

KEMET CORP  
Form 10-Q  
August 02, 2013  
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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, 2013

or

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

For the transition period from            to

Commission File Number: 001-15491

# KEMET CORPORATION

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of incorporation or organization)

**57-0923789**

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

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

(Address of principal executive offices, zip code)

**(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 29, 2013 was 45,088,744.



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**KEMET CORPORATION AND SUBSIDIARIES**

**Form 10-Q for the Quarter Ended June 30, 2013**

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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)**

ASSETS			
Current assets:			
Cash and cash equivalents	\$	53,155	\$ 95,978
Accounts receivable, net		101,254	96,564
Inventories, net		217,543	205,615
Prepaid expenses and other		39,377	41,101
Deferred income taxes		4,250	4,167
Total current assets		415,579	443,425
Property and equipment, net of accumulated depreciation of \$785,335 and \$771,398 as of June 30, 2013 and March 31, 2013, respectively		309,877	304,508
Goodwill		35,584	35,584
Intangible assets, net		38,310	38,646
Investment in NEC TOKIN		48,709	52,738
Restricted cash		15,851	17,397
Deferred income taxes		8,321	7,994
Other assets		8,939	11,299
Total assets	\$	881,170	\$ 911,591
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Current portion of long-term debt	\$	7,648	\$ 10,793
Accounts payable		89,854	73,669
Accrued expenses		83,313	95,944
Income taxes payable and deferred income taxes		2,063	1,074
Total current liabilities		182,878	181,480
Long-term debt, less current portion		375,645	372,707
Other non-current obligations		69,584	71,946
Deferred income taxes		8,694	8,542
Stockholders' equity:			
Preferred stock, par value \$0.01, authorized 10,000 shares, none issued			
Common stock, par value \$0.01, authorized 175,000 shares, issued 46,508 shares at June 30, 2013 and March 31, 2013		465	465
Additional paid-in capital		465,766	467,096
Retained deficit		(198,374)	(163,235)
Accumulated other comprehensive income		9,420	7,694
Treasury stock, at cost (1,431 and 1,519 shares at June 30, 2013 and March 31, 2013, respectively)		(32,908)	(35,104)

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Total stockholders' equity		244,369		276,916
Total liabilities and stockholders' equity	\$	881,170	\$	911,591

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>2013</b>	<b>2012</b>
Net sales	\$ 202,723	\$ 223,632
Operating costs and expenses:		
Cost of sales	185,189	191,321
Selling, general and administrative expenses	26,502	27,255
Research and development	6,380	7,733
Restructuring charges	4,610	1,264
Net loss on sales and disposals of assets		104
Total operating costs and expenses	222,681	227,677
Operating loss	(19,958)	(4,045)
Other (income) expense:		
Interest income	(164)	(31)
Interest expense	10,034	10,457
Other expense, net	354	1,511
Loss before income taxes and equity loss from NEC TOKIN	(30,182)	(15,982)
Income tax expense	1,580	1,771
Loss before equity loss from NEC TOKIN	(31,762)	(17,753)
Equity loss from NEC TOKIN	(3,377)	
Net loss	\$ (35,139)	\$ (17,753)
Net loss per share:		
Basic	\$ (0.78)	\$ (0.40)
Diluted	\$ (0.78)	\$ (0.40)
Weighted-average shares outstanding:		
Basic	45,022	44,808
Diluted	45,022	44,808

See accompanying notes to the unaudited condensed consolidated financial statements.



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

	<b>Quarters Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
Net loss	\$ (35,139)	\$ (17,753)
Other comprehensive income (loss):		
Foreign currency translation gains (losses)	2,272	(7,966)
Defined benefit pension plans, net of tax impact	175	102
Post-retirement plan adjustments	(70)	71
Equity interest in investee's other comprehensive income	(651)	
Other comprehensive income (loss)	1,726	(7,793)
Total comprehensive loss	\$ (33,413)	\$ (25,546)

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)**

Net loss	\$	(35,139)	\$	(17,753)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization		13,731		11,656
Amortization of debt discount and debt issuance costs		1,014		971
Equity loss from NEC TOKIN		3,377		
Net loss on sales and disposals of assets				104
Stock-based compensation expense		968		1,264
Long-term receivable write down		1,444		
Change in deferred income taxes		(241)		122
Change in operating assets		(14,385)		(12,029)
Change in operating liabilities		1,706		(5,490)
Other		(106)		(52)
Net cash used in operating activities		(27,631)		(21,207)
Investing activities:				
Capital expenditures		(15,481)		(13,101)
Change in restricted cash		1,591		
Net cash used in investing activities		(13,890)		(13,101)
Financing activities:				
Proceeds from issuance of debt				15,825
Deferred acquisition payments		(1,204)		(1,439)
Payments of long-term debt		(306)		(1,576)
Proceeds from exercise of stock options		19		41
Debt issuance costs				(275)
Net cash provided by (used in) financing activities		(1,491)		12,576
Net decrease in cash and cash equivalents		(43,012)		(21,732)
Effect of foreign currency fluctuations on cash		189		(943)
Cash and cash equivalents at beginning of fiscal period		95,978		210,521
Cash and cash equivalents at end of fiscal period	\$	53,155	\$	187,846

See accompanying notes to the unaudited condensed consolidated financial statements.

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**Notes to Condensed Consolidated Financial Statements**

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

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

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

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

***Use of Estimates and Assumptions***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, assumptions, and judgments based on historical data and other assumptions that management believes are reasonable. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. In addition, they affect the reported amounts of revenues and expenses during the reporting period.

The Company s judgments are based on management s assessment as to the effect certain estimates, assumptions, or future trends or events may have on the financial condition and results of operations reported in the unaudited condensed consolidated financial statements. It is important that readers of these unaudited financial statements understand that actual results could differ from these estimates, assumptions, and judgments.

***Recently Issued Accounting Pronouncements***

*New accounting standards adopted*

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

In July 2012, the FASB issued ASU No. 2012-02, Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment, which states that an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. This provision is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. This accounting guidance is not expected to have a material impact on the Company's financial position, results of operations, comprehensive income or liquidity.

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

***Restricted Cash***

As discussed in Note 2, *Debt*, the Company received a \$24.0 million prepayment from an original equipment manufacturer ( OEM ) and utilized \$10.3 million for the purchase of manufacturing equipment; the remaining proceeds of \$13.7 million are classified as restricted cash at June 30, 2013.

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

***Fair Value Measurement***

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

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

- Level 1 Quoted prices in active markets for identical assets or liabilities.
  
- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
  
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

	Carrying Value			Fair Value			Carrying Value			Fair Value		
	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	March 31, 2013	March 31, 2013	March 31, 2013	March 31, 2013	March 31, 2013	
				Level 1	Level 2 (2)	Level 3				Level 1	Level 2 (2)	Level 3
<b>Assets:</b>												
Money markets (1)	\$ 8,585	\$ 8,585	\$ 8,585	\$	\$	\$	\$ 29,984	\$ 29,984	\$ 29,984	\$	\$	\$
Long-term debt	383,293	384,249	361,213	23,036			383,500	393,928	369,200	24,728		
NEC TOKIN derivative (3)	489	489				489	489	489				489

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- (1) Included in the line item Cash and cash equivalents on the Condensed Consolidated Balance Sheets.
- (2) The valuation approach used to calculate fair value was a discounted cash flow for each respective debt facility.
- (3) See Note 5, Investment in NEC TOKIN, for a description of this net call derivative. The value of the option is interrelated and depend on the enterprise value of NEC TOKIN Corporation and its EBITDA over time. Therefore, the derivative has been valued using option pricing methods in a Monte Carlo simulation.

### *Inventories*

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

	<b>June 30, 2013</b>		<b>March 31, 2013</b>
Raw materials and supplies	\$ 99,634	\$	84,852
Work in process	71,352		70,522
Finished goods	70,782		68,705
	241,768		224,079
Inventory reserves (1)	(24,225)		(18,464)
	\$ 217,543	\$	205,615

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- (1) During the quarter ended June 30, 2013, the Company recorded a \$3.9 million reserve for inventory held by a third party.

### *Warrant Liability*

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

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***Revenue Recognition***

The Company ships products to customers based upon firm orders and recognizes revenue when the sales process is complete. This occurs when products are shipped to the customer in accordance with the terms of an agreement of sale, there is a fixed or determinable selling price, title and risk of loss have been transferred and collectability is reasonably assured. Shipping and handling costs are included in cost of sales.

A portion of sales is related to products designed to meet customer specific requirements. These products typically have stricter tolerances making them useful to the specific customer requesting the product and to customers with similar or less stringent requirements. The Company recognizes revenue when title to the products transfers to the customer.

A portion of sales is made to distributors under agreements allowing certain rights of return, inventory price protection, and ship-from-stock and debit ( SFSD ) programs common in the industry.

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

Estimates used in determining sales allowances are subject to various factors including, but not limited to, changes in economic conditions, pricing changes, product demand, inventory levels in the supply chain, the effects of technological change, and other variables that might result in changes to our estimates.

The Company provides a limited warranty to customers that the Company's products meet certain specifications. The warranty period is generally limited to one year, and the Company's liability under the warranty is generally limited to a replacement of the product or refund of the purchase price of the product. Warranty costs as a percentage of net sales were 1% or less for the quarters ended June 30, 2013 and 2012. The Company recognizes warranty costs when they are both probable and reasonably estimable.

**Note 2. Debt**

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

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	June 30, 2013	March 31, 2013
10.5% Senior Notes, net of premium of \$3,620 and \$3,773 as of June 30, 2013 and March 31, 2013, respectively	\$ 358,620	\$ 358,773
Advanced payment from OEM, net of discount of \$840 and \$1,056 as of June 30, 2013 and March 31, 2013, respectively	22,856	22,944
Other	1,817	1,783
Total debt	383,293	383,500
Current maturities	(7,648)	(10,793)
Total long-term debt	\$ 375,645	\$ 372,707



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

	Quarters Ended June 30,	
	2013	2012
Contractual interest expense	\$ 9,020	\$ 9,486
Amortization of debt issuance costs	426	426
Amortization of debt (premium) discount	62	(153)
Imputed interest on acquisition related obligations	526	698
	\$ 10,034	\$ 10,457

***Advanced Payment from OEM***

On August 28, 2012, the Company entered into and amended an agreement (the Agreement) with an original equipment manufacturer (OEM), pursuant to which the OEM agreed to advance the Company \$24.0 million (the Advance Payment). As of June 30, 2013 and March 31, 2013, the Company had \$23.7 million and \$24.0 million, respectively, outstanding to the OEM. On a monthly basis starting in June 2013, the Company began repaying the OEM an amount equal to a percentage of the aggregate purchase price of the capacitors sold to the OEM the preceding month, not to exceed \$1.0 million per month. Pursuant to the terms of the Agreement, the percentage of the aggregate purchase price of capacitors sold to the OEM that will be used to repay the Advance Payment will double, not to exceed \$2.0 million per month, in the event that (1) the OEM provides evidence that the price charged by KEMET for a particular capacitor during any prior quarter was equal to or greater than 110% of the price paid by the OEM or its affiliates for a third-party part qualified for the same product, and shipping in volume during such period, and (2) agreement cannot be reached between the OEM and the Company for a price adjustment during the current quarter which would bring KEMET's price within 110% of the third-party price. In June 2015, the outstanding balance, if any, is due in full. Pursuant to the terms of the Agreement, the Company delivered to the OEM an irrevocable standby letter of credit in the amount of \$16.0 million on October 8, 2012 and on October 22, 2012, the Company received the Advance Payment from the OEM.

The OEM may demand repayment of the entire balance outstanding or draw upon the Letter of Credit if any of the following events occur while the Agreement is still in effect: (i) the Company commits a material breach of the Agreement, the statement of work or the master purchase agreement between the OEM and the Company; (ii) the Company's credit rating issued by Standard & Poor's Financial Services LLC or its successor or Moody's Investors Services, Inc. or its successors drops below CCC+ or Caa1, respectively; (iii) the Company's cash balance on the last day of any fiscal quarter is less than \$60,000,000; (iv) the Letter of Credit has been terminated without being replaced prior to repayment of the Advance Payment amount; (v) the Company or substantially all of its assets are sold to a party other than a subsidiary of the Company; (vi) all or substantially all of the assets of a subsidiary of the Company, or any of the shares of such subsidiary, are sold, whose assets are used to develop and produce the Goods; (vii) the Company or any subsidiary which accounts for 20% or more of the Company's consolidated total assets (Company Entity) applies for judicial or extra judicial settlement with its creditors, makes an assignment for the benefit of its creditors, voluntarily files for bankruptcy or has a receiver or trustee in bankruptcy appointed by reason of its insolvency, or in the event of an involuntary bankruptcy action, liquidation proceeding, dissolution or similar proceeding is filed against a Company Entity and not dismissed within sixty (60) days. The Company believes none of these triggers have been met since the Company's cash balance including restricted cash exceeds the \$60.0 million threshold.

***10.5% Senior Notes***

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As of June 30, 2013 and March 31, 2013, the Company had outstanding \$355.0 million in aggregate principal amount of the Company's 10.5% Senior Notes due May 1, 2018 (the 10.5% Senior Notes). The Company had interest payable related to the 10.5% Senior Notes included in the line Accrued expenses on its Condensed Consolidated balance sheets of \$6.2 million and \$15.6 million at June 30, 2013 and March 31, 2013, respectively.

### *Revolving Line of Credit*

KEMET Electronics Corporation (KEC) and KEMET Electronics Marketing (S) Pte Ltd. (KEMET Singapore) (each a Borrower and, collectively, the Borrowers) entered into a Loan and Security Agreement (the Loan and Security Agreement) which provides a \$50 million revolving line of credit. A portion of the U.S. facility and of the Singapore facility can be used to issue letters of credit. The facilities expire on September 30, 2014.

As described above under Advance Payment from OEM, a standby letter of credit for \$16.0 million was delivered to the OEM on October 8, 2012 which reduced the Company's availability under the Loan and Security Agreement. In the first quarter of fiscal year 2014, the Company issued a letter of credit for EUR 1.1 million (\$1.4 million) related to the construction of the new

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manufacturing location in Italy which reduced the Company's availability under the Loan and Security Agreement. As of June 30, 2013, the Company's borrowing capacity under the revolving line of credit was \$23.7 million.

**Note 3. Restructuring Charges**

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

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

	Quarters Ended June 30,			
	2013		2012	
Cost of relocating manufacturing equipment	\$	475	\$	146
Personnel reduction costs		4,135		1,118
	\$	4,610	\$	1,264

*Quarter ended June 30, 2013*

In the quarter ended June 30, 2013 restructuring charges included personnel reduction costs of \$4.1 million and manufacturing relocation costs of \$0.5 million. The personnel reduction costs were comprised of the following: \$1.9 million related to the closure of a portion of our innovation center in the U.S., \$1.1 million related to a reduction of solid capacitor production workforce in Mexico, \$0.7 million related to the Company's initiative to reduce overhead within the Company as a whole and \$0.4 million related to an additional Cassia Integrazione Guadagni Straordinaria ( CIGS ) plan in Italy. The additional expense related to CIGS is an agreement with the labor union which allowed the Company to place up to 170 workers, on a rotation basis, on the CIGS plan to save labor costs. CIGS is a temporary plan to save labor costs whereby a company may temporarily lay off employees while the government continues to pay their wages for a maximum of 12 months for the program. The employees who are in CIGS are not working, but are still employed by the Company. Only employees that are not classified as management or executive level personnel can participate in the CIGS program. Upon termination of the plan, the affected employees return to work.

In addition to these personnel reduction costs, the Company incurred manufacturing relocation costs of \$0.5 million for the consolidation of manufacturing operations within Italy and relocation of equipment to Evora, Portugal.

*Quarter Ended June 30, 2012*

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Restructuring charges in the quarter ended June 30, 2012 were primarily comprised of termination benefits associated with converting the Weymouth, United Kingdom manufacturing facility into a technology center. 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.

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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, 2013	
	Personnel Reductions	Manufacturing Relocations
Beginning of period	\$ 13,509	\$ 567
Costs charged to expense	4,135	475
Costs paid or settled	(8,869)	(1,042)
Change in foreign exchange	172	
End of period	\$ 8,947	\$

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

Changes in Accumulated Other Comprehensive Income (Loss) for the quarter ended June 30, 2013 includes the following components (amounts in thousands):

	Foreign Currency Translation (1)	Defined Benefit Pension Plans, Net of Tax (2)	Post- Retirement Benefit Plans	Share of Equity Method Investees Other Comprehensive Income (Loss)	Net Accumulated Other Comprehensive Income (Loss)
Balance at March 31, 2013	\$ 13,538	\$ (7,662)	\$ 1,818	\$	\$ 7,694
Other comprehensive income (loss) before reclassifications	2,272			(651)	1,621
Amounts reclassified out of AOCI		175	(70)		105
Other comprehensive income (loss)	2,272	175	(70)	(651)	1,726
Balance at June 30, 2013	\$ 15,810	\$ (7,487)	\$ 1,748	\$ (651)	\$ 9,420

Changes in Accumulated Other Comprehensive Income (Loss) for the quarter ended June 30, 2012 includes the following components (amounts in thousands):

Foreign Currency Translation (1)	Defined Benefit Pension Plans, Net of Tax (2)	Post- Retirement Benefit Plans	Net Accumulated
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					<b>Other Comprehensive</b>	
					<b>Income (Loss)</b>	
Balance at March 31, 2012	\$	18,107	\$	(8,082)	\$	1,995
					\$	12,020
Other comprehensive income (loss) before reclassifications		(7,966)				(7,966)
Amounts reclassified out of AOCI				102		71
						173
Other comprehensive income (loss)		(7,966)		102		71
						(7,793)
Balance at June 30, 2012	\$	10,141	\$	(7,980)	\$	2,066
					\$	4,227

(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, 2013 and 2012.

(2) Ending balance is net of tax of \$2.3 million and \$2.6 million as of June 30, 2013 and June 30, 2012, respectively.

**Note 5. Investment in NEC TOKIN**

On March 12, 2012, KEMET Electronics Corporation ( KEC ), a wholly owned subsidiary of the Company, entered into a Stock Purchase Agreement (the Stock Purchase Agreement ) to acquire 51% of the common stock (which represents a 34% economic interest) of NEC TOKIN Corporation ( NEC TOKIN ), a manufacturer of tantalum capacitors, electro-magnetic, electro-mechanical and access devices, (the Initial Purchase ) from NEC Corporation ( NEC ) of Japan. The transaction closed on February 1, 2013, at which time KEC paid a purchase price of \$50.0 million for new shares of common stock of NEC TOKIN (the Initial Closing ). The Company accounts for the equity investment using the equity method in a non-consolidated variable interest entity since KEC does not have the power to direct significant activities of NEC TOKIN.

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

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

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

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

	<b>June 30, 2013</b>	
Current assets	\$	209,185
Noncurrent assets		391,632
Current liabilities		106,023
Noncurrent liabilities		398,739
Sales	\$	123,192
Gross profit		18,300
Net loss		(8,729)

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As of June 30, 2013, the excess of the carrying value for its investment in NEC TOKIN over KEMET's share of NEC TOKIN's equity is \$16.1 million. As of June 30, 2013, KEC's maximum loss exposure as a result of its investments in NEC TOKIN is limited to the aggregate of the carrying value of the investment and any accounts receivable balance due from NEC TOKIN.

### **Note 6. Segment and Geographic Information**

In the first quarter of fiscal year 2014, the Company reorganized its business by combining its Tantalum Business Group and Ceramic Business Group into one business group, Solid Capacitors. Following the reorganization, based on information regularly reviewed by the chief operating decision maker, KEMET's two business groups are comprised of: the Solid Capacitors Business



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Group ( Solid Capacitors ) and the Film and Electrolytic Business Group ( Film and Electrolytic ). These business groups are responsible for their respective manufacturing sites as well as all related research and development efforts.

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

*Solid Capacitors*

Operating in ten manufacturing sites in the United States, Mexico, China and Portugal, Solid Capacitors primarily produces tantalum, aluminum polymer and ceramic capacitors which are sold globally. Solid Capacitors also produces tantalum powder used in the production of tantalum capacitors and has a product innovation center in the United States.

*Film and Electrolytic*

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

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

	Quarters Ended June 30,	
	2013	2012
<b>Net sales:</b>		
Solid Capacitors	\$ 149,401	\$ 160,744
Film and Electrolytic	53,322	62,888
	\$ 202,723	\$ 223,632
<b>Operating income (loss)(1):</b>		
Solid Capacitors	\$ 12,808	\$ 25,518
Film and Electrolytic	(8,043)	(6,208)
Unallocated operating expenses	(24,723)	(23,355)
	\$ (19,958)	\$ (4,045)
<b>Depreciation and amortization expenses:</b>		
Solid Capacitors	\$ 7,310	\$ 7,191

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Film and Electrolytic		4,507		3,449
Unallocated operating expenses		1,914		1,016
	\$	13,731	\$	11,656

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

Restructuring charges:	Quarters Ended June 30,			
		2013		2012
Solid Capacitors	\$	3,045	\$	142
Film and Electrolytic		1,410		1,122
Corporate		155		
	\$	4,610	\$	1,264

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	Quarters Ended June 30,	
	2013	2012
<b>Sales by region:</b>		
North and South America ( Americas )	\$ 59,570	\$ 60,485
Europe, Middle East, Africa ( EMEA )	73,041	79,385
Asia and Pacific Rim ( APAC )	70,112	83,762
	\$ 202,723	\$ 223,632

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

	June 30, 2013	March 31, 2013
<b>Total assets:</b>		
Solid Capacitors	\$ 497,165	\$ 517,024
Film and Electrolytic	304,708	308,751
Corporate	79,297	85,816
	\$ 881,170	\$ 911,591

**Note 7. Defined Benefit Pension and Other Postretirement Benefit Plans**

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

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

	Pension		Post-retirement Benefit Plan	
	Quarters Ended June 30,		Quarters Ended June 30,	
	2013	2012	2013	2012
Net service cost	\$ 331	\$ 414	\$ 5	\$ 9
Interest cost	428	494		
Expected return on net assets	(109)	(172)		
Amortization:				
Actuarial (gain) loss	78	130	(70)	(72)
Prior service cost	1	6		
Curtailment loss on benefit plans				
Total net periodic benefit (income) costs	\$ 729	\$ 872	\$ (65)	\$ (63)

In fiscal year 2014, the Company expects to contribute up to \$1.6 million to the pension plans, of which the Company has contributed \$0.3 million as of June 30, 2013. The Company's policy is to pay benefits as costs are incurred for the postretirement benefit plan.

**Note 8. Stock-based Compensation**

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

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

	Quarter Ended June 30, 2013			Quarter Ended June 30, 2012		
	Stock Options	Restricted Stock	LTIPs	Stock Options	Restricted Stock	LTIPs
Cost of sales	\$ 138	\$ 63	\$ 114	\$ 212	\$ 121	\$ 68
Selling, general and administrative expenses	147	233	214	254	398	173
Research and development.	10		49	18		20
	\$ 295	\$ 296	\$ 377	\$ 484	\$ 519	\$ 261

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, 2013 and 2012. Approximately six thousand and twenty-one thousand stock options were exercised in the quarters ended June 30, 2013 and 2012, respectively.

**Note 9. Income Taxes**

During the first quarter of fiscal year 2014, the Company incurred \$1.6 million of income tax expense which is comprised of \$1.5 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 2014 loss due to a valuation allowance on deferred tax assets.

During the first quarter of fiscal year 2013, the Company incurred \$1.8 million of income tax expense which was comprised of \$1.7 million related to income taxes for foreign operations and \$0.1 million of state income tax expense. There was 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.

**Note 10. Reconciliation of Basic and Diluted Net 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,	
	2013	2012
Numerator:		
Net loss	\$ (35,139)	\$ (17,753)
Denominator:		
Weighted-average shares outstanding:		

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Basic		45,022		44,808
Assumed conversion of employee stock grants				
Assumed conversion of warrants				
Diluted		45,022		44,808
Basic loss per share	\$	(0.78)	\$	(0.40)
Diluted loss per share	\$	(0.78)	\$	(0.40)

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

	Quarters Ended June 30,	
	2013	2012
Assumed conversion of employee stock grants	1,987	1,469
Assumed conversion of warrants	6,687	7,160

**Note 11. Concentrations of Risks**

The Company sells to customers globally. Monthly the Company evaluates customer account balances in order to assess the Company's financial risks of collection as the Company generally does not require collateral from its customers. Two customers each accounted for over 10% of the Company's net sales in the quarter ended June 30, 2013 and one customer accounted for over 10% of

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the Company's net sales in the quarter ended June 30, 2012. There were no customers' accounts receivable balances exceeding 10% of gross accounts receivable at June 30, 2013 and March 31, 2013.

Electronics distributors are an important distribution channel in the electronics industry and accounted for 46% of the Company's net sales in the quarters ended June 30, 2013 and 2012. 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.

**Note 12. Condensed Consolidating Financial Statements**

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

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

Table of Contents**Condensed Consolidating Balance Sheet****June 30, 2013****(Unaudited)**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Reclassifications and Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 8,822	\$ 26,088	\$ 18,245	\$	\$ 53,155
Accounts receivable, net		46,683	54,571		101,254
Intercompany receivable	298,203	274,135	175,292	(747,630)	
Inventories, net		133,048	84,495		217,543
Prepaid expenses and other	3,182	17,170	21,977	(2,952)	39,377
Deferred income taxes		990	3,260		4,250
Total current assets	310,207	498,114	357,840	(750,582)	415,579
Property and equipment, net	344	113,476	196,057		309,877
Investments in NEC TOKIN		48,709			48,709
Investments in subsidiaries	399,792	424,386	10,750	(834,928)	
Goodwill		35,584			35,584
Intangible assets, net		29,417	8,893		38,310
Restricted cash		15,851			15,851
Deferred income taxes		1,500	6,821		8,321
Other assets	6,410	1,146	1,383		8,939
Long-term intercompany receivable	77,549	57,549	2,800	(137,898)	
Total assets	\$ 794,302	\$ 1,225,732	\$ 584,544	\$ (1,723,408)	\$ 881,170
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Current portion of long-term debt	\$ 6,391	\$ 15	\$ 1,242	\$	\$ 7,648
Accounts payable, trade	137	44,246	45,471		89,854
Intercompany payable	122,753	510,941	113,936	(747,630)	
Accrued expenses	28,360	14,643	40,310		83,313
Income taxes payable and deferred income taxes		3,124	1,891	(2,952)	2,063
Total current liabilities	157,641	572,969	202,850	(750,582)	182,878
Long-term debt, less current portion	375,084		561		375,645
Other non-current obligations	17,208	2,975	49,401		69,584
Deferred income taxes		3,219	5,475		8,694
Long-term intercompany payable		77,549	60,349	(137,898)	
Stockholders' equity	244,369	569,020	265,908	(834,928)	244,369
Total liabilities and stockholders' equity	\$ 794,302	\$ 1,225,732	\$ 584,544	\$ (1,723,408)	\$ 881,170



Table of Contents**Condensed Consolidating Balance Sheet**

March 31, 2013

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 17,202	\$ 52,056	\$ 26,720	\$	\$ 95,978
Accounts receivable, net		42,051	54,513		96,564
Intercompany receivable	287,513	251,524	150,376	(689,413)	
Inventories, net		126,286	79,329		205,615
Prepaid expenses and other	3,186	13,564	27,303	(2,952)	41,101
Deferred income taxes		578	3,589		4,167
Total current assets	307,901	486,059	341,830	(692,365)	443,425
Property and equipment, net	361	111,584	192,563		304,508
Investments in NEC TOKIN		52,738			52,738
Investments in subsidiaries	423,695	424,386	10,750	(858,831)	
Goodwill		35,584			35,584
Intangible assets, net		29,763	8,883		38,646
Restricted cash		17,397			17,397
Deferred income taxes		1,500	6,494		7,994
Other assets	6,741	3,173	1,385		11,299
Long-term intercompany receivable	75,919	56,338	2,800	(135,057)	
Total assets	\$ 814,617	\$ 1,218,522	\$ 564,705	\$ (1,686,253)	\$ 911,591
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Current portion of long-term debt	\$ 9,561	\$ 16	\$ 1,216	\$	\$ 10,793
Accounts payable, trade	61	37,444	36,164		73,669
Intercompany payable	100,947	481,707	106,759	(689,413)	
Accrued expenses	37,490	19,615	38,839		95,944
Income taxes payable		3,046	980	(2,952)	1,074
Total current liabilities	148,059	541,828	183,958	(692,365)	181,480
Long-term debt, less current portion	372,157		550		372,707
Other non-current obligations	17,485	3,899	50,562		71,946
Deferred income taxes		2,808	5,734		8,542
Long-term intercompany payable		75,919	59,138	(135,057)	
Stockholders' equity	276,916	594,068	264,763	(858,831)	276,916
Total liabilities and stockholders' equity	\$ 814,617	\$ 1,218,522	\$ 564,705	\$ (1,686,253)	\$ 911,591

Table of Contents**Condensed Consolidating Statement of Operations****For the Quarter Ended June 30, 2013**

Net sales	\$	19	\$	237,323	\$	208,303	\$	(242,922)	\$	202,723
Operating costs and expenses:										
Cost of sales		403		227,155		190,419		(232,788)		185,189
Selling, general and administrative expenses		10,611		12,266		13,759		(10,134)		26,502
Research and development		90		4,275		2,015				6,380
Restructuring charges				1,934		2,676				4,610
Total operating costs and expenses		11,104		245,630		208,869		(242,922)		222,681
Operating income (loss)		(11,085)		(8,307)		(566)				(19,958)
Other (income) expense, net		59		11,058		(893)				10,224
Equity in earnings of subsidiaries		23,995						(23,995)		
Income (loss) before income taxes and equity loss from NEC TOKIN		(35,139)		(19,365)		327		23,995		(30,182)
Income tax expense				55		1,525				1,580
Income (loss) before equity loss from NEC TOKIN		(35,139)		(19,420)		(1,198)		23,995		(31,762)
Equity loss from NEC TOKIN				(3,377)						(3,377)
Net income (loss)	\$	(35,139)	\$	(22,797)	\$	(1,198)	\$	23,995	\$	(35,139)

**Condensed Consolidating Statements of Comprehensive Income (Loss)****Quarter Ended June 30, 2013**

Comprehensive income (loss)	\$	(33,510)	\$	(24,340)	\$	442	\$	23,995	\$	(33,413)
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Table of Contents**Condensed Consolidating Statement of Operations****For the Quarter Ended June 30, 2012**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Reclassifications and Eliminations</b>	<b>Consolidated</b>
Net sales	\$	\$ 240,944	\$ 228,715	\$ (246,027)	\$ 223,632
<b>Operating costs and expenses:</b>					
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 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 earnings 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)

**Condensed Consolidating Statements of Comprehensive Income (Loss)****For the Quarter Ended June 30, 2012**

Comprehensive income (loss)	\$ (22,294)	\$ (5,751)	\$ (3,003)	\$ 5,502	\$ (25,546)
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Table of Contents**Condensed Consolidating Statement of Cash Flows****For the Quarter Ended June 30, 2013**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Reclassifications and Eliminations</b>	<b>Consolidated</b>
Sources (uses) of cash and cash equivalents					
Net cash used in operating activities	\$ (7,889)	\$ (19,373)	\$ (369)	\$	\$ (27,631)
Investing activities:					
Capital expenditures		(7,186)	(8,295)		(15,481)
Change in restricted cash		1,591			1,591
Net cash used in investing activities		(5,595)	(8,295)		(13,890)
Financing activities:					
Deferred acquisition payments	(204)	(1,000)			(1,204)
Payments of long-term debt	(306)				(306)
Proceeds from exercise of stock options	19				19
Net cash used in financing activities	(491)	(1,000)			(1,491)
Net decrease in cash and cash equivalents	(8,380)	(25,968)	(8,664)		(43,012)
Effect of foreign currency fluctuations on cash			189		189
Cash and cash equivalents at beginning of fiscal period	17,202	52,056	26,720		95,978
Cash and cash equivalents at end of fiscal period	\$ 8,822	\$ 26,088	\$ 18,245	\$	\$ 53,155

**Condensed Consolidating Statements of Cash Flows****For the Quarter Ended June 30, 2012****(Unaudited)**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Reclassifications 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)
Net cash used in investing activities		(3,660)	(9,441)		(13,101)

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Financing activities:

Proceeds from issuance of debt	15,825			15,825
Payments of long-term debt			(1,576)	(1,576)
Acquisition, net of cash received	(439)	(1,000)		(1,439)
Proceeds from exercise of stock options	41			41
Debt issuance costs	(275)			(275)
Net cash provided by (used in) financing activities	15,152	(1,000)	(1,576)	12,576
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

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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 2013 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) inability to attract, train and retain effective employees and management; (xi) 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 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 2013 Annual Report. Our critical accounting policies are described under the caption Critical Accounting Policies in Item 7 of our 2013 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 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. 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.

KEMET's broad line of tantalum, multilayer ceramic, solid and electrolytic aluminum and film and paper capacitors are manufactured using a variety of raw materials and are available in many different sizes and. 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. Because 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 their needs independent of application and end use.

In fiscal year 2013, we shipped approximately 32 billion capacitors and in the quarter ended June 30, 2013, we shipped approximately 9 billion capacitors. We believe the long-term demand for capacitors 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 23 production facilities in Europe, North America, and Asia and employ approximately 9,600 employees worldwide. 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 quarters ended June 30, 2013 and 2012, our consolidated net sales were \$202.7 million and \$223.6 million, respectively.

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

**Recent Developments and Trends**

Net sales for the quarter ended June 30, 2013 showed a slight decrease of 0.1% compared to the quarter ended March 31, 2013. We continue to focus on specialty products, and during the first quarter of fiscal year 2014, we introduced 417 new products of which 168 were first to market, and specialty products accounted for 44.2% of our revenue over this period.



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We continue to sell our products into a wide range of different end markets, including computing, industrial, telecommunications, transportation, consumer, defense and healthcare across all geographic regions. No single end market industry accounted for more than 30% and two customers, both of whom are distributors, each accounted for more than 10% of our net sales in the quarter ended June 30, 2013. No single end use customer accounted for more than 6% of our net sales in the quarter ended June 30, 2013.

We have continued to shift production to lower cost locations and to restructure our operations and believe our recent equity investment activity enhances our competitive position. These trends are described in more detail below.

### *Equity Investment*

On March 12, 2012, KEMET Electronics Corporation ( KEC ), a wholly owned subsidiary of the Company, entered into a Stock Purchase Agreement (the Stock Purchase Agreement ) to acquire 51% of the common stock (which represents a 34% economic interest) of NEC TOKIN, a manufacturer of tantalum capacitors, electro-magnetic, electro-mechanical and access devices, (the Initial Purchase ) from NEC Corporation ( NEC ) of Japan. The transaction closed on February 1, 2013, at which time KEC paid a purchase price of \$50.0 million for new shares of common stock of NEC TOKIN (the Initial Closing ). The Company accounts for the equity investment using the equity method in a non-consolidated variable interest entity since KEC does not have the power to direct significant activities of NEC TOKIN. In the first quarter of fiscal year 2014, we incurred a loss on our equity investment in NEC TOKIN of \$3.4 million.

Table of Contents*Restructuring*

We incurred \$4.6 million in restructuring charges in the first quarter of fiscal year 2014 compared to \$1.3 million in restructuring charges in the first quarter of fiscal year 2013. The restructuring charges in the first quarter of fiscal year 2014 included \$4.1 million related to personnel reduction costs comprised of the following: \$1.9 million related to the closure of a portion of our innovation center in the U.S., \$1.1 million related to the reduction of solid capacitor production workforce in Mexico, \$0.7 million related to the Company's initiative to reduce overhead within the Company as a whole and \$0.4 million related to an additional Cassia Integrazione Guadagni Straordinaria ( CIGS ) plan in Italy. The additional expense related to CIGS is an agreement with the labor union which allowed the Company to place up to 170 workers, on a rotation basis, on the CIGS plan to save labor costs. CIGS is a temporary plan to save labor costs whereby a company may temporarily lay off employees while the government continues to pay their wages for a maximum of 12 months for the program. The employees who are in CIGS are not working, but are still employed by the Company. Only employees that are not classified as management or executive level personnel can participate in the CIGS program. Upon termination of the plan, the affected employees return to work. In addition to these personnel reduction costs, the Company incurred manufacturing relocation costs of \$0.5 million for the consolidation of manufacturing operations within Italy and relocation of equipment to Evora, Portugal.

*Outlook*

For the second quarter of fiscal year 2014, we expect net sales to increase up to 3% when compared to the first quarter of fiscal year 2014. We expect Adjusted gross margins will improve to between 13% and 15% and Selling, general and administrative ( SG&A ) and Research and development ( R&D ) costs to be consistent with the quarter ended June 30, 2013.

**CONDENSED CONSOLIDATED RESULTS OF OPERATIONS***Consolidated Comparison of the First Quarter of Fiscal Year 2014 with the First Quarter of Fiscal Year 2013*

The following table sets forth the Condensed Consolidated Statements of Operations for the periods indicated (amounts in thousands):

	Quarters Ended			
	June 30, 2013		June 30, 2012	
	Amount	% to Total Sales	Amount	% to Total Sales
Net sales	\$ 202,723		\$ 223,632	
Gross margin	17,534	8.6%	32,311	14.4%
Selling, general and administrative expenses	26,502	13.1%	27,255	12.2%
Research and development	6,380	3.1%	7,733	3.5%
Restructuring charges	4,610	2.3%	1,264	0.6%

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Net loss on sales and disposals of assets			104	
Operating loss	(19,958)		(4,045)	
Other (income) expense, net	10,224	5.0%	11,937	5.3%
Loss before income taxes and equity loss from NEC TOKIN	(30,182)	(14.9)%	(15,982)	(7.1)%
Income tax expense	1,580	0.8%	1,771	0.8%
Loss before equity loss from NEC TOKIN	(31,762)	(15.7)%	(17,753)	(7.9)%
Equity loss from NEC TOKIN	(3,377)	(1.7)%		
Net loss	\$ (35,139)	(17.3)%	\$ (17,753)	(7.9)%

Table of Contents*Consolidated Comparison of the First Quarter of Fiscal Year 2014 with the First Quarter of Fiscal Year 2013**Net Sales*

Net sales for the first quarter of fiscal year 2014 were \$202.7 million compared to \$223.6 million in the first quarter of fiscal year 2013, representing a 9.3% decrease primarily due to a 9.8% decrease in average selling prices. The decrease in average selling prices is due to a shift in product line mix. The effect of the decrease in average selling prices was partially offset by a 4.0% increase in unit sales volumes. In addition, net sales for Film and Electrolytic s machinery division decreased by \$7.5 million from \$8.1 million in the first quarter of fiscal year 2013 compared to \$0.6 million the first quarter of fiscal year 2014.

The following table reflects the percentage of net sales by region for the quarters ended June 30, 2013 and 2012:

	Quarters Ended June 30,	
	2013	2012
Americas	29%	27%
EMEA	36%	36%
APAC	35%	37%
	100%	100%

The following table reflects the percentage of net sales by channel for the quarters ended June 30, 2013 and 2012:

	Quarters Ended June 30,	
	2013	2012
Distributors	46%	46%
EMS	16%	15%
OEM.	38%	39%
	100%	100%

*Gross Margin*

Gross margin as a percentage of net sales decreased from 14.4% in the first quarter of fiscal year 2013 to 8.6% in the first quarter of fiscal year 2014. The primary contributor to the decrease in gross margin percentages was an increase in raw material costs for Solid Capacitors as well as the additional reserve of \$3.9 million for inventory held by a third party. In addition we incurred a decrease in gross margin due to a decrease in average selling prices driven by the shift in product line mix.

*Selling, General and Administrative Expenses*

SG&A expenses were \$26.5 million, or 13.1% of net sales for the first quarter of fiscal year 2014 compared to \$27.3 million or 12.2% of net sales for first quarter of fiscal year 2013. The \$0.8 million decrease in SG&A expenses primarily consists of a \$2.1 million decrease in payroll and related fringe benefit expenses that resulted from headcount reductions taken as part of overall cost saving initiatives. Partially offsetting this decrease was a \$0.8 million increase in NEC TOKIN investment related fees and a \$0.6 million increase in information technology software maintenance expense.

*Research and Development*

R&D expenses were \$6.4 million or 3.1% of net sales for the first quarter of fiscal year 2014, compared to \$7.7 million, or 3.5% of net sales for the first quarter of fiscal year 2013. The decrease primarily resulted from headcount reductions achieved by leveraging the technology and licensing agreement in place with NEC TOKIN.

*Restructuring Charges*

We incurred \$4.6 million in restructuring charges in the first quarter of fiscal year 2014 compared to \$1.3 million in restructuring charges in the first quarter of fiscal year 2013. The restructuring charges in the first quarter of fiscal year 2014 included \$4.1 million related to personnel reduction costs comprised of the following: \$1.9 million related to the closure of a portion of our innovation center in the U.S., \$1.1 million related to the reduction of solid capacitor production workforce in Mexico, \$0.4 million

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related to an additional CIGS plan which will cover a maximum of 170 employees for up to 12 months in Italy and \$0.7 million related to the Company's initiative to reduce overhead within the Company as a whole. In addition to these personnel reduction costs, the Company incurred manufacturing relocation costs of \$0.5 million for the consolidation of manufacturing operations within Italy and relocation of equipment to Evora, Portugal.

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.

*Operating Loss*

Operating loss for the first quarter of fiscal year 2014 was \$20.0 million compared to operating loss of \$4.0 million for the first quarter of fiscal year 2013 primarily due to a \$14.8 million decrease in gross margin for the first quarter of fiscal year 2014 as compared to the first quarter of fiscal year 2013. Additionally, restructuring charges increased \$3.3 million in the first quarter of fiscal year 2014 as compared to the first quarter of fiscal year 2013. These expense increases were offset by a \$1.4 million decrease in R&D expenses and \$0.8 million decrease in SG&A expenses in the first quarter of fiscal year 2014 as compared to the first quarter of fiscal year 2013.

*Other (Income) Expense, net*

Other (income) expense, net was an expense of \$10.2 million in the first quarter of fiscal year 2014 compared to an expense of \$11.9 million in the first quarter of fiscal year 2013. During the first quarter of fiscal year 2014, we recognized a \$0.6 million foreign currency exchange gain as compared to a \$1.8 million loss on foreign currency exchange in the first quarter of fiscal year 2013, primarily due to the change in the value of the Euro and Mexican Peso compared to the U.S. dollar. In addition, we recognized a \$1.4 million charge related to the write off of a long-term note receivable. Interest expense for the first quarter of fiscal year 2014 decreased \$0.4 million compared to the first quarter of fiscal year 2013 due to higher capitalized interest related to the construction of the consolidated Film and Electrolytic production facility in Italy.

*Income Taxes*

Our income tax expense for the first quarter of fiscal year 2014 was \$1.6 million compared to income tax expense of \$1.8 million for the first quarter of fiscal year 2013. Income tax expense for the first quarter of fiscal year 2014 is comprised of \$1.5 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 2013 was comprised of \$1.7 million related to income taxes for foreign operations and \$0.1 million of state income tax expense. There was 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.

*Equity loss from NEC TOKIN*

In the first quarter of fiscal year 2014, we incurred an equity loss from our investment in NEC TOKIN of \$3.4 million as NEC TOKIN is still recovering from the effects of the July 2011 flooding that occurred in Thailand in its capacitor business unit.

Table of Contents***Business Groups Comparison of the Quarter Ended June 30, 2013 with the Quarter Ended June 30, 2012******Solid Capacitors***

The following table sets forth Net sales, Operating income and Operating income as a percentage of Net sales for our Solid Capacitors business group for the quarters ended June 30, 2013 and 2012 (amounts in thousands, except percentages):

	2013		Quarters Ended June 30,		2012	
	Amount	% to Net Sales	Amount	% to Net Sales		
Tantalum net sales	\$ 94,139		\$ 109,199			
Ceramics net sales	55,262		51,545			
Solid Capacitors net sales	149,401		160,744			
Solid Capacitor operating income	12,808	8.6%	25,518	15.9%		

***Net Sales***

Solid Capacitors net sales decreased 7.1% during the first quarter of fiscal year 2014 compared to the first quarter of fiscal year 2013. The decrease in net sales was driven by a decrease in average selling prices of 10.3%. The decrease in average selling prices is due a decrease in higher priced tantalum products across all regions. Tantalum net sales decreased 13.8% from \$109.2 million in the first quarter of fiscal year 2013 to \$94.1 million in the first quarter of fiscal year 2014 while lower priced Ceramic net sales increased 7.2% from \$51.5 million in the first quarter of fiscal year 2013 to \$55.3million in the first quarter of fiscal year 2014. The overall Solid Capacitors decrease was partially offset by a 3.6% increase in unit sales due to increased demand in the Americas and EMEA, which was partially offset by a decrease in demand in APAC as shown in the following table:

	Quarters Ended June 30,		Change in Units Sold
	2013	2012	
Americas	35.2%	33.7%	8.2%
EMEA	34.4%	33.7%	5.7%
APAC	30.4%	32.6%	(3.4)%

***Operating Income***

Operating income for the first quarter of fiscal year 2014 was \$12.8 million compared to operating income of \$25.5 million in the first quarter of fiscal year 2013. The \$12.7 million decrease was primarily attributable to a decrease in gross margin of \$11.5 million driven by higher priced raw materials, the shift in product line mix to lower priced products and an inventory write down of \$3.9 million. In addition, restructuring charges increased \$2.9 million in the first quarter of fiscal year 2014 compared to the first quarter of fiscal year 2013. These decreases were



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partially offset by a \$0.5 million decrease in SG&A expenses and a \$1.1 million decrease in R&D expenses when comparing the first quarter of fiscal year 2014 to the first quarter of fiscal year 2013.

### *Film and Electrolytic*

The following table sets forth Net sales, Operating loss and Operating loss as a percentage of Net sales for our Film and Electrolytic business group for the quarters ended June 30, 2013 and 2012 (amounts in thousands, except percentages):

	Quarters Ended June 30,			
	2013		2012	
	Amount	% to Net Sales	Amount	% to Net Sales
Net sales	\$ 53,322		\$ 62,888	
Operating loss	(8,043)	(15.1)%	(6,208)	(9.9)%

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*Net Sales*

Net sales decreased 15.2% in the first quarter of fiscal year 2014 compared to the first quarter of fiscal year 2013. The decrease in net sales is driven by a decline in average selling prices, a decrease in end-market demand and adjustments to our customers' inventory stocking levels. Capacitor net sales were unfavorably impacted by \$0.1 million related to foreign exchange. The Film and Electrolytic machinery division's net sales decreased by \$7.5 million from \$8.1 million in the first quarter of fiscal year 2013 to \$0.6 million in the first quarter of fiscal year 2014. The decrease in the Film and Electrolytic machinery division's net sales is primarily due to a decrease in unit sales volume.

*Operating Loss*

Operating loss for the first quarter of fiscal year 2014 was \$8.0 million as compared to an Operating loss of \$6.2 million in the first quarter of fiscal year 2013. The \$1.8 million increase in segment operating loss is primarily attributable to a \$3.3 million decrease in gross margin in the first quarter of fiscal year 2014 compared to the first quarter of fiscal year 2013 due to decreases in average selling prices and overall market demand. In addition, restructuring charges increased \$0.3 million in the first quarter of fiscal year 2014 compared to the first quarter of fiscal year 2013. These were partially offset by decreases in SG&A and R&D expenses of \$1.5 million and \$0.1 million, respectively when comparing the first quarter of fiscal year 2014 to the same quarter of fiscal year 2013.

**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. These cash needs have been met by cash flows from operations, borrowings under our loan agreements and existing cash balances.

*Issuance of 10.5% Senior Notes*

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

*Revolving Line of Credit*

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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. Two letters of credit totaling \$17.4 million were issued under the Loan and Security Agreement as of June 30, 2013. There were no borrowings against the Loan and Security Agreement as of June 30, 2013 or March 31, 2013. As of June 30, 2013 our borrowing capacity under the revolving line of credit was \$23.7 million.

### *Advanced Payment from OEM*

On August 28, 2012, we entered into an Agreement, with an OEM pursuant to which the OEM agreed to the Advance Payment. The Agreement provides that on a monthly-basis starting eight months following the receipt of the Advance Payment, we will pay the OEM an amount equal to a percentage of the aggregate purchase price of the capacitors sold to the OEM the preceding month, not to exceed \$1.0 million per month. Pursuant to the terms of the Agreement, the percentage of the aggregate purchase price of capacitors sold to the OEM that will be used to repay the Advance Payment will double, and the total amount to be repaid will not exceed \$2.0 million per month, in the event that (1) the OEM provides evidence that the price charged by us for a particular capacitor during any prior quarter was equal to or greater than 110% of the price paid by the OEM or its affiliates for a third-party part qualified for the same product, and shipping in volume during such period, and (2) agreement cannot be reached between the OEM and KEMET for a price adjustment during the current quarter which would bring our price within 110% of the third-party price. Thirty-

two months after the date of the Advance Payment, the remaining outstanding balance, if any, is due in full. Pursuant to the terms of the Agreement, we delivered to the OEM an irrevocable standby letter of credit in the amount of \$16.0 million on October 8, 2012 which reduced our availability under the Loan and Security Agreement. On October 22, 2012 we received the Advance Payment from the OEM.

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The OEM may demand repayment of the entire balance outstanding or draw upon the Letter of Credit if any of the following events occur while the Agreement is still in effect: (i) the Company commits a material breach of the Agreement, the statement of work or the master purchase agreement between the OEM and the Company; (ii) the Company's credit rating issued by Standard & Poor's Financial Services LLC or its successor or Moody's Investors Services, Inc. or its successors drops below CCC+ or Caa1, respectively; (iii) the Company's cash balance on the last day of any fiscal quarter is less than \$60,000,000; (iv) the Letter of Credit has been terminated without being replaced prior to repayment of the Advance Payment amount; (v) the Company or substantially all of its assets are sold to a party other than a subsidiary of the Company; (vi) all or substantially all of the assets of a subsidiary of the Company, or any of the shares of such subsidiary, are sold, whose assets are used to develop and produce the Goods; (vii) the Company or any subsidiary which accounts for 20% or more of the Company's consolidated total assets ( Company Entity ) applies for judicial or extra judicial settlement with its creditors, makes an assignment for the benefit of its creditors, voluntarily files for bankruptcy or has a receiver or trustee in bankruptcy appointed by reason of its insolvency, or in the event of an involuntary bankruptcy action, liquidation proceeding, dissolution or similar proceeding is filed against a Company Entity and not dismissed within sixty (60) days. We believe none of these triggers have been met since our cash balance including restricted cash exceeds the \$60.0 million threshold.

*Short-term Liquidity*

Total cash and restricted cash balance as of June 30, 2013 was \$69.0 million. Unrestricted cash and cash equivalents totaled \$53.2 million as of June 30, 2013, representing a decrease of \$42.8 million as compared to \$96.0 million as of March 31, 2013. Our net working capital (current assets less current liabilities) as of June 30, 2013 was \$232.7 million compared to \$261.9 million of net working capital as of March 31, 2013. Cash and cash equivalents held by our foreign subsidiaries totaled \$18.2 million and \$26.7 million at June 30, 2013 and March 31, 2013, 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 may be required to account for U.S. taxes to repatriate these funds.

We have taken steps to improve our operating results by decreasing global headcount and vertically integrating our supply chain. 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 \$37.3 million in interest payments, \$25.0 million to \$30.0 million in expected capital expenditures, \$6.8 million related to the Advance Payment discussed above, deferred acquisition payments of \$22.4 million, payments of \$8.9 million related to restructuring liabilities, and \$1.3 million in debt principal payments. As of June 30, 2013 our borrowing capacity under the revolving line of credit was \$23.7 million.

Should we require more capital than is generated by our operations or available through our revolving line of credit, we believe we could raise capital through debt issuances. However, due to market conditions beyond our control, there can be no assurance that we will be able to complete such an offering. The incurrence of additional debt would result in increased interest expense.

Cash and cash equivalents decreased by \$42.8 million for the quarter ended June 30, 2013 as compared with a decrease of \$22.7 million during the quarter ended June 30, 2012.

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

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	Quarters Ended June 30,	
	2013	2012
Net cash used in operating activities	\$ (27,631)	\$ (21,207)
Net cash used in investing activities	(13,890)	(13,101)
Net cash provided by (used in) financing activities	(1,491)	12,576
Effect of foreign currency fluctuations on cash	189	(943)
Net decrease in cash and cash equivalents	\$ (42,823)	\$ (22,675)

*Operations*

Cash used in operating activities in the quarter ended June 30, 2013 totaled \$27.6 million compared to cash used in operating activities of \$21.2 million in the quarter ended June 30, 2012. This increase was primarily a result of an \$10.8 million decrease in cash flows related to operations (net income (loss) adjusted for the change in: depreciation and amortization, amortization of debt discounts and debt issuance costs, equity loss from NEC TOKIN, net (gain) loss on sales and disposals of assets, long-term receivable write down and stock-based compensation) for the quarter ended June 30, 2013 compared to the quarter ended June 30, 2012.

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In addition, the change in operating assets resulted in a \$2.4 million increase in the use of cash in the quarter ended June 30, 2013 as compared to the quarter ended June 30, 2012. The increase in the use of cash for assets is primarily related to a \$3.6 million increase in cash used related to an increase in inventories and a \$2.8 million increase in cash used related to an increase in accounts receivables. The increase in inventory for the quarter ended June 30, 2013 is primarily related to an increase of Film and Electrolytic s inventory in preparation of the temporary shut-down of production lines in order to move the lines and an increase in Solid Capacitors inventory related to difficulties encountered when purchasing k-salt from a third party producer. Partially offsetting these increases in use of cash for assets was a \$4.0 million improvement in cash generation related to prepaid and other assets.

Offsetting these uses of cash was a \$7.2 million increase in cash generated from operating liabilities in the quarter ended June 30, 2013 compared to the quarter ended June 30, 2012. Within operating liabilities, cash generation increased in the quarter ended June 30, 2013 compared to the quarter ended June 30, 2012 as follows: \$5.2 million related to accrued expenses, \$1.4 million related to an increase in accounts payable and \$1.0 million related to an increase in income taxes payable. Partially offsetting this increase in the generation of cash, cash used for long-term obligations increased by \$0.6 million in the quarter ended June 30, 2013 compared the quarter ended June 30, 2012.

*Investing*

Cash used in investing activities decreased \$0.8 million in the quarter ended June 30, 2013 compared to the quarter ended June 30, 2012. The variance is comprised of a \$2.4 million increase in capital expenditures in the quarter ended June 30, 2013 compared to the quarter ended June 30, 2012. For the quarter ended June 30, 2013, capital expenditures were primarily related to the new manufacturing facility in Pontecchio, Italy and various information technology related projects. This was partially offset by \$1.6 million cash generation related to a decrease in restricted cash in the quarter ended June 30, 2013.

*Financing*

Cash provided by financing activities decreased \$14.1 million in the quarter ended June 30, 2013 as compared to the quarter ended June 30, 2012. During the quarter ended June 30, 2012, we received \$15.8 million in proceeds from the issuance of debt from the private placement of our 10.5% Senior Notes. In the quarter ended June 30, 2013 we used \$0.3 million for debt payments and \$1.2 million for deferred acquisition payments related to the KEMET Foil and KEMET Blue Powder acquisitions. In the quarter ended June 30, 2012, we used \$1.6 million for payments on long-term debt, \$1.4 million related to KEMET Foil and KEMET Blue Powder acquisitions and \$0.3 million for debt issuance costs.

**Commitments**

Our commitments have not changed materially from those disclosed in the Company s 2013 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 (loss), Adjusted net loss and Adjusted EBITDA. Management believes that Adjusted operating income (loss), Adjusted net loss 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.

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

	Quarters Ended June 30,	
	2013	2012
Operating loss	\$ (19,958)	\$ (4,045)
Adjustments:		
Restructuring charges	4,610	1,264
Inventory write down	3,886	
NEC TOKIN investment related expenses	1,307	542
Plant start-up costs	1,133	1,361
ERP integration costs	1,010	1,676
Stock-based compensation	968	1,264
Net loss on sales and disposals of assets		104
Registration related fees		20
Adjusted operating income (loss)	\$ (7,044)	\$ 2,186

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

	Quarters Ended June 30,	
	2013	2012
Net loss	\$ (35,139)	\$ (17,753)
Adjustments:		
Restructuring charges	4,610	1,264
Inventory write down	3,886	
Equity loss from NEC TOKIN	3,377	
Long-term receivable write down	1,444	
NEC TOKIN investment related expenses	1,307	542
Plant start-up costs	1,133	1,361
Amortization included in interest expense	1,014	971
ERP integration costs	1,010	1,676
Stock-based compensation	968	1,264
Net foreign exchange (gain) loss	(577)	1,789
Net loss on sales and disposals of assets		104
Registration related fees		20
Income tax effect of non-U.S. GAAP adjustments (1)	(56)	4
Adjusted net loss	\$ (17,023)	\$ (8,758)

(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.



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

	Quarters Ended June 30,	
	2013	2012
Net loss	\$ (35,139)	\$ (17,753)
Adjustments:		
Interest expense, net	9,870	10,426
Income tax expense	1,580	1,771
Depreciation and amortization	13,731	11,656
Restructuring charges	4,610	1,264
Inventory write down	3,886	
Equity loss from NEC TOKIN	3,377	
Long-term receivable write down	1,444	
NEC TOKIN investment related expenses	1,307	542
Plant start-up costs	1,133	1,361
ERP integration costs	1,010	1,676
Stock-based compensation	968	1,264
Net foreign exchange (gain) loss	(577)	1,789
Net loss on sales and disposals of assets		104
Registration related fees		20
Adjusted EBITDA	\$ 7,200	\$ 14,120

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

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

Adjusted EBITDA represents net loss before interest expense, net, income tax expense, and depreciation and amortization expense, adjusted to exclude the following items: restructuring charges, inventory adjustment, equity loss from NEC TOKIN, long-term receivable write down, NEC TOKIN investment related expenses, plant start-up costs, ERP integration costs, stock-based compensation, net foreign exchange gain/loss, net loss on sales and disposals of assets, and registration 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.

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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.

### **Impact of Recently Issued Accounting Standards**

#### *New accounting standards adopted*

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

In July 2012, the FASB issued ASU No. 2012-02, Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment, which states that an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. This provision is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. This accounting guidance is not expected to have a material impact on our financial position, results of operations, or liquidity.

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

### **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 2013 Annual Report.

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**Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

As of June 30, 2013, 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 R12 on a worldwide basis. This software implementation project will result 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, 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**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 2013 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.

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**Item 6. Exhibits**

Exhibit 10.1 Consolidated Amendment to Loan and Security Agreement

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, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations for the quarters ended June 30, 2013 and 2012, (ii) Condensed Consolidated Balance Sheets at June 30, 2013 and March 31, 2013, (iii) Condensed Consolidated Statements of Cash Flows for the quarters ended June 30, 2013, and 2012, 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 2, 2013

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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