Film and Electrolytic                          | (13,125)                | 12,568     |
|  | \$ (4,045)              | \$ 40,842  |
| <b>Depreciation and amortization expenses:</b> |                         |            |
| Tantalum                                       | \$ 5,812                | \$ 6,208   |
| Ceramic  | 2,065                   | 1,803      |
| Film and Electrolytic                          | 3,779                   | 3,148      |
|  | \$ 11,656               | \$ 11,159  |
| <b>Sales by region:</b>                        |                         |            |
| North and South America ( Americas )           | \$ 60,485               | \$ 72,759  |
| Europe, Middle East, Africa ( EMEA )           | 79,385                  | 102,712    |
| Asia and Pacific Rim ( APAC )                  | 83,762                  | 114,385    |
|  | \$ 223,632              | \$ 289,856 |

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

|                             | Quarters Ended June 30, |          |
|-----------------------------|-------------------------|----------|
|                             | 2012                    | 2011     |
| <b>Total restructuring:</b> |                         |          |
| Tantalum                    | \$ 44                   | \$ 35    |
| Ceramic                     | 98                      | 38       |
| Film and Electrolytic       | 1,122                   | 952      |
|                             | \$ 1,264                | \$ 1,025 |

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

|                       | June 30, 2012 | March 31, 2012 |
|-----------------------|---------------|----------------|
| <b>Total assets:</b>  |               |                |
| Tantalum              | \$ 535,099    | \$ 511,193     |
| Ceramic               | 191,742       | 201,971        |
| Film and Electrolytic | 229,929       | 262,388        |
|                       | \$ 956,770    | \$ 975,552     |



**Note 8. 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.

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

|   | Pension                 |        | Postretirement Benefit Plans |         |
|---|-------------------------|--------|------------------------------|---------|
|   | Quarters Ended June 30, |        | Quarters Ended June 30,      |         |
|   | 2012                    | 2011   | 2012                         | 2011    |
| Net service cost                          | \$ 414                  | \$ 331 | \$ 9                         | \$ 14   |
| Interest cost                             | 494                     | 533    |                              |         |
| Expected return on net assets             | (172)                   | (175)  |                              |         |
| Amortization:                             |                         |        |                              |         |
| Actuarial (gain) loss                     | 130                     | 96     | (72)                         | (71)    |
| Prior service cost                        | 6                       | 6      |                              |         |
| Total net periodic benefit (income) costs | \$ 872                  | \$ 791 | \$ (63)                      | \$ (57) |

In fiscal year 2013, the Company expects to contribute up to \$2.4 million to the pension plans of which the Company has contributed \$0.5 million as of June 30, 2012. The Company's policy is to pay benefits as costs are incurred for the postretirement benefit plans.

**Note 9. Stock-based Compensation***Stock Options*

At June 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 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 group of 15 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 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 resigns from his or her position. Restricted stock granted to the group of 15 executives vests

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25% per year over four years. In the third quarter of fiscal year 2012, 50 thousand shares of restricted stock units were granted to the non-management members of the Board of Directors. As of June 30, 2012, there was \$2.7 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 Plan 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 per calendar year 2013, 2014 and 2015. The Company assesses the likelihood of meeting the Adjusted EBITDA financial metric on a quarterly basis. In the quarters ended June 30, 2012 and June 30, 2011, the Company recorded an expense of \$0.3 million and \$0.8 million, respectively. 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.

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

|   | Quarter Ended June 30, 2012 |                     |        | Quarter Ended June 30, 2011 |                     |        |
|---|-----------------------------|---------------------|--------|-----------------------------|---------------------|--------|
|   | Stock<br>Options            | Restricted<br>Stock | LTIPs  | Stock<br>Options            | Restricted<br>Stock | LTIPs  |
| Cost of sales                                   | \$ 212                      | \$ 121              | \$ 68  | \$ 84                       | \$                  | \$ 165 |
| Selling, general and<br>administrative expenses | 254                         | 398                 | 173    | 147                         | 135                 | 660    |
| Research and<br>development                     | 18                          |                     | 20     |                             |                     |        |
|   | \$ 484                      | \$ 519              | \$ 261 | \$ 231                      | \$ 135              | \$ 825 |

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 quarters ended June 30, 2012 and 2011. Approximately 21 thousand and 9 thousand stock options were exercised in the quarters ended June 30, 2012 and 2011, respectively.

**Note 10. Income Taxes**

During the first quarter of fiscal year 2013, the Company incurred \$1.8 million of income tax expense which is comprised of \$1.7 million related to income taxes for foreign operations and \$0.1 million of state income tax expense. There is no U.S. federal income tax benefit from the first quarter of fiscal year 2013 loss due to a valuation allowance on deferred tax assets.

During the first quarter of fiscal year 2012, the Company incurred \$1.7 million of income tax expense which was comprised of \$2.5 million of income tax expense from foreign operations, \$0.1 million of state income tax expense, and a \$(0.9) million U.S. federal income tax benefit related to a prior year settlement. There was no U.S. federal income tax expense related to the first quarter of fiscal year 2012 earnings due to the utilization of net operating loss carryforward deductions and a valuation allowance on net deferred tax assets.

**Note 11. 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 June 30, |           |
|-------------------|-------------------------|-----------|
|                   | 2012                    | 2011      |
| Numerator:        |                         |           |
| Net income (loss) | \$ (17,753)             | \$ 31,849 |
| Denominator:      |                         |           |

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|  |        |        |         |
|--|--------|--------|---------|
| Weighted-average shares outstanding:         |        |        |         |
| Basic  | 44,808 |        | 39,452  |
| Assumed conversion of employee stock options |        |        | 365     |
| Assumed conversion of warrants               |        |        | 12,521  |
| Diluted                                      | 44,808 |        | 52,338  |
| Net income (loss) per share:                 |        |        |         |
| Basic  | \$     | (0.40) | \$ 0.81 |
| Diluted                                      | \$     | (0.40) | \$ 0.61 |

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):

|  |                                |             |
|--|--------------------------------|-------------|
|  | <b>Quarters Ended June 30,</b> |             |
|  | <b>2012</b>                    | <b>2011</b> |
| Assumed conversion of employee stock options | 1,469                          | 704         |
| Assumed conversion of warrants               | 7,160                          |             |

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**Note 12. 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.

**Note 13. 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 ended June 30, 2012 and 2011. There were no customers' accounts receivable balances exceeding 10% of gross accounts receivable at June 30, 2012 or March 31, 2012.

Electronics distributors are an important distribution channel in the electronics industry and accounted for 46% and 45% of the Company's net sales in the quarters ended June 30, 2012 and 2011, respectively. 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 June 30, 2012, KEMET had approximately 10,200 employees in the following locations:

|        |       |
|--------|-------|
| Mexico | 5,000 |
| Asia   | 2,600 |
| Europe | 2,000 |

United States

600

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

|           |       |
|-----------|-------|
| Mexico    | 3,300 |
| Italy     | 350   |
| Bulgaria  | 250   |
| Indonesia | 250   |
| 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 14. 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

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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. We are 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.

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****June 30, 2012**

|  | Parent     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Reclassifications<br>and Eliminations | Consolidated |
|--|------------|---------------------------|-------------------------------|---------------------------------------|--------------|
| <b>ASSETS</b>                              |            |                           |                               |                                       |              |
| Current assets:                            |            |                           |                               |                                       |              |
| Cash and cash equivalents                  | \$ 8,432   | \$ 158,239                | \$ 21,175                     | \$                                    | \$ 187,846   |
| Accounts receivable, net                   |            | 43,194                    | 62,974                        |                                       | 106,168      |
| Intercompany receivable                    | 267,797    | 168,956                   | 194,111                       | (630,864)                             |              |
| Inventories, net                           |            | 127,285                   | 89,018                        |                                       | 216,303      |
| Prepaid expenses and other                 | 276        | 13,346                    | 20,838                        |                                       | 34,460       |
| Deferred income taxes                      |            | 1,889                     | 5,069                         |                                       | 6,958        |
| Total current assets                       | 276,505    | 512,909                   | 393,185                       | (630,864)                             | 551,735      |
| Property and equipment, net                | 17         | 113,699                   | 196,870                       |                                       | 310,586      |
| Investments in subsidiaries                | 444,952    | 440,424                   | (5,324)                       | (880,052)                             |              |
| Goodwill                                   |            | 36,676                    |                               |                                       | 36,676       |
| Intangible assets, net                     |            | 31,264                    | 9,138                         |                                       | 40,402       |
| Other assets                               | 7,735      | 6,173                     | 3,463                         |                                       | 17,371       |
| Long-term intercompany receivable          | 74,644     | 58,666                    | 2,879                         | (136,189)                             |              |
| Total assets                               | \$ 803,853 | \$ 1,199,811              | \$ 600,211                    | \$ (1,647,105)                        | \$ 956,770   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |            |                           |                               |                                       |              |
| Current liabilities:                       |            |                           |                               |                                       |              |
| Current portion of long-term debt          | \$         | \$ 25                     | \$ 1,510                      | \$                                    | \$ 1,535     |
| Accounts payable, trade                    |            | 42,882                    | 43,674                        |                                       | 86,556       |
| Intercompany payable                       | 54,732     | 433,125                   | 143,007                       | (630,864)                             |              |
| Accrued expenses                           | 22,222     | 14,090                    | 33,522                        |                                       | 69,834       |
| Income taxes payable                       | (2,962)    | 3,050                     | 2,098                         |                                       | 2,186        |
| Total current liabilities                  | 73,992     | 493,172                   | 223,811                       | (630,864)                             | 160,111      |
| Long-term debt, less current portion       | 359,211    |                           | 540                           |                                       | 359,751      |
| Other non-current obligations              | 36,080     | 4,347                     | 56,463                        |                                       | 96,890       |
| Deferred income taxes                      |            | 1,997                     | 3,451                         |                                       | 5,448        |
| Long-term intercompany payable             |            | 74,644                    | 61,545                        | (136,189)                             |              |
| Stockholders' equity                       | 334,570    | 625,651                   | 254,401                       | (880,052)                             | 334,570      |
| Total liabilities and stockholders' equity | \$ 803,853 | \$ 1,199,811              | \$ 600,211                    | \$ (1,647,105)                        | \$ 956,770   |





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March 31, 2012

|  | Parent     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Reclassifications<br>and Eliminations | Consolidated |
|--|------------|---------------------------|-------------------------------|---------------------------------------|--------------|
| <b>ASSETS</b>                              |            |                           |                               |                                       |              |
| 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    | 28,002                    | 171,921                       | (451,893)                             |              |
| 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    | 384,253                   | 373,765                       | (451,893)                             | 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 | \$ 1,071,539              | \$ 582,529                    | \$ (1,480,243)                        | \$ 975,552   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |            |                           |                               |                                       |              |
| 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    | 609,507                   | 253,964                       | (863,471)                             | 358,996      |
| Total liabilities and stockholders equity  | \$ 801,727 | \$ 1,071,539              | \$ 582,529                    | \$ (1,480,243)                        | \$ 975,552   |

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

|  | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Reclassifications<br/>and Eliminations</b> | <b>Consolidated</b> |
|--|---------------|-----------------------------------|---------------------------------------|---|---------------------|
| Net sales  | \$            | \$ 240,944                        | \$ 228,715                            | \$ (246,027)                                  | \$ 223,632          |
| Operating costs and expenses:                    |               |                                   |                                       |   |                     |
| Cost of sales                                    | 418           | 218,318                           | 207,577                               | (234,992)                                     | 191,321             |
| Selling, general and administrative expenses     | 1,605         | 20,743                            | 15,942                                | (11,035)                                      | 27,255              |
| Research and development                         | 41            | 5,288                             | 2,404                                 |   | 7,733               |
| Restructuring charges                            |               | 163                               | 1,101                                 |   | 1,264               |
| Net (gain) loss on sales and disposals of assets |               | 33                                | 71                                    |   | 104                 |
| Total operating costs and expenses               | 2,064         | 244,545                           | 227,095                               | (246,027)                                     | 227,677             |
| Operating income (loss)                          | (2,064)       | (3,601)                           | 1,620                                 |   | (4,045)             |
| Other (income) expense, net                      | 10,187        | 3,159                             | (1,409)                               |   | 11,937              |
| Equity in losses of subsidiaries                 | 5,502         |                                   |                                       | (5,502)                                       |                     |
| Income before income taxes                       | (17,753)      | (6,760)                           | 3,029                                 | 5,502   | (15,982)            |
| Income tax expense                               |               | 60                                | 1,711                                 |   | 1,771               |
| Net income (loss)                                | \$ (17,753)   | \$ (6,820)                        | \$ 1,318                              | \$ 5,502                                      | \$ (17,753)         |

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

|  | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Reclassifications<br/>and Eliminations</b> | <b>Consolidated</b> |
|--|---------------|-----------------------------------|---------------------------------------|---|---------------------|
| Net sales  | \$            | \$ 269,687                        | \$ 280,022                            | \$ (259,853)                                  | \$ 289,856          |
| <b>Operating costs and expenses:</b>             |               |                                   |                                       |   |                     |
| Cost of sales                                    | 162           | 226,408                           | 234,568                               | (250,634)                                     | 210,504             |
| Selling, general and administrative expenses     | 11,449        | 15,715                            | 12,094                                | (8,982)                                       | 30,276              |
| Research and development                         |               | 5,027                             | 2,059                                 |   | 7,086               |
| Restructuring charges                            |               | 481                               | 544                                   |   | 1,025               |
| Net (gain) loss on sales and disposals of assets | 3             | 19                                | 101                                   |   | 123                 |
| Total operating costs and expenses               | 11,614        | 247,650                           | 249,366                               | (259,616)                                     | 249,014             |
| Operating income (loss)                          | (11,614)      | 22,037                            | 30,656                                | (237)   | 40,842              |
| Interest income                                  | (4)           | (17)                              | (22)                                  |   | (43)                |
| Interest expense                                 | 7,103         | 74                                | 223                                   |   | 7,400               |
| Other (income) expense, net                      | (11,544)      | 7,987                             | 3,393                                 | 69  | (95)                |
| Equity in earnings of subsidiaries               | (38,080)      |                                   |                                       | 38,080  |                     |
| Income before income taxes                       | 30,911        | 13,993                            | 27,062                                | (38,386)                                      | 33,580              |
| Income tax expense                               | (938)         | 603                               | 2,066                                 |   | 1,731               |
| Net income                                       | \$ 31,849     | \$ 13,390                         | \$ 24,996                             | \$ (38,386)                                   | \$ 31,849           |

Table of Contents**Condensed Consolidating Statement of Cash Flows****For the Quarter Ended June 30, 2012**

|   | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Reclassifications<br/>and Eliminations</b> | <b>Consolidated</b> |
|---|---------------|-----------------------------------|---------------------------------------|---|---------------------|
| Sources (uses) of cash and cash equivalents             |               |                                   |                                       |   |                     |
| Net cash provided by (used in) operating activities     | \$ (14,653)   | \$ (15,306)                       | \$ 8,752                              | \$  | \$ (21,207)         |
| Investing activities:                                   |               |                                   |                                       |   |                     |
| Capital expenditures                                    |               | (3,660)                           | (9,441)                               |   | (13,101)            |
| Acquisition, net of cash received                       | (439)         | (1,000)                           |                                       |   | (1,439)             |
| Net cash used in investing activities                   | (439)         | (4,660)                           | (9,441)                               |   | (14,540)            |
| Financing activities:                                   |               |                                   |                                       |   |                     |
| Proceeds from issuance of debt                          | 15,825        |                                   |                                       |   | 15,825              |
| Payments of long-term debt                              |               |                                   | (1,576)                               |   | (1,576)             |
| Proceeds from exercise of stock options                 | 41            |                                   |                                       |   | 41                  |
| Debt issuance costs                                     | (275)         |                                   |                                       |   | (275)               |
| Net cash provided by (used in) financing activities     | 15,591        |                                   | (1,576)                               |   | 14,015              |
| Net increase (decrease) in cash and cash equivalents    | 499           | (19,966)                          | (2,265)                               |   | (21,732)            |
| Effect of foreign currency fluctuations on cash         |               |                                   | (943)                                 |   | (943)               |
| Cash and cash equivalents at beginning of fiscal period | 7,933         | 178,205                           | 24,383                                |   | 210,521             |
| Cash and cash equivalents at end of fiscal period       | \$ 8,432      | \$ 158,239                        | \$ 21,175                             | \$  | \$ 187,846          |

**Condensed Consolidating Statement of Cash Flows****For the Quarter Ended June 30, 2011**

|   | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Reclassifications<br/>and Eliminations</b> | <b>Consolidated</b> |
|---|---------------|-----------------------------------|---------------------------------------|---|---------------------|
| Sources (uses) of cash and cash equivalents         |               |                                   |                                       |   |                     |
| Net cash provided by (used in) operating activities | \$ 3,114      | \$ (11,943)                       | \$ 14,157                             | \$  | \$ 5,328            |
| Investing activities:                               |               |                                   |                                       |   |                     |
| Capital expenditures                                | (1)           | (3,700)                           | (2,037)                               |   | (5,738)             |
| Acquisition, net of cash received                   |               | (11,584)                          |                                       |   | (11,584)            |
| Net cash used in investing activities               | (1)           | (15,284)                          | (2,037)                               |   | (17,322)            |
| Financing activities:                               |               |                                   |                                       |   |                     |
| Payments of long-term debt                          | (3,015)       |                                   |                                       |   | (3,015)             |

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|   |          |           |           |    |            |
|---|----------|-----------|-----------|----|------------|
| Net payments under other credit facilities              |          |           | (3,081)   |    | (3,081)    |
| Debt issuance costs                                     |          | (29)      |           |    | (29)       |
| Proceeds from exercise of stock options                 | 16       |           |           |    | 16         |
| Net cash used in financing activities                   | (2,999)  | (29)      | (3,081)   |    | (6,109)    |
| Net increase (decrease) in cash and cash equivalents    | 114      | (27,256)  | 9,039     |    | (18,103)   |
| Effect of foreign currency fluctuations on cash         |          |           | 50        |    | 50         |
| 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       | \$ 6,531 | \$ 92,070 | \$ 35,397 | \$ | \$ 133,998 |

**Note 15. Subsequent Event**

On July 25, 2012, the Company committed to a global restructuring plan to respond to the continued economic slowdown. The Company will incur a charge to earnings related to one-time termination benefits. This action will affect approximately 420 employees representing 4% of the global workforce. The charge for one-time termination benefits are estimated to be \$8.0 million to \$9.0 million of which approximately \$7.0 million is expected to be accrued in the quarter ending September 30, 2012.

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**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 principal or single-sourced purchased 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) the impact of 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.



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**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 quarter ended June 30, 2012, we shipped approximately 9 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 10,200 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 quarter ended June 30, 2012 and for fiscal year 2012, our consolidated net sales were \$223.6 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 Sasso Marconi, 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 quarter ended June 30, 2012. Our largest customer is a distributor, and no single end use customer accounted for more than 6% of our net sales in the quarter ended June 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 significant market position in the specialty ceramic and custom wet aluminum electrolytic markets. We believe that our leading

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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 quarters ended June 30, 2012 and 2011, respectively, specialty products accounted for 40.1% and 36.1% 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 will enable us to produce film capacitors within the United States to support alternative energy products and emerging 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 and market interest in domestic production remains high.

*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 we are expanding 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 remain grounded in our core principles but that we use those principles, operating procedures and systems as the foundation from which to

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expand. These initiatives include our global Oracle software implementation which is proceeding on schedule, 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.

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*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 first quarter of fiscal year 2013, we introduced 11,963 new products of which 372 were first to market, and specialty products accounted for 40.1% 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.* We expect to continue to evaluate and pursue strategic acquisition opportunities, some of which may be significant in size, which 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 June 13, 2011, the Company completed its acquisition of Cornell Dobilier Foil, LLC (whose name was subsequently changed to KEMET Foil Manufacturing, LLC ( KEMET Foil )), a Tennessee based manufacturer of etched foils utilized as a core component in the manufacture of electrolytic capacitors. Also, 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 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 June 30, 2012 were \$223.6 million, which is a 22.8% decrease over the same quarter last fiscal year.

*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. The closing of the transaction remains subject to satisfaction of customary closing conditions, including receipt of required regulatory approval in China. While a definitive closing date cannot yet be determined, we continue to expect that the transaction will close during our second fiscal quarter ending September 30, 2012.

*Restructuring*

On July 25, 2012, we committed to a global restructuring plan to respond to the continued economic slowdown and will incur a charge to earnings related to one-time termination benefits. This action will affect approximately 420 employees representing 4% of the global workforce. The charge for one-time termination benefits is estimated to be \$8.0 million to \$9.0 million of which approximately \$7.0 million is expected to be accrued in the quarter ending September 30, 2012.

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*Outlook*

For the second quarter of fiscal year 2013, we expect net sales to be relatively flat with the quarter ended June 30, 2012. Traditionally, we expect the second fiscal quarter net sales to decrease slightly, however this year we believe that net sales will be in line with the first fiscal quarter.

**CONDENSED CONSOLIDATED RESULTS OF OPERATIONS**

*Comparison of the First Quarter of Fiscal Year 2013 with the First Quarter of Fiscal Year 2012*

The following table sets forth the operating income (loss) for each of our business segments for the quarters ended June 30, 2012 and June 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):

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|  | Quarters Ended |                  |               |                  |
|--|----------------|------------------|---------------|------------------|
|  | June 30, 2012  |                  | June 30, 2011 |                  |
|  | Amount         | % to Total sales | Amount        | % to Total sales |
| <b>Net sales</b>                             |                |                  |               |                  |
| Tantalum                                     | \$ 109,199     | 48.8%            | \$ 122,443    | 42.2%            |
| Ceramic                                      | 51,545         | 23.0%            | 59,378        | 20.5%            |
| Film and Electrolytic                        | 62,888         | 28.1%            | 108,035       | 37.3%            |
|  | \$ 223,632     | 100.0%           | \$ 289,856    | 100.0%           |
| <b>Gross margin</b>                          |                |                  |               |                  |
| Tantalum                                     | \$ 18,285      |                  | \$ 32,800     |                  |
| Ceramic                                      | 14,457         |                  | 18,737        |                  |
| Film and Electrolytic                        | (431)          |                  | 27,815        |                  |
|  | 32,311         | 14.4%            | 79,352        | 27.4%            |
| <b>SG&amp;A expenses</b>                     |                |                  |               |                  |
| Tantalum                                     | 11,590         |                  | 11,958        |                  |
| Ceramic                                      | 6,015          |                  | 6,186         |                  |
| Film and Electrolytic                        | 9,650          |                  | 12,132        |                  |
|  | 27,255         | 12.2%            | 30,276        | 10.4%            |
| <b>R&amp;D expenses</b>                      |                |                  |               |                  |
| Tantalum                                     | 4,142          |                  | 3,344         |                  |
| Ceramic                                      | 1,724          |                  | 1,650         |                  |
| Film and Electrolytic                        | 1,867          |                  | 2,092         |                  |
|  | 7,733          | 3.5%             | 7,086         | 2.4%             |
| <b>Restructuring charges</b>                 |                |                  |               |                  |
| Tantalum                                     | 44             |                  | 35            |                  |
| Ceramic                                      | 98             |                  | 38            |                  |
| Film and Electrolytic                        | 1,122          |                  | 952           |                  |
|  | 1,264          | 0.6%             | 1,025         | 0.4%             |
| <b>Loss on sales and disposals of assets</b> |                |                  |               |                  |
| Tantalum                                     | 26             |                  | 49            |                  |
| Ceramic                                      | 23             |                  | 3             |                  |
| Film and Electrolytic                        | 55             |                  | 71            |                  |
|  | 104            |                  | 123           |                  |
| <b>Operating income (loss)</b>               |                |                  |               |                  |
| Tantalum                                     | 2,483          |                  | 17,414        |                  |
| Ceramic                                      | 6,597          |                  | 10,860        |                  |
| Film and Electrolytic                        | (13,125)       |                  | 12,568        |                  |
|  | (4,045)        | -1.8%            | 40,842        | 14.1%            |
| <b>Other (income) expense, net</b>           |                |                  |               |                  |
|  | 11,937         | 5.3%             | 7,262         | 2.5%             |
| <b>Income (loss) before income taxes</b>     |                |                  |               |                  |
|  | (15,982)       | -7.1%            | 33,580        | 11.6%            |
| <b>Income tax expense</b>                    |                |                  |               |                  |
|  | 1,771          | 0.8%             | 1,731         | 0.6%             |
| <b>Net income (loss)</b>                     |                |                  |               |                  |
|  | \$ (17,753)    | -7.9%            | \$ 31,849     | 11.0%            |



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

Net sales for the quarter ended June 30, 2012 were \$223.6 million compared to \$289.9 million in the first quarter of fiscal year 2012, a 22.8% decrease primarily due to a 7.1% decrease in unit sales volume. The decrease in unit sales volume is due to a general softening of the market. Commodity products incurred the largest decrease in unit sales volume due to excess capacity in the market. In addition, net sales for Film and Electrolytic s machinery division decreased by 65% in the first quarter of fiscal year 2013 compared to the first quarter of fiscal year 2012. The effect of the decrease in volume was partially offset by an increase in average selling prices for Tantalum, and Film and Electrolytic. Tantalum average selling prices increased 6.7% primarily related to our ability to increase sales prices to offset increases in Tantalum raw material cost as well as a favorable shift in product line mix. Film and Electrolytic average selling prices increased 24.7% due to a shift in product line mix away from commodity products. In addition to the increases in average selling prices, the etched foil manufacturing operation acquired in June 2011 contributed \$3.0 million of net sales to the first quarter of fiscal year 2013.

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

|          | Quarters Ended June 30, |      |
|----------|-------------------------|------|
|          | 2012                    | 2011 |
| Americas | 27%                     | 25%  |
| EMEA     | 36%                     | 35%  |
| APAC     | 37%                     | 40%  |
|          | 100%                    | 100% |

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

|              | Quarters Ended June 30, |      |
|--------------|-------------------------|------|
|              | 2012                    | 2011 |
| Distributors | 46%                     | 45%  |
| EMS          | 15%                     | 16%  |
| OEM          | 39%                     | 39%  |
|              | 100%                    | 100% |

*Gross Margin*

Gross margin as a percentage of net sales decreased from 27.4% in the first quarter of fiscal year 2012 to 14.4% in the first quarter of fiscal year 2013. The primary contributors to the decline in gross margin were lower unit sales volume and our inability to pass on the entire effect of higher raw material costs to our customers. The decline in gross margin is driven by the decreases of gross margin as a percent of net sales in Tantalum, Ceramic, and Film and Electrolytic of 10.0, 3.6 and 26.4 percentage points, respectively.

*Selling, General and Administrative Expenses*

Selling, general and administrative ( SG&A ) expenses were \$27.3 million, or 12.2% of net sales for the first quarter of fiscal year 2013 compared to \$30.3 million or 10.4% of net sales for first quarter of fiscal year 2012. The \$3.0 million decrease in SG&A expenses primarily consist of a \$2.7 million decrease in payroll and related fringe benefit expenses which relate to a decrease in sales commissions and incentive compensation.

In addition, there was a \$0.7 million decrease in professional fees related to less acquisition activity and the absence of professional fees associated with SEC registration statement filings which were incurred in the first quarter of fiscal year 2012. Partially offsetting these decreases was a \$0.5 million increase in ERP integration costs due to an increase in activities as we work toward completing Oracle ERP implementations this fiscal year.

*Research and Development*

Research and development expenses were \$7.7 million or 3.5% of net sales for the first quarter of fiscal year 2013, compared to \$7.1 million, or 2.4% of net sales for the first quarter of fiscal year 2012. The 9.1% increase resulted from increased activities to ensure that new products are available to support KEMET's growth and to meet customer needs. In particular, spending in the first quarter of fiscal year 2013, relate to the development of advanced tantalum products.

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*Restructuring Charges*

We incurred \$1.3 million in restructuring charges in the first quarter of fiscal year 2013 compared to \$1.0 million in restructuring charges in the first quarter of fiscal year 2012. The restructuring charges in the first quarter of fiscal year 2013 included termination benefits of \$1.1 million primarily associated with converting the Weymouth, United Kingdom manufacturing facility into a technology center and manufacturing relocation costs of \$0.2 million for relocation of equipment to China and Macedonia. The total termination benefits expected for the Weymouth facility conversion are \$2.6 million and are expected to be completed in the third quarter of fiscal year 2014. The restructuring charges in the first quarter of fiscal year 2012 included \$0.7 million for the relocation of equipment to Mexico and China and \$0.3 million related to personnel reduction costs due primarily to headcount reductions related to the Company's initiative to reduce overhead within the Company as a whole.

*Operating Income (Loss)*

Operating loss for the quarter ended June 30, 2012 was \$4.0 million compared to operating income of \$40.8 million for the quarter ended June 30, 2011 primarily due to a \$47.0 million decrease in gross margin for the first quarter of fiscal year 2013 as compared to the first quarter of fiscal year 2012. Additionally, research and development expenses and restructuring charges increased \$0.6 million and \$0.3 million, respectively, in the first quarter of fiscal year 2013 as compared to the first quarter of fiscal year 2012. These expense increases were offset by a \$3.0 million decrease in SG&A expenses in the first quarter of fiscal year 2013 as compared to the first quarter of fiscal year 2012.

*Other (Income) Expense, net*

Other (income) expense, net was an expense of \$11.9 million in the first quarter of fiscal year 2013 compared to an expense of \$7.3 million in the first quarter of fiscal year 2012. Interest expense for the first quarter of fiscal year 2013 increased \$3.1 million compared to the first quarter of fiscal year 2012 due to an \$125 million increase in our 10.5% Senior Notes. In addition, during the first quarter of fiscal year 2013, we recognized a \$1.7 million foreign currency exchange loss as compared to a \$0.1 million gain on foreign currency exchange in the first 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*

Our income tax expense for the first quarter of fiscal year 2013 was a \$1.8 million of income tax expense compared to a \$1.7 million of income tax expense for the first quarter of fiscal year 2012. Income tax expense for the first quarter of fiscal year 2013 is comprised of \$1.7 million related to income taxes for foreign operations and \$0.1 million of state income tax expense. There is no U.S. federal income tax benefit from the first quarter of fiscal year 2013 loss due to a valuation allowance on deferred tax assets.

Income tax expense for the first quarter of fiscal year 2012 was comprised of a \$2.5 million of income tax expense from foreign operations, \$0.1 million of state income tax expense, and a \$0.9 million U.S. federal income tax benefit related to a prior year settlement. There was no U.S. federal income tax expense related to the first quarter of fiscal year 2012 earnings due to the utilization of net operating loss carryforward deductions.

*Business Groups Comparison of the Quarter Ended June 30, 2012 with the Quarter Ended June 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 June 30, 2012 and 2011 (amounts in thousands, except percentages):

|                  | Quarters Ended |                |               |                |
|------------------|----------------|----------------|---------------|----------------|
|                  | June 30, 2012  |                | June 30, 2011 |                |
|                  | Amount         | % to Net sales | Amount        | % to Net sales |
| Net sales        | \$ 109,199     |                | \$ 122,443    |                |
| Gross margin     | 18,285         | 16.7%          | 32,800        | 26.8%          |
| Operating income | 2,483          | 2.3%           | 17,414        | 14.2%          |

Table of Contents*Net Sales*

Net sales decreased 10.8% during the first quarter of fiscal year 2013 as compared to the first quarter of fiscal year 2012. Average selling prices increased 6.7% for the first quarter of fiscal year 2013 as compared to the first quarter of fiscal year 2012. The increase in average selling prices was offset by a 16.4% decrease in unit sales volume during the first quarter of fiscal year 2013 as compared to the first quarter of fiscal year 2012. The increase in average selling prices was primarily due to a favorable shift in product mix. Unit sales volumes decreased across all channels and all regions due to a general softening of the market. Commodity products incurred the largest decrease in unit sales volume due to excess capacity in the market; however the automotive, green technology, and telecommunication sectors remained relatively stable.

*Gross Margin*

Gross margin decreased by \$14.5 million during the quarter ended June 30, 2012, as compared to the quarter ended June 30, 2011. Despite our continued efforts to reduce costs through process engineering improvements and to pass raw material cost increases on to our customers, we were unable to completely offset the increase in raw material costs which resulted in a decrease in gross margin as a percentage of Tantalum net sales.

*Operating Income (Loss)*

Operating income for the first quarter of fiscal year 2013 was \$2.5 million compared to operating income of \$17.4 million in the first quarter of fiscal year 2012. The \$14.9 million decrease was attributable to a decrease in gross margin of \$14.5 million and an increase in research and development expenses of \$0.8 million when comparing the first quarter of fiscal year 2013 to the first quarter of fiscal year 2012. This decrease was partially offset by a \$0.4 million decrease in SG&A in the first 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 June 30, 2012 and 2011 (amounts in thousands, except percentages):

|                  | Quarters Ended |                |               |                |
|------------------|----------------|----------------|---------------|----------------|
|                  | June 30, 2012  |                | June 30, 2011 |                |
|                  | Amount         | % to Net sales | Amount        | % to Net sales |
| Net sales        | \$ 51,545      |                | \$ 59,378     |                |
| Gross margin     | 14,457         | 28.0%          | 18,737        | 31.6%          |
| Operating income | 6,597          | 12.8%          | 10,860        | 18.3%          |

*Net Sales*

Net sales decreased by 13.2% during the first quarter of fiscal year 2013 as compared to the first quarter of fiscal year 2012 primarily due to a decrease in average selling prices and unit sales volume. Average selling prices decreased 9.4% primarily due to pricing pressure as a result of excess manufacturing capacity on a global basis. Unit sales volume decreased 4.4% during the first quarter of fiscal year 2013, as compared to the first quarter of fiscal year 2012. During the first quarter of fiscal year 2012 we experienced an increase in unit sales volume due to the tsunami in Japan when customers were looking for suppliers outside of Japan.

*Gross Margin*

Gross margin as a percentage of Ceramic net sales decreased to 28.0% as compared to 31.6% in the first quarter of fiscal year 2012. The driver of the gross margin percentage decrease was primarily attributable to a decrease in average selling prices partially offset by a decrease in manufacturing costs.

*Operating Income*

Operating income for the first quarter of fiscal year 2013 decreased \$4.3 million due to a \$4.3 million decrease in gross margin when comparing the first quarter of fiscal year 2013 to the first quarter of fiscal year 2012.

Table of Contents*Film and Electrolytic*

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 Film and Electrolytic business group for the quarters ended June 30, 2012 and 2011 (amounts in thousands, except percentages):

|                         | Quarters Ended |                |               |                |
|-------------------------|----------------|----------------|---------------|----------------|
|                         | June 30, 2012  |                | June 30, 2011 |                |
|                         | Amount         | % to Net sales | Amount        | % to Net sales |
| Net sales               | \$ 62,888      |                | \$ 108,035    |                |
| Gross margin (loss)     | (431)          | -0.7%          | 27,815        | 25.7%          |
| Operating income (loss) | (13,125)       | -20.9%         | 12,568        | 11.6%          |

*Net Sales*

Net sales decreased 41.8% in the first quarter of fiscal year 2013 compared to the first quarter of fiscal year 2012. Average selling prices for capacitors increased 24.7% in the first quarter of fiscal year 2013 as compared to the same quarter last year. Average selling prices improved due to a shift in product line mix away from commodity products. Capacitor unit sales volume for the first quarter of fiscal year 2013 decreased 45.9% compared to the first quarter of fiscal year 2012 due to an overall decrease in the industry. Capacitor net sales were unfavorably impacted by \$3.9 million related to foreign exchange, primarily the Euro. The Film and Electrolytic machinery division's net sales decreased by \$17.9 million in the first quarter of fiscal year 2013 compared to the first quarter 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 a \$1.0 million unfavorable impact related to foreign exchange. The etched foil manufacturing operation, acquired at the end of the first quarter of fiscal year 2012, contributed \$3.0 million of net sales in the first quarter of fiscal year 2013.

*Gross Margin*

Gross margin as a percentage of Film and Electrolytic net sales decreased to (0.7)% in the first quarter of fiscal year 2013 as compared to 25.7% in the first quarter of fiscal year 2012. The decrease is primarily due to the decrease in unit sales volumes, lower production levels and \$1.0 million of plant start up costs related to the Macedonia facility. In addition, the machinery division's gross margin decreased to \$1.7 million in the first quarter of fiscal year 2013 as compared to \$9.8 million in the first quarter of fiscal year 2012.

*Operating Income (Loss)*

Operating loss for the first quarter of fiscal year 2013 was \$13.1 million as compared to operating income of \$12.6 million in the first quarter of fiscal year 2012. The \$25.7 million decrease is primarily attributable to a \$28.2 million decrease in gross margin and a \$0.2 million increase in restructuring charges. These decreases were partially offset by a \$2.5 million decrease in SG&A and a \$0.2 million decrease in research and

development expenses in the first quarter of fiscal year 2013 as compared to the same quarter of fiscal year 2012.

### **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 credit agreements and existing cash balances.

#### *Issuance of 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 Company, as trustee.



Table of Contents*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. There were no borrowings against the Loan and Security Agreement as of June 30, 2012 or March 31, 2012.

*Short Term Liquidity*

Cash and cash equivalents totaled \$187.8 million as of June 30, 2012, a decrease of \$22.7 million as compared to \$210.5 million as of March 31, 2012. Our net working capital (current assets less current liabilities) as of June 30, 2012 was \$391.7 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 \$21.2 million and \$24.4 million at June 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 \$37.5 million in interest payments, expected capital expenditures in the range of \$45 million to \$55 million, deferred acquisition payments of \$65.0 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 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 reasonable interest rates.

Cash and cash equivalents decreased by \$22.7 million for the quarter ended June 30, 2012 as compared with a decrease of \$18.1 million during the quarter ended June 30, 2011.

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

|   | Quarters Ended June 30, |          |
|---|-------------------------|----------|
|   | 2012                    | 2011     |
| Net cash provided by (used in) operating activities | \$ (21,207)             | \$ 5,328 |
| Net cash used in investing activities               | (14,540)                | (17,322) |
| Net cash provided by (used in) financing activities | 14,015                  | (6,109)  |

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|  |    |          |    |          |
|--|----|----------|----|----------|
| Effects of foreign currency fluctuations on cash |    | (943)    |    | 50       |
| Net decrease in cash and cash equivalents        | \$ | (22,675) | \$ | (18,053) |

### *Operations*

Cash used in operating activities in the quarter ended June 30, 2012 totaled \$21.2 million compared to cash provided by operating activities of \$5.3 million in the quarter ended June 30, 2011. This decrease was primarily a result of a \$49.3 million decrease in cash flows related to operations (net income (loss) adjusted for the change in: depreciation and amortization, deferred income taxes, net loss on sales and disposals of assets, amortization of debt discounts and debt issuance costs, and other non-cash changes to net income (loss)) for fiscal year 2013 compared to fiscal year 2012.

The change in operating assets resulted in a \$9.3 million improvement in cash generation in the quarter ended June 30, 2012 as compared to the quarter ended June 30, 2011. In the quarter ended June 30, 2011, we used \$28.3 million due to a build in Tantalum inventory as well as price increases in raw materials. In the quarter ended June 30, 2012, cash used for inventories was \$7.4 million. Offsetting this improvement, cash used in accounts receivables and other receivables increased by \$8.1 million and cash used in prepaid expenses and other assets increased \$3.6 million when comparing the first quarter of fiscal year 2013 to the first quarter of fiscal year 2012.

The change in operating liabilities resulted in a \$13.7 million increase in cash used for the quarter ended June 30, 2012 compared to the quarter ended June 30, 2011. Within operating liabilities, an increase in accounts payable accounted for \$15.6 million

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of the increase in cash provided when compared to the corresponding quarter in the prior year. The increase in accounts payables relates to significant raw material purchases. This was partially offset by a \$1.8 million increase in the use of cash for accrued liabilities in the quarter ended June 30, 2012 compared to the quarter ended June 30, 2011.

*Investing*

Cash used in investing activities decreased \$2.8 million in the quarter ended June 30, 2012 compared to the quarter ended June 30, 2011 primarily due to the \$11.6 million acquisition of Cornell Dubilier Foil, LLC made in the first quarter of fiscal year 2012 and \$1.4 million cash used for deferred acquisition payments related to the KEMET Foil and KEMET Blue Powder acquisitions in the first quarter of fiscal year 2013. This decrease was offset by the \$7.4 million increase in capital expenditures in the quarter ended June 30, 2012 compared to the quarter ended June 30, 2011. For the quarter ended June 30, 2012, capital expenditures are primarily related to the new facilities in Macedonia and other restructuring related activities as well as efforts to reduce costs and increase capacity.

*Financing*

Cash provided by financing activities increased \$20.1 million in the quarter ended June 30, 2012 as compared to the quarter ended June 30, 2011. In the quarter ended June 30, 2012, the \$15.8 million proceeds from the issuance of debt resulted from the private placement of our 10.5% Senior Notes. In the quarter ended June 30, 2012 we used \$1.6 million for debt payments. In the first quarter of fiscal year 2012, we used \$6.1 million for debt payments.

**Commitments**

Our commitments have not changed materially from those disclosed in the Company's 2012 Annual Report.

***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 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 June 30, |           |
|---|-------------------------|-----------|
|   | 2012                    | 2011      |
| Operating income (loss)                   | \$ (4,045)              | \$ 40,842 |
| Adjustments:                              |                         |           |
| Plant start-up costs                      | 1,361                   |           |
| Restructuring charges                     | 1,264                   | 1,025     |
| Stock-based compensation expense          | 1,264                   | 1,191     |
| Net loss on sales and disposals of assets | 104                     | 123       |
| ERP integration costs                     | 1,676                   | 1,205     |
| Registration related fees                 | 20                      | 204       |
| Acquisition related fees                  | 542                     | 610       |
| Adjusted operating income                 | \$ 2,186                | \$ 45,200 |

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

|   | Quarters Ended June 30, |           |
|---|-------------------------|-----------|
|   | 2012                    | 2011      |
| Net income (loss)                         | \$ (17,753)             | \$ 31,849 |
| Adjustments:                              |                         |           |
| Plant start-up costs                      | 1,361                   |           |
| Restructuring charges                     | 1,264                   | 1,025     |
| Amortization included in interest expense | 971                     | 1,044     |
| Net loss on sales and disposals of assets | 104                     | 123       |
| Net foreign exchange (gain) loss          | 1,789                   | (123)     |
| Stock-based compensation expense          | 1,264                   | 1,191     |
| ERP integration costs                     | 1,676                   | 1,205     |
| Registration related fees                 | 20                      | 204       |
| Acquisition related fees                  | 542                     | 610       |
| Income tax impact of adjustments (1)      | 4                       | (159)     |
| Adjusted net income (loss)                | \$ (8,758)              | \$ 36,969 |

(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 |               |
|---|----------------|---------------|
|   | June 30, 2012  | June 30, 2011 |
| Net income (loss)                         | \$ (17,753)    | \$ 31,849     |
| Adjustments:                              |                |               |
| Interest expense, net                     | 10,426         | 7,357         |
| Income tax expense                        | 1,771          | 1,731         |
| Depreciation and amortization             | 11,656         | 11,159        |
| Net foreign exchange (gain) loss          | 1,789          | (123)         |
| ERP integration costs                     | 1,676          | 1,205         |
| Plant start-up costs                      | 1,361          |               |
| Stock-based compensation expense          | 1,264          | 1,191         |
| Restructuring charges                     | 1,264          | 1,025         |
| Acquisition related fees                  | 542            | 610           |
| Net loss on sales and disposals of assets | 104            | 123           |
| Registration related fees                 | 20             | 204           |
| Adjusted EBITDA                           | \$ 14,120      | \$ 56,331     |

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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.

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.

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Adjusted EBITDA represents net income (loss) before interest expense, net, income tax expense, and depreciation and amortization expense, adjusted to exclude restructuring charges, plant start-up costs, net foreign exchange gain/ loss, stock-based compensation expense, net 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.



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**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 June 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 June 30, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**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.

**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 June 30, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations for the quarters ended June 30, 2012 and 2011, (ii) Condensed Consolidated Balance Sheets at June 30, 2012, and March 31, 2012, (iii) Condensed Consolidated Statements of Cash Flows for the quarters ended June 30, 2012 and 2011, and (iv) the Notes to Condensed Consolidated Financial Statements.

**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: August 3, 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)*

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**EXHIBIT INDEX**

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