UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2016

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

2835 KEMET WAY, SIMPSONVILLE, SOUTH CAROLINA 29681
(Address of principal executive offices, zip code)

(864) 963-6300
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ 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 ☐ (Do not check if a smaller reporting company)	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 ofJanuary 30, 2017 was 46,506,510.

KEMET CORPORATION AND SUBSIDIARIES
Form 10-Q for the Quarter ended December 31, 2016

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PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

KEMET CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Amounts in thousands, except per share data)
(Unaudited)

	December 31, 2016	March 31, 2016 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 87,356	$ 65,004
Accounts receivable, net	82,519	93,168
Inventories, net	154,519	168,879
Prepaid expenses and other	24,035	25,496
Total current assets	348,429	352,547
Property, plant and equipment, net of accumulated depreciation of $817,605 and $815,338 as of December 31, 2016 and March 31, 2016, respectively	211,927	241,839
Goodwill	40,294	40,294
Intangible assets, net	30,204	33,301
Investment in NEC TOKIN	21,202	20,334
Deferred income taxes	7,768	8,397
Other assets	2,712	3,068
Total assets	$ 662,536	$ 699,780
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ —	$ 2,000
Accounts payable	62,347	70,981
Accrued expenses	46,418	50,320
Income taxes payable	1,068	453
Total current liabilities	109,833	123,754
Long-term debt, less current portion	386,226	385,833
Other non-current obligations	72,704	74,892
Deferred income taxes	3,326	2,820
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 December 31, 2016 and March 31, 2016	465	465
Additional paid-in capital	445,950	452,821
Retained deficit	(304,565)	(299,510)
Accumulated other comprehensive income	(51,024)	(31,425)
Treasury stock, at cost (67 and 611 shares at December 31, 2016 and March 31, 2016, respectively)	(379)	(9,870)
Total stockholders' equity	90,447	112,481
Total liabilities and stockholders' equity	$ 662,536	$ 699,780

(1) Derived from audited financial statements.

See accompanying notes to the unaudited condensed consolidated financial statements.

KEMET CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Amounts in thousands, except per share data)
(Unaudited)

	Quarters Ended December 31,		Nine-Month Periods Ended December 31,	
	2016	2015	2016	2015
Net sales	$ 188,029	$ 177,184	$ 560,272	$ 550,897
Operating costs and expenses:				
Cost of sales	140,692	138,436	423,999	429,630
Selling, general and administrative expenses	26,665	22,278	78,551	75,656
Research and development	7,059	6,134	21,107	18,560
Restructuring charges	(369)	1,714	4,317	3,561
Write down of long-lived assets	—	—	6,193	—
Net (gain) loss on sales and disposals of assets	132	129	307	(233)
Total operating costs and expenses	174,179	168,691	534,474	527,174
Operating income (loss)	13,850	8,493	25,798	23,723
Non-operating (income) expense:				
Interest income	(5)	(4)	(14)	(10)
Interest expense	9,918	9,852	29,751	29,676
Change in value of NEC TOKIN option	(6,900)	(700)	3,500	26,300
Other (income) expense, net	(3,384)	(1,320)	(6,683)	(2,495)
Income (loss) before income taxes and equity income (loss) from NEC TOKIN	14,221	665	(756)	(29,748)
Income tax expense (benefit)	1,810	2,760	4,440	3,950
Income (loss) before equity income (loss) from NEC TOKIN	12,411	(2,095)	(5,196)	(33,698)
Equity income (loss) from NEC TOKIN	(133)	(6,505)	271	(4,758)
Net income (loss)	$ 12,278	$ (8,600)	$ (4,925)	$ (38,456)
Net income (loss) per basic share	$ 0.26	$ (0.19)	$ (0.11)	$ (0.84)
Net income (loss) per diluted share	$ 0.22	$ (0.19)	$ (0.11)	$ (0.84)
Weighted-average shares outstanding:				
Basic	46,606	46,081	46,469	45,953
Diluted	55,296	46,081	46,469	45,953

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Quarters Ended December 31,		Nine-Month Periods Ended December 31,	
	2016	**2015**	**2016**	**2015**
Net income (loss)	$ 12,278	$ (8,600)	$ (4,925)	$ (38,456)
Other comprehensive income (loss):				
Foreign currency translation gains (losses)	(10,773)	(6,121)	(17,848)	(4,722)
Defined benefit pension plans, net of tax impact	165	6,910	492	7,322
Post-retirement plan adjustments	116	96	31	17
Equity interest in NEC TOKIN's other comprehensive income (loss)	6,161	143	598	(4,463)
Foreign exchange contracts	(1,166)	672	(2,872)	(3,045)
Other comprehensive income (loss)	(5,497)	1,700	(19,599)	(4,891)
Total comprehensive income (loss)	$ 6,781	$ (6,900)	$ (24,524)	$ (43,347)

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Nine-Month Periods Ended December 31,	
	2016	2015
Net income (loss)	$ (4,925)	$ (38,456)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	27,971	28,856
Equity (income) loss from NEC TOKIN	(271)	4,758
Non-cash debt and financing costs	561	649
Stock-based compensation expense	3,471	3,761
Receivable write down	64	24
Change in value of NEC TOKIN option	3,500	26,300
Net (gain) loss on sales and disposals of assets	307	(233)
Write down of long-lived assets	6,193	—
Pension and other post-retirement benefits	2,096	652
Change in deferred income taxes	819	735
Change in operating assets	21,459	4,762
Change in operating liabilities	(18,918)	(32,891)
Other	(183)	526
Net cash provided by (used in) operating activities	42,144	(557)
Investing activities:		
Capital expenditures	(15,011)	(14,120)
Acquisitions, net of cash received	—	(2,892)
Proceeds from sale of assets	—	898
Net cash provided by (used in) investing activities	(15,011)	(16,114)
Financing activities:		
Proceeds from revolving line of credit	—	10,000
Payments on revolving line of credit	—	(5,500)
Payments on long-term obligations	(2,428)	(481)
Purchase of treasury stock	(1,052)	(691)
Proceeds from exercise of stock options	69	—
Net cash provided by (used in) financing activities	(3,411)	3,328
Net increase (decrease) in cash and cash equivalents	23,722	(13,343)
Effect of foreign currency fluctuations on cash	(1,370)	139
Cash and cash equivalents at beginning of fiscal period	65,004	56,362
Cash and cash equivalents at end of fiscal period	$ 87,356	$ 43,158

See accompanying notes to the unaudited condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

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, 2016 (the "Company's 2016 Annual Report").

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. In consolidation, all significant intercompany amounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to current year presentation. Net sales and operating results for the quarter and nine-month periods ended December 31, 2016 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's2016 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/issued

In October 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-16, Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory. The update requires entities to recognize the income tax consequences of many intercompany asset transfers at the transaction date. The seller and buyer will immediately recognize the current and deferred income tax consequences of an intercompany transfer of an asset other than inventory. The tax consequences were previously deferred. The effective date of this update is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The update requires modified retrospective transition method which is a cumulative effect adjustment to retained earnings as of the beginning of the first effective reporting period. The Company is currently evaluating the impact of the adoption of this guidance on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15,Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The update clarifies how cash receipts and cash payments in certain transactions are presented and classified in the statement of cash flows. The effective date of this update is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The update requires retrospective application to all periods presented but may be applied prospectively if retrospective application is impracticable. The Company is currently evaluating the impact of the adoption of this guidance on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation. This guidance changes several aspects of the accounting for share-based payment award transactions, including: (1) Accounting and Cash Flow Classification for Excess Tax Benefits and Deficiencies, (2) Forfeitures, and (3) Tax Withholding Requirements and Cash Flow Classification. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016. Early application is permitted, and KEMET adopted ASU No. 2016-09 as of April 1, 2016. The Company elected to discontinue estimating forfeitures that are expected to occur and recorded a cumulative effect adjustment to retained earnings of $130,000 as of April 1, 2016. There was no cumulative adjustment related to the excess tax benefits as the Company did not have an additional paid in capital pool of excess tax benefits. The adoption did not have a significant impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The ASU requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than short-term leases). The guidance is to be applied using a modified retrospective approach at the beginning of the earliest comparative period in the financial statements. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2018. Early application is permitted. The Company is currently in the process of assessing the impact the adoption of this guidance will have on the Company's consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. The ASU requires an entity that uses first-in, first-out or average cost to measure its inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 was effective for interim and annual reporting periods beginning April 1, 2016. The adoption of ASU 2015-11 did not materially impact the Company's operating results and financial position.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The ASU specifies that debt issuance costs related to a note shall be reported in the balance sheet as a direct reduction from the face amount of the note. In August 2015, the FASB issued ASU No. 2015-15, Interest - Imputation of Interest (Subtopic 835-30) - Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which clarifies the treatment of debt issuance costs associated with line-of-credit arrangements that were not specifically addressed in ASU 2015-03. ASU 2015-15 states that entities may elect to continue to treat debt issuance costs associated with lines of credit as an asset, consistent with current treatment. The Company adopted these ASUs in the first quarter of fiscal year 2017. The ASUs did not impact the Company's results of operations or liquidity. The balance sheet as of March 31, 2016 has been adjusted to reflect retrospective application of the new accounting guidance as follows (amounts in thousands):

	As Previously Reported	Retrospective Adjustment	As Adjusted
Other assets	$ 5,832	$ (2,764)	$ 3,068
Total assets	702,544	(2,764)	699,780
Long-term debt, less current portion	388,597	(2,764)	385,833
Total liabilities and stockholders' equity	702,544	(2,764)	699,780

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern. The new guidance requires management to assess if there is substantial doubt about an entity's ability to continue as a going concern for each annual and interim period. If conditions or events give rise to substantial doubt, disclosures are required. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter; early application is permitted. This new guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which supersedes existing accounting standards for revenue recognition and creates a single framework. The new guidance requires either a retrospective or a modified retrospective approach at adoption. Additional updates to Topic 606 issued by the FASB in 2015 and 2016 include the following:

- ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of the new guidance such that the new provisions will now be required for fiscal years, and interim periods within those years, beginning after December 15, 2017 (ASU No. 2015-14 is effective for the Company's fiscal year that begins on April 1, 2018 and interim periods within that fiscal year).

- ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations, which clarifies the implementation guidance on principal versus agent considerations (reporting revenue gross versus net).
- ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies the implementation guidance on identifying performance obligations and classifying licensing arrangements.
- ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which clarifies the implementation guidance in a number of other areas.
- ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.

The effective date of this guidance is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted but not before the Company's fiscal year that begins on April 1, 2017 (the original effective date of the ASU). The Company plans to adopt the requirements of the new standard in the first quarter of fiscal year 2019. The Company is currently in the process of assessing the impact the adoption of the new revenue standards will have on its consolidated financial statements and related disclosures.

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.

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 ofDecember 31, 2016 and March 31, 2016 are as follows (amounts in thousands):

	Carrying Value December 31,	Fair Value December 31,	Fair Value Measurement Using			Carrying Value March 31,	Fair Value March 31,	Fair Value Measurement Using		
	2016	2016	Level 1	Level 2 (2)	Level 3	2016	2016	Level 1	Level 2 (2)	Level 3
Assets (Liabilities):										
Money markets (1)	$ 719	$ 719	$ 719	$ —	$ —	$ 738	$ 738	$ 738	$ —	$ —
Total debt	(386,226)	(383,880)	(353,441)	(30,439)	—	(387,833)	(284,261)	(254,713)	(29,548)	—
NEC TOKIN option, net (3)	(24,100)	(24,100)	—	—	(24,100)	(20,600)	(20,600)	—	—	(20,600)

(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 based on the borrowing rate for each respective debt facility.
(3) See Note 6, "Investment in NEC TOKIN," for a description of the NEC TOKIN option. The value of the option depends on the enterprise value of NEC TOKIN Corporation and its forecasted EBITDA over the duration of the option. The option has been valued using option pricing methods in a Monte Carlo simulation.

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

March 31, 2016	$	(20,600)
Change in value of NEC TOKIN option		(3,500)
December 31, 2016	$	(24,100)

Inventories

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

	December 31, 2016	March 31, 2016
Raw materials and supplies	$ 68,233	$ 80,289
Work in process	48,545	46,631
Finished goods	53,709	58,060
	170,487	184,980
Inventory reserves	(15,968)	(16,101)
	$ 154,519	$ 168,879

Warrant

As of December 31, 2016 and March 31, 2016, 8.4 million shares were subject to the warrant (which expires June 30, 2019) held by K Equity, LLC.

Revenue Recognition

The Company ships products to customers based upon firm orders and revenue is recognized 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. Based on product availability, customer requirements and customer consent, the Company may ship products earlier than the initial planned ship date. 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 and price protection on unsold merchandise held by distributors. The Company's distributor policy includes inventory price protection and "ship-from-stock and debit" ("SFSD") programs common in the industry.

KEMET's SFSD program provides authorized distributors with the flexibility to meet marketplace prices by allowing them, upon a pre-approved case-by-case basis, to adjust their purchased inventory cost to correspond with current market demand. Requests for SFSD adjustments are considered on an individual basis, require a pre-approved cost adjustment quote from their local KEMET sales representative and apply only to a specific customer, part, specified special price amount, specified quantity, and are only valid for a specific period of time. To estimate potential SFSD adjustments corresponding with current period sales, KEMET records a sales reserve based on historical SFSD credits, distributor inventory levels, and certain accounting assumptions, all of which are reviewed quarterly.

Most of the Company's distributors have the right to return to KEMET a certain portion of the purchased inventory, which, in general, does not exceed6% of their purchases from the previous fiscal quarter. KEMET estimates future returns based on historical return patterns and records a corresponding allowance on the Condensed Consolidated Balance Sheets. The Company also offers volume based rebates on a case-by-case basis to certain customers in each of the Company's sales channels.

The establishment of sales allowances 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. This includes, but is 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 the Company's estimates.

The Company provides a limited warranty to customers that the Company's products meet certain specifications. The warranty period is generally limited toone year, and the Company's liability under the warranty is generally limited to a replacement of the product or refund of the purchase price of the product. Warranty costs as a percentage of net sales were less than 1.0% for the quarters and nine-month periods ended December 31, 2016 and 2015. 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):

	December 31, 2016	March 31, 2016
10.5% Senior Notes, net (1)	$ 352,345	$ 353,952
Revolving line of credit	33,881	33,881
Total debt	386,226	387,833
Current maturities	—	(2,000)
Total long-term debt	$ 386,226	$ 385,833

(1) As noted in Note 1, "Basis of Financial Statements Presentation," ASU No. 2015-03, Interest - Imputation of Interest, was adopted as of April 1, 2016. As such, debt issuance cost, if any, is included within the respective debt balance. Amounts shown are net of premium and debt issuance costs of $0.7 million and $1.0 million as of December 31, 2016 and March 31, 2016, respectively which reduce the 10.5% Senior Notes balance.

The line item "Interest expense" on the Condensed Consolidated Statements of Operations for thequarters and nine-month periods ended December 31, 2016 and 2015, consists of the following (amounts in thousands):

	Quarters Ended December 31,		Nine-Month Periods Ended December 31,	
	2016	2015	2016	2015
Contractual interest expense	$ 9,693	$ 9,761	$ 29,091	$ 29,332
Capitalized interest	(48)	(163)	(151)	(439)
Amortization of debt issuance costs	348	348	1,044	1,044
Amortization of debt (premium) discount	(204)	(188)	(603)	(554)
Imputed interest on acquisition-related obligations	39	52	120	159
Interest expense on capital lease	90	42	250	134
Total interest expense	$ 9,918	$ 9,852	$ 29,751	$ 29,676

Revolving Line of Credit

On May 2, 2016, the Loan and Security Agreement dated September 30, 2010, as amended, by and among KEMET Electronics Corporation ("KEC"), KEMET Electronics Marketing (S) Pte. Ltd., KEMET Foil Manufacturing, LLC ("KEMET Foil"), KEMET Blue Powder Corporation ("KEMET Blue Powder"), The Forest Electric Company and the financial institutions party thereto (the "Loan and Security Agreement"), was amended and, as a result, the revolving credit facility increased to $65.0 million. The Company had the following activity for the nine-month period ended December 31, 2016 and resulting balances under the revolving line of credit (amounts in thousands, excluding percentages):

	March 31, 2016	Nine-Month Period Ended December 31, 2016		December 31, 2016		
	Outstanding Borrowings	Additional Borrowings	Repayments	Outstanding Borrowings	Rate (1) (2)	Due Date
U.S. Facility	$ 19,881	$ —	$ —	$ 19,881	5.000%	December 19, 2019
Singapore Facility						
Singapore Borrowing 1 (3)	12,000	—	—	12,000	3.500%	February 21, 2017
Singapore Borrowing 2 (3)(4)	2,000	—	—	2,000	3.375%	January 9, 2017
Total Facilities	$ 33,881	$ —	$ —	$ 33,881		

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(1) For U.S. borrowings, Base Rate plus 1.50%, as defined in the Loan and Security Agreement.

(2) For Singapore borrowings, London Interbank Offer Rate ("LIBOR"), plus a spread of 2.50% as of December 31, 2016.

(3) The Company has the intent and ability to extend the due date on the Singapore borrowings.

(4) In January 2017, the Company extended the due date to April 10, 2017 at 3.625%.

As of December 31, 2016, these were the only borrowings under the revolving line of credit, and the Company's available borrowing capacity under the Loan and Security Agreement was $31.1 million.

10.5% Senior Notes

On May 10, 2016, the Company repurchased and retired $2.0 million of its 10.5% Senior Notes due May 1, 2018 (the "10.5% Senior Notes"). As of December 31, 2016 and March 31, 2016, the Company had outstanding $353.0 million and $355.0 million, respectively in aggregate principal amount of the Company's 10.5% Senior Notes. The Company had interest payable related to the 10.5% Senior Notes included in the line item "Accrued expenses" on its Condensed Consolidated balance sheets of $6.2 million and $15.5 million as of December 31, 2016 and March 31, 2016, respectively.

Note 3. Impairment Charges

In the quarter ended September 30, 2016 we recorded a write down of long-lived assets of $6.2 million due to the following two actions.

On August 31, 2016, KEMET Electronics Corporation, a wholly-owned subsidiary of KEMET made the decision to shut-down operations of its wholly-owned subsidiary, KEMET Foil Manufacturing, LLC ("KFM"). Operations at KFM's Knoxville, Tennessee plant ceased as of October 31, 2016. KFM supplied formed foil to the Company's Film and Electrolytic Business Group ("Film and Electrolytic"), as well as to certain third party customers. The Company anticipates that Film and Electrolytic will achieve raw material cost savings by purchasing its formed foil from suppliers that have the advantage of lower utility costs. During the second fiscal quarter ending September 30, 2016, Film and Electrolytic recorded impairment charges totaling $4.1 million comprised of $3.0 million for the write down of property plant and equipment and $1.1 million for the write down of intangible assets. The impairment charges are recorded on the Condensed Consolidated Statements of Operations line item "Write down of long-lived assets". In addition, the Company has accrued severance charges and restructuring costs described in Note 4, "Restructuring Charges." Due to the operating loss incurred by Film and Electrolytic in the nine-month period ending December 31, 2016, we tested its long-lived assets for impairment as of December 31, 2016 and concluded that the long-lived assets for Film and Electrolytic were not impaired.

The Solid Capacitor Business Group ("Solid Capacitors") initiated a plan to relocate its K-Salt operations from a leased facility to its existing Matamoros, Mexico facility. Impairment charges of approximately $2.1 million are recorded on

the Condensed Consolidated Statements of Operations line item "Write down of long-lived assets". In addition, the Company has accrued severance charges described in Note 4, "Restructuring Charges" and has incurred equipment relocation costs of approximately $0.1 million in the third quarter of fiscal year 2017 and expects to incur an additional $1.1 million through June of 2017.

Note 4. Restructuring Charges

KEMET's restructuring plans are focused on making the Company more competitive by reducing excess capacity, relocating production to lower cost locations and eliminating unnecessary costs throughout the Company.

A summary of the expenses aggregated in the Condensed Consolidated Statements of Operations line item "Restructuring charges" in the quarters and nine-month periods ended December 31, 2016 and 2015, is as follows (amounts in thousands):

	Quarters Ended December 31,		Nine-Month Periods Ended December 31,	
	2016	2015	2016	2015
Personnel reduction costs	$ (215)	$ 795	$ 1,864	$ 1,905
Relocation and exit costs	(154)	919	2,453	1,656
Restructuring charges	$ (369)	$ 1,714	$ 4,317	$ 3,561

Quarter Ended December 31, 2016

The Company recorded a credit of $0.4 million in restructuring charges in the quarter ended December 31, 2016 comprised of a $0.2 million credit to personnel reduction costs and a $0.2 million credit to manufacturing relocation and exit costs.

The credit to personnel reduction costs of $0.2 million is due to natural attrition in Matamoros, Mexico resulting in a reduction in severance accrual.

The credit to manufacturing relocation costs of $0.2 million primarily consists of a $0.3 million reduction in accrual related to contract termination costs related to the shut-down of operations for KFM partially offset by the following charges: $0.1 million related to transfers of Film and Electrolytic production lines and R&D functions to lower cost regions and $0.1 million in expenses related to the relocation of the K-Salt operations to the existing Matamoros, Mexico plant

Nine-Month Period Ended December 31, 2016

The Company incurred $4.3 million in restructuring charges in the nine-month period ended December 31, 2016 comprised of $1.9 million in personnel reduction costs and $2.5 million in manufacturing relocation and exit costs.

The personnel reduction costs of $1.9 million consist of $0.4 million in headcount reductions related to the shut-down of operations for KFM in Knoxville, Tennessee, $0.3 million related to the consolidation of certain Solid Capacitor manufacturing in Matamoros, Mexico, $0.3 million for overhead reductions in Sweden, $0.3 million in U.S. headcount reductions related to the relocation of global marketing functions to the Company's Fort Lauderdale, Florida office, $0.3 million related to headcount reductions in Europe (primarily Italy and Landsberg, Germany) corresponding with the relocation of certain production lines and laboratories to lower cost regions, $0.2 million overhead reductions as we relocate the R&D operations from Weymouth, England to Evora, Portugal, and $0.1 million in manufacturing headcount reductions related to the relocation of the K-Salt operations to the existing Matamoros, Mexico plant.

The manufacturing relocation costs of $2.5 million primarily consists of $1.9 million in expenses related to contract termination costs related to the shut-down of operations for KFM, $0.4 million related to transfers of Film and Electrolytic production lines and R&D functions to lower cost regions, $0.1 million related to the transfer of certain Tantalum production from Simpsonville, South Carolina to Victoria, Mexico, and $0.1 million in expenses related to the relocation of the K-Salt operations to the existing Matamoros, Mexico plant.

Quarter Ended December 31, 2015

The Company incurred $1.7 million in restructuring charges in the quarter ended December 31, 2015 including $0.8 million in personnel reduction costs and $0.9 million in manufacturing relocation costs.

The personnel reduction costs of $0.8 million were due primarily to $0.5 million related to the consolidation of certain Solid Capacitor manufacturing in Victoria, Mexico, $0.1 million for headcount reductions in Matamoros, Mexico related to the relocation of certain Solid Capacitor manufacturing from Matamoros, Mexico to Victoria, Mexico, and $0.1 million for overhead reductions in North America and Europe.

The Company also incurred $0.9 million of manufacturing relocation costs for transfers of Film and Electrolytic production lines to lower cost regions.

Nine-Month Period Ended December 31, 2015

The Company incurred $3.6 million in restructuring charges in the nine-month period ended December 31, 2015 comprised of $1.9 million of personnel reduction costs and $1.7 million in manufacturing relocation costs.

The personnel reduction costs of $1.9 million consist of the following: $0.9 million for headcount reductions in Matamoros, Mexico related to the relocation of certain Solid Capacitor manufacturing from Matamoros, Mexico to Victoria, Mexico, $0.6 million related to a headcount reduction in Suzhou, China for the Film and Electrolytic production line transfer from Suzhou, China to Anting, China, $0.5 million related to the consolidation of certain Solid Capacitor manufacturing in Victoria, Mexico, $0.4 million for headcount reductions in Europe (primarily Landsberg, Germany) and $0.6 million for headcount reductions related to the outsourcing of the Company's information technology function and overhead reductions in North America and Europe. These personnel reduction costs were partially offset by a $1.2 million reversal of a severance accrual in Italy. The Company originally recorded the accrual in the third quarter of fiscal year 2015 corresponding with a plan to reduce headcount by 50 employees. Under the plan, 24 employees were terminated. However, due to unexpected workforce attrition combined with achieving other cost reduction goals, the Company decided not to complete the remaining headcount reduction. Consequently, the Company reversed the remaining accrual during the second quarter of fiscal year 2016.

The Company also incurred $1.7 million of manufacturing relocation costs for transfers of Film and Electrolytic production lines to lower cost regions.

Reconciliation of Restructuring Liability

A reconciliation of the beginning and ending liability balances for restructuring charges included in the line items "Accrued expenses" and "Other non-current obligations" on the Condensed Consolidated Balance Sheets for the quarters and nine-month periods ended December 31, 2016 and 2015 is as follows (amounts in thousands):

	Quarter Ended December 31, 2016		Quarter Ended December 31, 2015	
	Personnel Reductions	**Manufacturing Relocations**	**Personnel Reductions**	**Manufacturing Relocations**
Beginning of period	$ 2,101	$ 1,982	$ 2,279	$ —
Costs charged to expense	(215)	(154)	795	919
Costs paid or settled	(579)	(832)	(1,209)	(919)
Change in foreign exchange	(46)	—	(43)	—
End of period	$ 1,261	$ 996	$ 1,822	$ —

	Nine-Month Period Ended December 31, 2016		Nine-Month Period Ended December 31, 2015	
	Personnel Reductions	Manufacturing Relocations	Personnel Reductions	Manufacturing Relocations
Beginning of period	$ 976	$ —	$ 7,239	$ —
Costs charged to expense	1,864	2,453	1,905	1,656
Costs paid or settled	(1,510)	(1,457)	(7,492)	(1,656)
Change in foreign exchange	(69)	—	170	—
End of period	$ 1,261	$ 996	$ 1,822	$ —

Note 5. Comprehensive Income (Loss) and Accumulated Other Comprehensive Income

Changes in Accumulated Other Comprehensive Income (Loss) ("AOCI") for the quarters ended December 31, 2016 and 2015 include the following components (amounts in thousands):

	Foreign Currency Translation (1)	Post-Retirement Benefit Plan Adjustments	Defined Benefit Pension Plans, Net of Tax (2)	Ownership Share of Equity Method Investees' Other Comprehensive Income (Loss)	Foreign Exchange Contracts	Net Accumulated Other Comprehensive Income (Loss)
Balance at September 30, 2016	$ (17,347)	$ 1,029	$ (14,834)	$ (12,302)	$ (2,073)	$ (45,527)
Other comprehensive income (loss) before reclassifications	(10,773)	—	—	6,161	(2,146)	(6,758)
Amounts reclassified out of AOCI	—	116	165	—	980	1,261
Other comprehensive income (loss)	(10,773)	116	165	6,161	(1,166)	(5,497)
Balance at December 31, 2016	$ (28,120)	$ 1,145	$ (14,669)	$ (6,141)	$ (3,239)	$ (51,024)

	Foreign Currency Translation (1)	Post-Retirement Benefit Plan Adjustments	Defined Benefit Pension Plans, Net of Tax (2)	Ownership Share of Equity Method Investees' Other Comprehensive Income (Loss)	Foreign Exchange Contracts	Net Accumulated Other Comprehensive Income (Loss)
Balance at September 30, 2015	$ (10,733)	$ 1,080	$ (19,951)	$ (3,069)	$ (2,714)	$ (35,387)
Other comprehensive income (loss) before reclassifications	(6,121)	—	6,663	143	(1,096)	(411)
Amounts reclassified out of AOCI	—	96	247	—	1,768	2,111
Other comprehensive income (loss)	(6,121)	96	6,910	143	672	1,700
Balance at December 31, 2015	$ (16,854)	$ 1,176	$ (13,041)	$ (2,926)	$ (2,042)	$ (33,687)

Changes in AOCI for the nine-month periods ended December 31, 2016 and 2015 include the following components (amounts in thousands):

	Foreign Currency Translation (1)	Post-Retirement Benefit Plan Adjustments	Defined Benefit Pension Plans, Net of Tax (2)	Ownership Share of Equity Method Investees' Other Comprehensive Income (Loss)	Foreign Exchange Contracts	Net Accumulated Other Comprehensive Income (Loss)
Balance at March 31, 2016	$ (10,272)	$ 1,114	$ (15,161)	$ (6,739)	$ (367)	$ (31,425)
Other comprehensive income (loss) before reclassifications	(17,848)	—	—	598	(6,745)	(23,995)
Amounts reclassified out of AOCI	—	31	492	—	3,873	4,396
Other comprehensive income (loss)	(17,848)	31	492	598	(2,872)	(19,599)
Balance at December 31, 2016	$ (28,120)	$ 1,145	$ (14,669)	$ (6,141)	$ (3,239)	$ (51,024)

	Foreign Currency Translation (1)	Post-Retirement Benefit Plan Adjustments	Defined Benefit Pension Plans, Net of Tax (2)	Ownership Share of Equity Method Investees' Other Comprehensive Income (Loss)	Foreign Exchange Contracts	Net Accumulated Other Comprehensive Income (Loss)
Balance at March 31, 2015	$ (12,132)	$ 1,159	$ (20,363)	$ 1,537	$ 1,003	$ (28,796)
Other comprehensive income (loss) before reclassifications	(4,722)	—	6,663	(4,463)	(6,289)	(8,811)
Amounts reclassified out of AOCI	—	17	659	—	3,244	3,920
Other comprehensive income (loss)	(4,722)	17	7,322	(4,463)	(3,045)	(4,891)
Balance at December 31, 2015	$ (16,854)	$ 1,176	$ (13,041)	$ (2,926)	$ (2,042)	$ (33,687)

(1) Due primarily to the Company's valuation allowance on deferred tax assets, there wereno significant deferred tax effects associated with the cumulative currency translation gains and losses during the quarter and nine-month periods ended December 31, 2016 and 2015.
(2) Ending balance is net of tax of $2.0 million and $2.2 million as of December 31, 2016 and December 31, 2015, respectively.

Note 6. Investment in NEC TOKIN

On March 12, 2012, KEC, a wholly owned subsidiary of the Company, entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with NEC TOKIN Corporation ("NEC TOKIN"), a manufacturer of tantalum capacitors, electro-magnetic, electro-mechanical and access devices, to acquire 51% of the common stock of NEC TOKIN (which represented a 34% economic interest, as calculated based on the number of common shares held by KEC, directly and indirectly, in proportion to the aggregate number of outstanding common and convertible preferred shares of NEC TOKIN as of such date) (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 its investment in NEC TOKIN using the equity method for a non-consolidated variable interest entity since KEC does not have the power to direct significant activities of NEC TOKIN. The Company believes that the NEC TOKIN convertible preferred stock represents in-substance common stock of NEC TOKIN and, as a result, its method of calculating KEC's economic basis in NEC TOKIN is the appropriate basis on which to recognize its share of the earnings or loss of NEC TOKIN.

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

Concurrent with execution of the Stock Purchase Agreement and the Stockholders' Agreement, KEC entered into an Option Agreement (the "Option Agreement") with NEC, which was amended on August 29, 2014, whereby KEC had the right to 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 April 30, 2015. Upon providing such First Call Option notice, but not before April 1, 2015, KEC could also have exercised a second 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. The First and Second Call Options expired on April 30, 2015 without being exercised.

Through May 31, 2018, NEC may require KEC to purchase all outstanding capital stock of NEC TOKIN from its stockholders, primarily NEC (the "Put Option"), provided that KEC's payment of the Put Option price is permitted under the 10.5% Senior Notes and Loan and Security Agreement. However, in the event that KEC issues new debt securities principally to refinance its outstanding 10.5% Senior Notes due 2018 and its currently outstanding credit agreement, including amounts to pay related fees and expenses and to use for general corporate purposes ("Refinancing Notes"), prior to NEC's delivery of its notification of exercise of the Put Option, then the earliest date NEC may exercise the Put Option is automatically extended to the day immediately following the final scheduled maturity date of such Refinancing Notes, or in the event such Refinancing Notes are redeemed in full prior to such final scheduled maturity date, then on the day immediately following the date of such full redemption, but in any event beginning no later than November 1, 2019. If not previously exercised, the Put Option will expire on October 31, 2023.

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 could be modified in the event there is a disagreement between NEC and KEC under the Stockholders' Agreement.

The Company has marked the Put Option to fair value and in the quarter and nine-month periods ended December 31, 2016 recognized a $6.9 million gain and a $3.5 million loss, respectively, which was included on the line item "Change in value of the NEC TOKIN option" in the Condensed Consolidated Statement of Operations. The option has been valued using option pricing methods in a Monte Carlo simulation and is impacted by changes in time to maturity, discount rates, interest rates, foreign exchange rates, and NEC TOKIN's projected performance, etc. The line item "Other non-current obligations" on the Condensed Consolidated Balance Sheets includes $24.1 million and $20.6 million as of December 31, 2016 and March 31, 2016, respectively, related to the respective fair value of the Put Option.

KEC's total investment in NEC TOKIN on February 1, 2013, the closing date of the acquisition, 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 various other services necessary to complete the transactions). The Company has made an allocation of the aggregate purchase price, which was based upon estimates that the Company believes are reasonable.

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

	December 31, 2016	March 31, 2016
Current assets	$ 248,128	$ 240,427
Non-current assets	230,232	260,614
Current liabilities	160,648	179,360
Non-current liabilities	322,768	335,500

	Quarters Ended December 31,		Nine-Month Periods Ended December 31,	
	2016	2015	2016	2015
Sales	$ 127,845	$ 111,594	$ 374,944	$ 343,686
Gross profit	28,886	24,610	82,487	74,333
Net income (loss) (1)	1,082	(17,867)	5,444	(10,606)

(1) The significant changes between the periods were due to the additional accrual of anti-trust litigation loss recorded during the quarter ended December 31, 2015; see discussion below.

A reconciliation between NEC TOKIN's net income (loss) and KEC's equity investment income (loss) follows (amounts in thousands):

	Quarters Ended December 31,		Nine-Month Periods Ended December 31,	
	2016	2015	2016	2015
NEC TOKIN net income (loss)	$ 1,082	$ (17,867)	$ 5,444	$ (10,606)
KEC's economic interest %	34%	34%	34%	34%
Equity income (loss) from NEC TOKIN before adjustments	368	(6,075)	1,851	(3,606)
Adjustments:				
Amortization and depreciation	(562)	(494)	(1,686)	(1,118)
Inventory profit elimination	61	64	106	(34)
Equity income (loss) from NEC TOKIN	$ (133)	$ (6,505)	$ 271	$ (4,758)

A reconciliation between NEC TOKIN's net assets and KEC's investment in NEC TOKIN follows (amounts in thousands):

	December 31, 2016	March 31, 2016
Investment in NEC TOKIN	$ 21,202	$ 20,334
Purchase price accounting basis adjustments:		
Property, plant and equipment (1)	3,014	3,365
Technology (1)	(8,657)	(10,134)
Long-term debt (1)	(1,238)	(1,975)
Goodwill	(7,250)	(7,555)
Indemnity asset for legal investigation	(8,500)	(8,500)
Inventory profit elimination (2)	265	371
Other	(553)	(604)
KEC's 34% economic interest in NEC TOKIN's net assets	$ (1,717)	$ (4,698)

(1) Amortized over the estimated lives.
(2) Adjusted each period for any activity.

As of December 31, 2016, 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, any accounts receivable balance due from NEC TOKIN and obligations in the Put Option.

Summarized transactions between KEC and NEC TOKIN are as follows (amounts in thousands):

	Quarters Ended December 31,		Nine-Month Periods Ended December 31,	
	2016	2015	2016	2015
KEC’s sales to NEC TOKIN	$ 4,814	$ 5,020	$ 13,096	$ 14,350
NEC TOKIN’s sales to KEMET	2,350	1,157	6,112	4,747

	December 31, 2016	March 31, 2016
Accounts receivable	$ 2,989	$ 5,220
Accounts payable	907	1,019
Management service agreement receivable (1)	638	748

(1) In accordance with the Stockholders’ Agreement, KEC entered into a management services agreement with NEC TOKIN to provide services for which KEC is being reimbursed.

Beginning in March 2014, NEC TOKIN and certain of its subsidiaries received inquiries, requests for information and other communications from government authorities in China, the United States, the European Commission, Japan, South Korea, Taiwan, Singapore and Brazil concerning alleged anti-competitive activities within the capacitor industry.

On September 2, 2015, the United States Department of Justice announced a plea agreement with NEC TOKIN in which NEC TOKIN agreed to plead guilty to a one-count felony charge of unreasonable restraint of interstate and foreign trade and commerce in violation of Section 1 of the Sherman Act, and to pay a criminal fine of $13.8 million. The plea agreement was approved by the United States District Court, Northern District of California, on January 21, 2016. The fine is payable overfive years in six installments of $2.3 million each, plus accrued interest. The first and second payments were made in February 2016 and January 2017, respectively, while the next payment is due in January 2018.

On December 9, 2015, the Taiwan Fair Trade Commission (“TFTC”) publicly announced that NEC TOKIN would be fined1,218.2 million New Taiwan dollars (“NTD”) (approximately U.S. $37.7 million) for violations of the Taiwan Fair Trade Act. Subsequently, the TFTC has reduced the fine toNTD609.1 million (approximately U.S. $18.9 million). In February 2016, NEC TOKIN commenced an administrative suit in Taiwan, challenging the validity of the amount of the fine, however, the likelihood of success cannot yet be determined.

On March 29, 2016, the Japan Fair Trade Commission published an order by which NEC TOKIN was fined ¥127.2 million (approximately U.S. $1.1 million) for violation of the Japanese Antimonopoly Act. Payment of the fine was made on October 31, 2016.

On July 26, 2016, Brazil’s Administrative Council for Economic Defense approved a cease and desist agreement with NEC TOKIN in which NEC TOKIN made a financial contribution of Brazilian real 601 thousand (approximately U.S. $0.2 million) to Brazil’s Fund for Defense of Diffuse Rights.

On May 2, 2016, NEC TOKIN reached a preliminary settlement, followed by definitive settlement agreements on July 15, 2016 which are subject to court approval, in two antitrust suits filed with the United States District Court, Northern District of California as In re: Capacitors Antitrust Litigation, No. 3:14-cv-03264-JD (the “Class Action Suits”). Pursuant to the terms of the settlement agreements, in consideration of the release of NEC TOKIN and its subsidiaries (including NEC TOKIN America, Inc.) from claims asserted in the Class Action Suits, NEC TOKIN will pay an aggregate $37.3 million to a settlement class of direct purchasers of capacitors and a settlement class of indirect purchasers of capacitors. Each of the respective class payments is payable in five installments, the first of which became due on July 29, 2016, the nextthree of which are due each year thereafter on the anniversary of the initial payment, and the final payment is due by December 31, 2019. NEC TOKIN has paid the initial installment payments into the two plaintiff classes’ respective escrow accounts.

The remaining governmental investigations are continuing at various stages. As ofDecember 31, 2016, NEC TOKIN’s accrual for antitrust and civil litigation claims totaled $72.5 million. This amount includes the best estimate of losses which may result from the ongoing antitrust investigations, civil litigation and claims. However, the actual outcomes could differ from what has been accrued.

Pursuant to the Stock Purchase Agreement, NEC is required to indemnify NEC TOKIN and/or KEC for any breaches by NEC TOKIN or NEC of certain representations, warranties and covenants in the Stock Purchase Agreement. NEC's aggregate liability for indemnification claims is limited to $25.0 million. Accordingly, KEMET, under equity method accounting, has established an indemnity asset in the amount of $8.5 million (based upon our 34% economic interest in NEC TOKIN). However, pursuant to the Stock Purchase Agreement, claims arising out of fraud or criminal conduct are not limited by the $25.0 million indemnification cap, and for such claims the claimant retains all remedies available in equity or at law.

Note 7. Segment and Geographic Information

The Company is organized into two business groups: Solid Capacitors and Film and Electrolytic. The business groups are responsible for their respective manufacturing sites as well as their respective research and development efforts. The Company does not allocate indirect Selling, general and administrative ("SG&A") or shared Research and development ("R&D") expenses to the business groups.

Solid Capacitors

Operating in nine manufacturing sites in the United States, Mexico and China, 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

Operating in nine manufacturing sites throughout Europe and Asia, Film and Electrolytic primarily produces film, paper, and electrolytic capacitors which are sold globally. In addition, this business group has product innovation centers in Portugal, Italy, Germany and Sweden.

The following table reflects each business group's net sales, operating income (loss), depreciation and amortization expenses and sales by region for the quarters and nine-month periods ended December 31, 2016 and 2015 (amounts in thousands):

	Quarters Ended December 31,		Nine-Month Periods Ended December 31,	
	2016	2015	2016	2015
Net sales:				
Solid Capacitors	$ 141,555	$ 135,300	$ 426,140	$ 416,261
Film and Electrolytic	46,474	41,884	134,132	134,636
	$ 188,029	$ 177,184	$ 560,272	$ 550,897
Operating income (loss) (1) (2):				
Solid Capacitors	$ 37,264	$ 31,359	$ 107,753	$ 95,371
Film and Electrolytic	2,332	(1,770)	(6,231)	1,159
Corporate	(25,746)	(21,096)	(75,724)	(72,807)
	$ 13,850	$ 8,493	$ 25,798	$ 23,723
Depreciation and amortization expense:				
Solid Capacitors	$ 5,078	$ 5,293	$ 15,643	$ 16,227
Film and Electrolytic	2,560	3,031	8,111	8,901
Corporate	1,457	1,350	4,217	3,728
	$ 9,095	$ 9,674	$ 27,971	$ 28,856

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

	Quarters Ended December 31,		Nine-Month Periods Ended December 31,	
	2016	2015	2016	2015
Restructuring charges:				
Solid Capacitors	$ (128)	$ 754	$ 566	$ 1,556
Film and Electrolytic	(243)	987	3,421	1,524
Corporate	2	(27)	330	481
	$ (369)	$ 1,714	$ 4,317	$ 3,561

(2) Write down of long-lived assets included in Operating income (loss) are as follows (amounts in thousands):

	Quarters Ended December 31,		Nine-Month Periods Ended December 31,	
	2016	2015	2016	2015
Write down of Long-lived Assets				
Solid Capacitors	$ —	$ —	$ 2,076	$ —
Film and Electrolytic	—	—	4,117	—
	$ —	$ —	$ 6,193	$ —

	Quarters Ended December 31,		Nine-Month Periods Ended December 31,	
	2016	2015	2016	2015
Sales by region:				
North and South America (“Americas”)	$ 54,976	$ 56,411	$ 166,858	$ 170,525
Europe, Middle East, Africa (“EMEA”)	55,765	52,453	176,298	173,468
Asia and Pacific Rim (“APAC”)	77,288	68,320	217,116	206,904
	$ 188,029	$ 177,184	$ 560,272	$ 550,897

Note 8. 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 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 December 31, 2016 and 2015 (amounts in thousands):

	Pension		Post-retirement Benefit Plan	
	Quarters Ended December 31,		Quarters Ended December 31,	
	2016	2015	2016	2015
Net service cost	$ 347	$ 404	$ —	$ —
Interest cost	358	338	1	3
Expected return on net assets	(94)	(105)	—	—
Amortization:				
Actuarial (gain) loss	115	197	(71)	(64)
Prior service cost	21	15	—	—
Total net periodic benefit (income) costs	$ 747	$ 849	$ (70)	$ (61)

The components of net periodic benefit (income) costs relating to the Company's pension and other postretirement benefit plans are as follows for the nine-month periods ended December 31, 2016 and 2015 (amounts in thousands):

	Pension		Post-retirement Benefit Plan	
	Nine-Month Periods Ended December 31,		Nine-Month Periods Ended December 31,	
	2016	2015	2016	2015
Net service cost	$ 1,040	$ 1,514	$ —	$ —
Interest cost	1,076	1,013	9	14
Expected return on net assets	(283)	(315)	—	—
Amortization:				
Actuarial (gain) loss	345	591	(155)	(143)
Prior service cost	64	44	—	—
Total net periodic benefit (income) costs	$ 2,242	$ 2,847	$ (146)	$ (129)

In fiscal year 2017, the Company expects to contribute up to $1.7 million to the pension plans, $0.8 million of which has been contributed as of December 31, 2016. For the postretirement benefit plan, the Company's policy is to pay benefits as costs are incurred.

Note 9. Stock-based Compensation

As of December 31, 2016, the 2014 Amendment and Restatement of the KEMET Corporation 2011 Omnibus Equity Incentive Plan (the "2011 Incentive Plan"), approved by the Company's stockholders in 2014, is the only plan the Company has to issue equity based awards to executives and key employees. Upon adoption of the 2011 Incentive Plan, no further awards were permitted to be granted under the Company's prior plans, including the 1992 Key Employee Stock Option Plan, the 1995 Executive Stock Option Plan, and the 2004 Long-Term Equity Incentive Plan (collectively, the "Prior Plans").

The 2011 Incentive Plan authorized the grant of up to 7.4 million shares of the Company's Common Stock, comprised of 6.6 million shares under the 2011 Incentive Plan and 0.8 million shares remaining from the Prior Plans and authorizes the Company to provide equity-based compensation in the form of:

- stock options, including incentive stock options, entitling the optionee to favorable tax treatment under Section 422 of the Code;
- stock appreciation rights;
- restricted stock and restricted stock units ("RSUs");
- other share-based awards; and,
- performance awards.

Except as described below, options, restricted stock and RSUs issued under these plans vest within two to three years and expire ten years from the grant date. RSUs issued under these plans vest over three to four years, except for RSUs granted to members of the Board of Directors, which vest within one year, and performance-based RSUs, which vest over a one-year period following achievement of two-year performance targets. The Company grants RSUs to members of the Board of Directors, the Chief Executive Officer and key management. Once vested and settled, RSUs are converted into restricted stock. For members of the Board of Directors and senior personnel, such restricted stock cannot be sold until 90 days after termination of service with the Company, or until the individual achieves the targeted ownership under the Company's stock ownership guidelines, and only to the extent that such ownership level exceeds the target. Compensation expense is recognized over the respective vesting periods.

Historically, the Board of Directors of the Company has approved annual Long Term Incentive Plans ("LTIP") which cover two year periods and are primarily based upon the achievement of an Adjusted EBITDA range for the two-year period. At the time of the award, the individual plans entitle the participants to receive cash or RSUs, or a combination of both as determined by the Company's Board of Directors. The 2013/2014 LTIP, 2014/2015 LTIP, 2015/2016 LTIP, 2016/2017 LTIP, and 2017/2018 LTIP also awarded RSUs 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 Condensed Consolidated Balance Sheets and any restricted stock unit commitment is reflected in the line item "Additional paid-in capital" on the Condensed Consolidated Balance Sheets.

On May 18, 2016, the Company granted RSUs under the 2017/2018 LTIP with a grant date fair value of$2.46 that vests as follows (amounts in thousands):

	Shares
May 18, 2017	202
May 18, 2018	202
May 18, 2019	209
Total shares granted	613

The following is the vesting schedule of RSUs under each respective LTIP, which vested during the nine-month period ended December 31, 2016 (shares in thousands):

	2016/2017	2015/2016	2014/2015
Time-based award vested	187	111	130
Performance-based award vested	—	103	73

Restricted stock activity, excluding the LTIP activity discussed above, for the nine-month period ended December 31, 2016 is as follows (amounts in thousands except fair value):

	Shares	Weighted-average Fair Value on Grant Date
Non-vested restricted stock at March 31, 2016	1,430	$ 3.51
Granted	381	4.82
Vested	(328)	3.06
Forfeited	(20)	3.19
Non-vested restricted stock at December 31, 2016	1,463	$ 5.21

The compensation expense associated with stock-based compensation for the quarters ended December 31, 2016 and 2015 is recorded on the Condensed Consolidated Statements of Operations as follows (amounts in thousands):

	Quarter Ended December 31, 2016			Quarter Ended December 31, 2015		
	Stock Options	Restricted Stock	LTIPs	Stock Options	Restricted Stock	LTIPs
Cost of sales	$ 3	$ 127	$ 178	$ 11	$ 130	$ 127
Selling, general and administrative expenses	4	379	402	11	340	474
Research and development	—	5	41	1	6	54
Total	$ 7	$ 511	$ 621	$ 23	$ 476	$ 655

The compensation expense associated with stock-based compensation for the nine-month periods ended December 31, 2016 and 2015 is recorded on the Condensed Consolidated Statements of Operations as follows (amounts in thousands):

	Nine-Month Period Ended December 31, 2016			Nine-Month Period Ended December 31, 2015		
	Stock Options	Restricted Stock	LTIPs	Stock Options	Restricted Stock	LTIPs
Cost of sales	$ 21	$ 415	$ 557	$ 72	$ 444	$ 624
Selling, general and administrative expenses	20	1,072	1,232	79	1,033	1,365
Research and development	1	15	138	4	17	123
Total	$ 42	$ 1,502	$ 1,927	$ 155	$ 1,494	$ 2,112

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 and nine-month periods ended

December 31, 2016, and 2015. Sixteen thousand stock options were exercised in the nine-month periods ended December 31, 2016 and no stock options were exercised in the nine-month periods ended December 31, 2015.

Note 10. Income Taxes

During the quarter ended December 31, 2016, the Company recognized $1.8 million of income tax expense, comprised of $1.7 million of income tax expense related to foreign operations and $0.1 million of state income tax expense. During the nine-month period ended December 31, 2016, the Company recognized $4.4 million of income tax expense, comprised of $4.3 million of income tax expense related to foreign operations and $0.1 million of state income tax expense.

During the quarter ended December 31, 2015, the Company recognized $2.8 million of income tax expense from foreign operations. During the nine-month period ended December 31, 2015, the Company recognized $4.0 million of income tax expense, comprised of $4.4 million from foreign operations, $0.6 million of income tax benefit due to the reduction in the U.S. valuation allowance associated with the acquisition of IntelliData, Inc., and $0.2 million of state income tax expense.

There was no U.S. federal income tax benefit from net operating losses for the quarter and nine-month periods ended December 31, 2016 and 2015 due to a valuation allowance recorded on deferred tax assets.

Note 11. Basic and Diluted Net Income (Loss) Per Common Share

The following table presents basic earnings per share (“EPS”) and diluted EPS (amounts in thousands, except per share data):

	Quarters Ended December 31,		Nine-Month Periods Ended December 31,	
	2016	2015	2016	2015
Numerator:				
Net income (loss)	$ 12,278	$ (8,600)	$ (4,925)	$ (38,456)
Denominator:				
Weighted-average shares outstanding:				
Basic	46,606	46,081	46,469	45,953
Assumed conversion of employee stock grants	2,122	—	—	—
Assumed conversion of warrants	6,568	—	—	—
Diluted	55,296	46,081	46,469	45,953
Net income (loss) per basic share	$ 0.26	$ (0.19)	$ (0.11)	$ (0.84)
Net income (loss) per diluted share	$ 0.22	$ (0.19)	$ (0.11)	$ (0.84)

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

	Quarters Ended December 31,		Nine-Month Periods Ended December 31,	
	2016	2015	2016	2015
Assumed conversion of employee stock grants	800	3,257	2,760	3,247
Assumed conversion of warrants	—	5,168	5,913	5,261

Note 12: Derivatives

In fiscal year 2015, the Company began using certain derivative instruments (i.e., foreign exchange contracts) to reduce exposure to the volatility of foreign currencies impacting revenues and the costs of its products.

Certain operating expenses at the Company's Mexican facilities are paid in Mexican pesos. In order to hedge a portion of these forecasted cash flows, the Company purchases foreign exchange contracts, with terms generally less than twelve months, to buy Mexican pesos for periods and amounts consistent with underlying cash flow exposures. These contracts are designated as cash flow hedges at inception and monitored for effectiveness on a routine basis. There were $47.5 million in peso contracts (notional value) outstanding at December 31, 2016.

The Company formally documents all relationships between hedging instruments and hedged items, as well as risk management objectives and strategies for undertaking various hedge transactions.

The Company records and presents the fair values of all of its derivative assets and liabilities in the Consolidated Balance Sheets on a net basis, since they are subject to master netting agreements. As of December 31, 2016, no netting took place, as all contracts were in the liability position.

The balance sheet classifications and fair value of derivative instruments as of December 31, 2016 are as follows (amounts in thousands):

	Fair Value of Derivative Instruments (1)
Accrued expenses	$ 3,240

(1) Fair Value measured using Level 2 inputs by adjusting the market spot rate by forward points, based on the date of the contract. The spot rates and forward points used are based on an average rate from an actively traded market.

The impact on the Consolidated Statement of Operations for the quarter and nine-month period ended December 31, 2016 are as follows (amounts in thousands):

Impact of Foreign Exchange Contracts on Condensed Consolidated Statement of Operations		
Statement Caption	Quarter Ended December 31, 2016	Nine-Month Period Ended December 31, 2016
Net Sales	$ —	$ —
Operating costs and expenses:		
Cost of sales	(980)	(3,873)
Total operating costs and expenses	(980)	(3,873)
Operating income (loss)	$ (980)	$ (3,873)

Unrealized gains and losses associated with the change in value of these financial instruments are recorded in AOCI. Changes in the derivatives' fair values are deferred and recorded as a component of AOCI until the underlying transaction is settled and recorded to the income statement. When the hedged item affects income, gains or losses are reclassified from AOCI to the Consolidated Statement of Operations as Cost of sales for foreign exchange contracts to purchase such foreign currency. Any ineffectiveness, if material, in the Company's hedging relationships is recognized immediately as a loss, within the same income statement accounts as described above; to date, there has been no ineffectiveness. Changes in derivative balances impact the line items "Prepaid and other assets" and "Accrued expenses" on the Consolidated Balance Sheets and Statements of Cash Flows.

Note 13. Concentrations of Risks

The Company sells to customers globally and, as the Company generally does not require collateral from its customers, on a monthly basis the Company evaluates customer account balances in order to assess the Company's financial risks of collection. One customer, TTI, Inc., an electronics distributor, accounted for over 10% of the Company's net sales in the quarters and nine-month periods ended December 31, 2016 and 2015. There were no accounts receivable balances from any customer exceeding 10% of gross accounts receivable as of December 31, 2016 and March 31, 2016.

Electronics distributors are an important distribution channel in the electronics industry and accounted for 46% and 41% of the Company's net sales in the nine-month periods ended December 31, 2016 and 2015, respectively. As a result of the

Company's concentration of sales to electronics distributors, the Company may experience fluctuations in the Company's operating results as electronics distributors experience fluctuations in end-market demand and/or adjust their inventory stocking levels.

Note 14. Condensed Consolidating Financial Statements

The 10.5% Senior Notes are fully and unconditionally guaranteed, jointly and severally, on a senior basis by certain of the Company's100% 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.

The following subsidiaries comprise the Guarantor Subsidiaries: KEMET Electronics Corporation, KEMET Blue Powder Corporation, KEMET Foil Manufacturing, LLC, KEMET Services Corporation, The Forest Electric Company and IntelliData Inc. The following subsidiaries comprise the Non-Guarantor Subsidiaries group: KEMET Electronics Bulgaria EAD, KEMET Electronics Services EOOD, KEMET Electronics Oy, KEMET Electronics SAS, KEMET Electronics GmbH, KEMET Electronics Asia Limited, KEMET Electronics Greater China Limited, P.T. KEMET Electronics Indonesia, KEMET Electronics Italia S.r.l., KEMET Electronics S.p.A., KEMET Electronics Japan Co., Ltd., KEMET Electronics Macedonia DOOEL Skopje, KEMET Electronics (Malaysia) Sdn. Bhd., KEMET de Mexico, S.A. de C.V., KEMET Electronics (Suzhou) Co., Ltd., Shanghai Arcotronics Components & Machineries Co., Ltd., KEMET Electronics Portugal, S.A., Evox Rifa Pte Ltd., KEMET Electronics Marketing (S) Pte Ltd., Seoryong Singapore Pte. Ltd., KEMET Electronics AB, KEMET Electronics, S.A. and KEMET Electronics Limited.

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

Condensed Consolidating Balance Sheet
December 31, 2016
(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 729	$ 46,038	$ 40,589	$ —	$ 87,356
Accounts receivable, net	—	26,500	56,019	—	82,519
Intercompany receivable	32,874	195,280	149,763	(377,917)	—
Inventories, net	—	102,559	51,960	—	154,519
Prepaid expenses and other	3,325	11,976	11,698	(2,964)	24,035
Total current assets	36,928	382,353	310,029	(380,881)	348,429
Property and equipment, net	498	81,692	129,737	—	211,927
Goodwill	—	40,294	—	—	40,294
Intangible assets, net	—	25,020	5,184	—	30,204
Investment in NEC TOKIN	—	21,202	—	—	21,202
Investments in subsidiaries	394,561	427,702	93,359	(915,622)	—
Deferred income taxes	—	1,045	6,723	—	7,768
Other assets	27	1,779	906	—	2,712
Long-term intercompany receivable	62,496	38,356	1,089	(101,941)	—
Total assets	$ 494,510	$ 1,019,443	$ 547,027	$ (1,398,444)	$ 662,536
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	40	30,601	31,706	—	62,347
Intercompany payable	42,935	270,738	64,244	(377,917)	—
Accrued expenses	8,743	19,334	18,341	—	46,418
Income taxes payable	—	3,007	1,025	(2,964)	1,068
Total current liabilities	51,718	323,680	115,316	(380,881)	109,833
Long-term debt, less current portion	352,345	19,881	14,000	—	386,226
Other non-current obligations	—	27,399	45,305	—	72,704
Deferred income taxes	—	2,556	770	—	3,326
Long-term intercompany payable	—	62,496	39,445	(101,941)	—
Stockholders' equity	90,447	583,431	332,191	(915,622)	90,447
Total liabilities and stockholders' equity	$ 494,510	$ 1,019,443	$ 547,027	$ (1,398,444)	$ 662,536

Condensed Consolidating Balance Sheet
March 31, 2016
(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 640	$ 36,209	$ 28,155	$ —	$ 65,004
Accounts receivable, net	—	41,025	52,143	—	93,168
Intercompany receivable	30,210	132,523	170,224	(332,957)	—
Inventories, net	—	113,289	55,590	—	168,879
Prepaid expenses and other	3,325	12,161	12,974	(2,964)	25,496
Total current assets	34,175	335,207	319,086	(335,921)	352,547
Property and equipment, net	255	93,936	147,648	—	241,839
Goodwill	—	40,294	—	—	40,294
Intangible assets, net	—	27,252	6,049	—	33,301
Investment in NEC TOKIN	—	20,334	—	—	20,334
Investments in subsidiaries	382,108	429,723	93,359	(905,190)	—
Deferred income taxes	—	800	7,597	—	8,397
Other assets	—	2,452	616	—	3,068
Long-term intercompany receivable	67,500	41,428	1,088	(110,016)	—
Total assets	$ 484,038	$ 991,426	$ 575,443	$ (1,351,127)	$ 699,780
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current portion of long-term debt	$ 2,000	$ —	$ —	$ —	$ 2,000
Accounts payable	20	34,618	36,343	—	70,981
Intercompany payable	280	275,498	57,179	(332,957)	—
Accrued expenses	17,305	11,807	21,208	—	50,320
Income taxes payable	—	2,983	434	(2,964)	453
Total current liabilities	19,605	324,906	115,164	(335,921)	123,754
Long-term debt, less current portion	351,952	19,881	14,000	—	385,833
Other non-current obligations	—	25,797	49,095	—	74,892
Deferred income taxes	—	2,242	578	—	2,820
Long-term intercompany payable	—	67,500	42,516	(110,016)	—
Stockholders' equity	112,481	551,100	354,090	(905,190)	112,481
Total liabilities and stockholders' equity	$ 484,038	$ 991,426	$ 575,443	$ (1,351,127)	$ 699,780

Condensed Consolidating Statement of Operations
For the Quarter Ended December 31, 2016
(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
Net sales	$ —	$ 211,214	$ 179,921	$ (203,106)	$ 188,029
Operating costs and expenses:					
Cost of sales	257	163,260	166,866	(189,691)	140,692
Selling, general and administrative expenses	11,695	16,590	11,795	(13,415)	26,665
Research and development	72	4,708	2,279	—	7,059
Restructuring charges	—	(466)	97	—	(369)
Write down of long-lived assets	—	(1,608)	1,608	—	—
Net (gain) loss on sales and disposals of assets	(7)	109	30	—	132
Total operating costs and expenses	12,017	182,593	182,675	(203,106)	174,179
Operating income (loss)	(12,017)	28,621	(2,754)	—	13,850
Non-operating (income) expense:					
Interest income	—	—	(5)	—	(5)
Interest expense	9,395	383	140	—	9,918
Change in value of NEC TOKIN option	—	(6,900)	—	—	(6,900)
Other (income) expense, net	(10,479)	11,671	(4,576)	—	(3,384)
Equity in earnings of subsidiaries	(23,211)	—	—	23,211	—
Income (loss) before income taxes and equity income (loss) from NEC TOKIN	12,278	23,467	1,687	(23,211)	14,221
Income tax expense (benefit)	—	37	1,773	—	1,810
Income (loss) before equity income (loss) from NEC TOKIN	12,278	23,430	(86)	(23,211)	12,411
Equity income (loss) from NEC TOKIN	—	(133)	—	—	(133)
Net income (loss)	$ 12,278	$ 23,297	$ (86)	$ (23,211)	$ 12,278

Condensed Consolidating Statements of Comprehensive Income (Loss)
Quarter Ended December 31, 2016
(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
Comprehensive income (loss)	$ 8,602	$ 29,828	$ (8,438)	$ (23,211)	$ 6,781

Condensed Consolidating Statement of Operations
For the Quarter Ended December 31, 2015
(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
Net sales	$ —	$ 211,268	$ 170,531	$ (204,615)	$ 177,184
Operating costs and expenses:					
Cost of sales	232	173,368	156,669	(191,833)	138,436
Selling, general and administrative expenses	8,306	16,207	10,547	(12,782)	22,278
Research and development	79	4,232	1,823	—	6,134
Restructuring charges	—	726	988	—	1,714
Net (gain) loss on sales and disposals of assets	—	(348)	477	—	129
Total operating costs and expenses	8,617	194,185	170,504	(204,615)	168,691
Operating income (loss)	(8,617)	17,083	27	—	8,493
Non-operating (income) expense:					
Interest income	—	—	(4)	—	(4)
Interest expense	9,461	267	124	—	9,852
Change in value of NEC TOKIN option	—	(700)	—	—	(700)
Other (income) expense, net	(7,931)	7,997	(1,386)	—	(1,320)
Equity in earnings of subsidiaries	(1,547)	—	—	1,547	—
Income (loss) before income taxes and equity income (loss) from NEC TOKIN	(8,600)	9,519	1,293	(1,547)	665
Income tax expense (benefit)	—	44	2,716	—	2,760
Income (loss) before equity income (loss) from NEC TOKIN	(8,600)	9,475	(1,423)	(1,547)	(2,095)
Equity income (loss) from NEC TOKIN	—	(6,505)	—	—	(6,505)
Net income (loss)	$ (8,600)	$ 2,970	$ (1,423)	$ (1,547)	$ (8,600)

Condensed Consolidating Statements of Comprehensive Income (Loss)
For the Quarter Ended December 31, 2015
(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
Comprehensive income (loss)	$ (10,474)	$ 4,604	$ 517	$ (1,547)	$ (6,900)

Condensed Consolidating Statement of Operation
For the Nine-Month Period Ended December 31, 2016
(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
Net sales	$ —	$ 642,253	$ 519,814	$ (601,795)	$ 560,272
Operating costs and expenses:					
Cost of sales	1,023	499,922	485,391	(562,337)	423,999
Selling, general and administrative expenses	31,471	52,796	33,743	(39,459)	78,551
Research and development	228	13,581	7,298	—	21,107
Restructuring charges	—	3,125	1,192	—	4,317
Write down of long-lived assets	—	4,585	1,608	—	6,193
Net (gain) loss on sales and disposals of assets	(292)	1,132	(533)	—	307
Total operating costs and expenses	32,430	575,141	528,699	(601,796)	534,474
Operating income (loss)	(32,430)	67,112	(8,885)	1	25,798
Non-operating (income) expense:					
Interest income	—	3	(17)	—	(14)
Interest expense	28,214	1,161	376	—	29,751
Change in value of NEC TOKIN option	—	3,500	—	—	3,500
Other (income) expense, net	(28,672)	29,556	(7,567)	—	(6,683)
Equity in earnings of subsidiaries	(27,047)	—	—	27,047	—
Income (loss) before income taxes and equity income (loss) from NEC TOKIN	(4,925)	32,892	(1,677)	(27,046)	(756)
Income tax expense (benefit)	—	94	4,346	—	4,440
Income (loss) before equity income (loss) from NEC TOKIN	(4,925)	32,798	(6,023)	(27,046)	(5,196)
Equity income (loss) from NEC TOKIN	—	271	—	—	271
Net income (loss)	$ (4,925)	$ 33,069	$ (6,023)	$ (27,046)	$ (4,925)

Condensed Consolidating Statements of Comprehensive Income (Loss)
For the Nine-Month Period Ended December 31, 2016
(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
Comprehensive income (loss)	$ (9,929)	$ 32,331	$ (19,880)	$ (27,046)	$ (24,524)

Condensed Consolidating Statement of Operations
For the Nine-Month Period Ended December 31, 2015
(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
Net sales	$ —	$ 655,808	$ 527,604	$ (632,515)	$ 550,897
Operating costs and expenses:					
Cost of sales	931	528,352	490,621	(590,274)	429,630
Selling, general and administrative expenses	27,028	56,197	34,672	(42,241)	75,656
Research and development	26	12,834	5,700	—	18,560
Restructuring charges	—	2,182	1,379	—	3,561
Net (gain) loss on sales and disposals of assets	(7)	(1,101)	875	—	(233)
Total operating costs and expenses	27,978	598,464	533,247	(632,515)	527,174
Operating income (loss)	(27,978)	57,344	(5,643)	—	23,723
Non-operating (income) expense:					
Interest income	—	—	(10)	—	(10)
Interest expense	28,395	865	416	—	29,676
Change in value of NEC TOKIN option	—	26,300	—	—	26,300
Other (income) expense, net	(25,484)	25,065	(2,076)	—	(2,495)
Equity in earnings of subsidiaries	7,567	—	—	(7,567)	—
Income (loss) before income taxes and equity income (loss) from NEC TOKIN	(38,456)	5,114	(3,973)	7,567	(29,748)
Income tax expense (benefit)	—	(320)	4,270	—	3,950
Income (loss) before equity income (loss) from NEC TOKIN	(38,456)	5,434	(8,243)	7,567	(33,698)
Equity income (loss) from NEC TOKIN	—	(4,758)	—	—	(4,758)
Net income (loss)	$ (38,456)	$ 676	$ (8,243)	$ 7,567	$ (38,456)

Condensed Consolidating Statements of Comprehensive Income (Loss)
For the Nine-Month Period Ended December 31, 2015
(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
Comprehensive income (loss)	$ (37,698)	$ (7,109)	$ (6,107)	$ 7,567	$ (43,347)

Condensed Consolidating Statement of Cash Flows
For the Nine-Month Period Ended December 31, 2016
(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
Sources (uses) of cash and cash equivalents					
Net cash provided by (used in) operating activities	$ 2,942	$ 14,962	$ 24,240	$ —	$ 42,144
Investing activities:					
Capital expenditures	—	(5,133)	(9,878)	—	(15,011)
Net cash used in investing activities	—	(5,133)	(9,878)	—	(15,011)
Financing activities:					
Payments of long-term obligations	(1,870)	—	(558)	—	(2,428)
Proceeds from exercise of stock options	69	—	—	—	69
Purchase of treasury stock	(1,052)	—	—	—	(1,052)
Net cash provided by (used in) financing activities	(2,853)	—	(558)	—	(3,411)
Net increase (decrease) in cash and cash equivalents	89	9,829	13,804	—	23,722
Effect of foreign currency fluctuations on cash	—	—	(1,370)	—	(1,370)
Cash and cash equivalents at beginning of fiscal period	640	36,209	28,155	—	65,004
Cash and cash equivalents at end of fiscal period	$ 729	$ 46,038	$ 40,589	$ —	$ 87,356

Condensed Consolidating Statements of Cash Flows
For the Nine-Month Period Ended December 31, 2015
(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
Sources (uses) of cash and cash equivalents					
Net cash provided by (used in) operating activities	$ 691	$ (8,085)	$ 6,837	$ —	$ (557)
Investing activities:					
Capital expenditures	—	(6,221)	(7,899)	—	(14,120)
Proceeds from sale of assets	—	247	651	—	898
Acquisitions, net of cash received	—	(2,892)	—	—	(2,892)
Net cash used in investing activities	—	(8,866)	(7,248)	—	(16,114)
Financing activities:					
Proceeds from revolving line of credit	—	8,000	2,000	—	10,000
Payments of revolving line of credit	—	(5,500)	—	—	(5,500)
Payments of long-term obligations	—	—	(481)	—	(481)
Purchase of treasury stock	(691)	—	—	—	(691)
Net cash provided by (used in) financing activities	(691)	2,500	1,519	—	3,328
Net increase (decrease) in cash and cash equivalents	—	(14,451)	1,108	—	(13,343)
Effect of foreign currency fluctuations on cash	—	—	139	—	139
Cash and cash equivalents at beginning of fiscal period	640	33,094	22,628	—	56,362
Cash and cash equivalents at end of fiscal period	$ 640	$ 18,643	$ 23,875	$ —	$ 43,158

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" or other similar expressions and 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 Risk Factors, of the Company's 2016 Annual Report. The statements are representative only as of the date they are made, and we undertake 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 outcomes 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) continued net losses could impact our ability to realize current operating plans and could materially adversely affect our liquidity and our ability to continue to operate; (iii) adverse economic conditions could cause the write down of long-lived assets or goodwill; (iv) an increase in the cost or a decrease in the availability of our principal or single-sourced purchased materials; (v) changes in the competitive environment; (vi) uncertainty of the timing of customer product qualifications in heavily regulated industries; (vii) economic, political, or regulatory changes in the countries in which we operate; (viii) difficulties, delays or unexpected costs in completing the restructuring plans; (ix) equity method investment in NEC TOKIN exposes us to a variety of risks; (x) acquisitions and other strategic transactions expose us to a variety of risks; (xi) possible acquisition of NEC TOKIN may not achieve all of the anticipated results; (xii) our business could be negatively impacted by increased regulatory scrutiny and litigation; (xiii) inability to attract, train and retain effective employees and management; (xiv) inability to develop innovative products to maintain customer relationships and offset potential price erosion in older products; (xv) exposure to claims alleging product defects; (xvi) the impact of laws and regulations that apply to our business, including those relating to environmental matters; (xvii) the impact of international laws relating to trade, export controls and foreign corrupt practices; (xviii) volatility of financial and credit markets affecting our access to capital; (xix) the need to reduce the total costs of our products to remain competitive; (xx) potential limitation on the use of net operating losses to offset possible future taxable income; (xxi) restrictions in our debt agreements that limit our flexibility in operating our business; (xxii) failure of our information technology systems to function properly or our failure to control unauthorized access to our systems may cause business disruptions; (xxiii) 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; (xxiv) fluctuation in distributor sales could adversely affect our results of operations; and (xxv) changes impacting international trade and corporate tax provisions may have an adverse effect on our financial condition and results of operations.

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 2016 Annual Report. Our critical accounting policies are described under the caption "Critical Accounting Policies" in Item 7 of our 2016 Annual Report.

Long-Lived Assets

KEMET Electronics Corporation ("KEC"), a wholly-owned subsidiary of KEMET, made the decision to shut-down operations of its wholly-owned subsidiary, KEMET Foil Manufacturing, LLC ("KFM"). Operations at KFM's Knoxville, Tennessee plant ceased as of October 31, 2016. KFM supplied formed foil to Film and Electrolytic, as well as to certain third

party customers. We anticipate that Film and Electrolytic will achieve raw material cost savings by purchasing its formed foil from suppliers that have the advantage of lower utility costs. During the second fiscal quarter ending September 30, 2016, we incurred impairment charges totaling $4.1 million comprised of $3.0 million for the write down of property plant and equipment and $1.1 million for the write down of intangible assets. The impairment charges are recorded on the Condensed Consolidated Statements of Operations line item “Write down of long-lived assets”.

In addition, due to the operating loss incurred by Film and Electrolytic in the nine-month period ending December 31, 2016, we tested its long-lived assets for impairment as of December 31, 2016 and concluded that the long-lived assets for Film and Electrolytic were not impaired. Tests for the recoverability of a long-lived asset to be held and used are performed by comparing the carrying amount of the long-lived asset to the sum of the estimated future net undiscounted cash flows expected to be generated by the asset group. In estimating the future undiscounted cash flows, we use future projections of cash flows directly associated with, and which are expected to arise as a direct result of, the use and hypothetical disposal (salvage value) of the asset group. These assumptions primarily include the average asset useful life and projections of sales and cost of sales over these asset lives. We will monitor the Film and Electrolytic long-lived assets in future periods as material changes in certain assumptions could have a material effect on the estimated future undiscounted cash flows expected to be generated by the asset. This, in turn, could result in Film and Electrolytic not passing step 1 of the impairment test which would require the us to perform a discounted cash flow analysis to determine the impairment amount (if any).

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, 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.

Business Overview

KEMET is a leading global manufacturer of a wide variety of capacitors. We compete in the passive electronic component industry, specifically multilayer ceramic, tantalum, film and aluminum (solid & electrolytic) capacitors. Product offerings include surface mount, which are attached directly to the circuit board; leaded capacitors, which are attached to the circuit board using lead wires; and chassis-mount and other pin-through-hole board-mount capacitors, which utilize attachment methods such as screw terminal and snap-in. Capacitors are electronic components that store, filter, and regulate electrical energy and current flow. As an essential passive component used in nearly all circuit boards, capacitors are typically used for coupling, decoupling, filtering, oscillating and wave shaping and are found in communication systems, servers, personal computers, tablets, cellular phones, automotive electronic systems, defense and aerospace systems, consumer electronics, power management systems and many other electronic devices and systems (basically anything that plugs in or has a battery).

Manufacturing a broad line of tantalum, multilayer ceramic, solid and electrolytic aluminum and film and paper capacitors, KEMET’s product line consists of nearly 5 million distinct part configurations distinguished by various attributes, such as dielectric (or insulating) material, configuration, encapsulation, capacitance level and tolerance, voltage, operating temperature, 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.

KEMET operates eighteen production facilities in Europe, North America, and Asia, and employs approximately8,900 employees worldwide. Commodity manufacturing has been substantially relocated to our lower-cost manufacturing facilities in Mexico, China and Europe. Production remaining in the United States focuses primarily on early-stage manufacturing of new products and specialty products for which customers are predominantly located in North America.

Our products are sold 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% of net sales although, one customer, a distributor, accounted for more than 10% of net sales in the nine-month period ended December 31, 2016. During the nine-month period ended December 31, 2016we introduced 11,537 new products of which 1,303 were first to market. In addition, we continue to focus on specialty products which accounted for 41.3% of our revenue over this period.

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 are organized into two business groups: Solid Capacitors business group ("Solid Capacitors") and the Film and Electrolytic business group ("Film and Electrolytic"). The business groups are responsible for their respective manufacturing sites as well as all related research and development efforts. Sales, marketing and corporate finance functions are shared by each of the business groups.

Recent Developments and Trends

The following items are reflected in the financial statements for thequarter and nine-month periods ended December 31, 2016:

Write Down of Long-Lived Assets

In the nine-month period ended December 31, 2016 we recorded a write down of long-lived assets of $6.2 million due to the following two actions.

KEC made the decision to shut-down operations of its wholly-owned subsidiary, KFM as of October 31, 2016. We anticipate that Film and Electrolytic will achieve raw material cost savings by purchasing its formed foil from suppliers that have the advantage of lower utility costs. During the second fiscal quarter ending September 30, 2016, we incurred impairment charges totaling $4.1 million comprised of $3.0 million for the write down of property plant and equipment and $1.1 million for the write down of intangible assets. The impairment charges are recorded on the Condensed Consolidated Statements of Operations line item "Write down of long-lived assets". In addition, corresponding with this activity, we currently have accrued severance charges of $0.4 million and restructuring costs of $1.0 million related to contract termination costs; these restructuring charges are included within the line item "Accrued expenses" on the Condensed Consolidated Balance Sheet.

Solid Capacitors initiated a plan to relocate its K-Salt operations from a leased facility to our existing Matamoros, Mexico facility which resulted in impairment charges of approximately $2.1 million. In addition, we accrued severance charges of $0.1 million which are included within the line item "Restructuring charges" on the Condensed Consolidated Statements of Operations and we expect to incur additional equipment relocation costs of approximately $1.1 million through June of 2017.

Equity Investment

In the quarter ended December 31, 2016 we recorded equity loss related to our 34% economic interest in NEC TOKIN of $0.1 million.

KEC's First and Second Call Options (as defined in Note6, "Investment in NEC TOKIN") to purchase additional capital stock of NEC TOKIN expired on April 30, 2015 without being exercised. Through May 31, 2018, NEC Corporation of Japan may exercise its Put Option (as defined in Note 6, "Investment in NEC TOKIN"), provided that KEC's payment of the Put Option price is permitted under the 10.5% Senior Notes and Loan and Security Agreement. We have marked the Put Option to fair value and in the quarter and nine-month periods ended December 31, 2016 recognized a $6.9 million gain and a $3.5 million loss, respectively which was included on the line item "Change in Value of the NEC TOKIN option" in the Condensed Consolidated Statement of Operations. The line item "Other non-current obligations" on the Condensed Consolidated Balance Sheets includes $24.1 million as of December 31, 2016 related to the Put Option.

KEC and NEC Corporation have had discussions regarding the terms of a potential transaction pursuant to which KEC could acquire the remaining capital stock of NEC TOKIN. There can be no assurance regarding the outcome of these discussion or the timing and terms of any such transaction.

Brexit

In June 2016, the United Kingdom voted in a referendum to exit the European Union, commonly referred to as “Brexit.” As a result of the referendum, the global markets and currencies have been subject to volatility, including as a result of a decline in the value of the U.K. pound sterling as compared to the U.S. dollar. We have performed a preliminary assessment of the possible impact of Brexit to our consolidated financial statements. We believe that the uncertainty surrounding Brexit is not a material risk to our consolidated financial statements, however, the macroeconomic impact on our results of operations from this vote remains unknown and we will continue to monitor the impact.

Outlook

For the fourth quarter of fiscal year 2017, we expect net sales to be within the $188 million to $192 million range, flat to slightly higher that the current quarter, with a slight decline in gross margin as a percentage of net sales to between 24.2% and 24.7% and SG&A expenses are expected to be flat with the current quarter. We expect to spend in the range of $5 to $7 million in capital expenditures for the fourth quarter of fiscal year 2017 and $22 to $24 million for the full fiscal year 2017.

CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

Consolidated Comparison of the quarter ended December 31, 2016 with the quarter ended December 31, 2015

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

	Quarters Ended December 31,			
	2016	% to Total Sales	2015	% to Total Sales
Net sales	$ 188,029		$ 177,184	
Gross margin	47,337	25.2 %	38,748	21.9 %
Selling, general and administrative expenses	26,665	14.2 %	22,278	12.6 %
Research and development	7,059	3.8 %	6,134	3.5 %
Restructuring charges	(369)	(0.2)%	1,714	1.0 %
Net (gain) loss on sales and disposals of assets	132	0.1 %	129	0.1 %
Operating income (loss)	13,850	7.4 %	8,493	4.8 %
Interest income	(5)	n.m.	(4)	n.m.
Interest expense	9,918	5.3 %	9,852	5.6 %
Change in value of NEC TOKIN option	(6,900)	(3.7)%	(700)	(0.4)%
Other (income) expense, net	(3,384)	(1.8)%	(1,320)	(0.7)%
Income (loss) from continuing operations before income taxes and equity income (loss) from NEC TOKIN	14,221	7.6 %	665	0.4 %
Income tax expense (benefit)	1,810	1.0 %	2,760	1.6 %
Income (loss) from continuing operations before equity income (loss) from NEC TOKIN	12,411	6.6 %	(2,095)	(1.2)%
Equity income (loss) from NEC TOKIN	(133)	(0.1)%	(6,505)	(3.7)%
Net income (loss)	$ 12,278	6.5 %	$ (8,600)	(4.9)%

n.m. - not meaningful

Net Sales

Net sales for the quarter ended December 31, 2016 of $188.0 million increased $10.8 million or 6.1% from $177.2 million for the quarter ended December 31, 2015. Solid Capacitor net sales increased $6.3 million and Film and Electrolytic net sales increased $4.6 million. The increase in Solid Capacitors net sales is primarily related to a significant increase in net sales in the Asia and Pacific Rim (“APAC”) and Europe Middle East and Africa (“EMEA”) regions within the distributor channel. The increase in distributor channel sales was somewhat offset by a decrease in Tantalum sales in the APAC Electronics

Manufacturing Service Providers ("EMS") channel and the Americas and EMEA Original Equipment Manufacturers ("OEM") channel. For Film and Electrolytic, the increase in net sales was primarily driven by increased net sales in the APAC region for the OEM channel as well as the EMEA region for the distribution channel.

The following table reflects the percentage of net sales by region for the quarters ended December 31, 2016 and 2015:

	Quarters Ended December 31,	
	2016	2015
Americas	29 %	32 %
EMEA	30 %	30 %
APAC	41 %	38 %
	100 %	100 %

The following table reflects the percentage of net sales by channel for the quarters ended December 31, 2016 and 2015:

	Quarters Ended December 31,	
	2016	2015
Distributors	46 %	40 %
EMS	21 %	22 %
OEM	33 %	38 %
	100 %	100 %

Gross Margin

Gross margin for the quarter ended December 31, 2016 of $47.3 million (25.2% of net sales) increased $8.6 million or 22.2% from $38.7 million (21.9% of net sales) for the quarter ended December 31, 2015, and gross margin as a percentage of net sales improved 330 basis points. Solid Capacitors gross margin increased $5.9 million or 15.9% primarily due to an increase in net sales and continued variable margin improvement due to our restructuring activities, vertical integration, the favorable foreign currency impact on manufacturing costs, manufacturing process improvements as a result of our cost reduction activities and our partnership with NEC TOKIN. Film and Electrolytic gross margin increased $2.7 million due to an increase in net sales and favorable shift in product mix.

Selling, general and administrative expenses ("SG&A")

SG&A expenses of $26.7 million (14.2% of net sales) for the quarter ended December 31, 2016 increased $4.4 million or 19.7% from $22.3 million (12.6% of net sales) for the quarter ended December 31, 2015. The increase was attributable primarily to the following items: a $2.3 million increase in payroll and related expenses and benefits, primarily due to incentive-based compensation, a $1.6 million increase in ERP integration and technology transition costs, a $0.7 million increase in consulting and contractor expenses, a $0.6 million increase in professional fees, and a $0.3 million increase related primarily to the change in the allocation of IT and other costs between SG&A and cost of goods sold following an internal usage study. These increases were partially offset by a $1.0 million decrease in legal expenses primarily related to ongoing antitrust lawsuits.

Research and development ("R&D")

R&D expenses of $7.1 million (3.8% of net sales) for the quarter ended December 31, 2016 increased $0.9 million or 15.1% compared to $6.1 million (3.5% of net sales) for the quarter ended December 31, 2015. The increase was primarily related to a $0.5 million increase in payroll-related expenses and benefits and a $0.5 million increase in engineering expenses.

Restructuring charges

Restructuring credits of $0.4 million for the quarter ended December 31, 2016 decreased $2.1 million from $1.7 million in restructuring charges for the quarter ended December 31, 2015.

We recognized a $0.4 million credit to restructuring charges in the quarter ended December 31, 2016 comprised of a $0.2 million credit to personnel reduction costs and $0.2 million credit to manufacturing relocation and exit costs. The credit to

personnel reduction costs of $0.2 million is due to natural attrition in Matamoros, Mexico resulting in a reduction in severance accrual.The credit to manufacturing relocation costs of $0.2 million primarily consists of a $0.3 million reduction in accrual related to contract termination costs related to the shut-down of operations for KFMpartially offset by the following charges: $0.1 million related to transfers of Film and Electrolytic production lines and R&D functions to lower cost regions and $0.1 million in expenses related to the relocation of the K-Salt operations to the existing Matamoros, Mexico plant.

We incurred $1.7 million in restructuring charges in the quarter ended December 31, 2015 including $0.8 million in personnel reduction costs and $0.9 million in manufacturing relocation costs. The personnel reduction costs of $0.8 million is due primarily to $0.5 million related to the consolidation of certain Solid Capacitor manufacturing in Victoria, Mexico, $0.1 million for headcount reductions in Matamoros, Mexico related to the relocation of certain Solid Capacitor manufacturing from Matamoros, Mexico to Victoria, Mexico, and $0.1 million for overhead reductions in North America and Europe. We also incurred $0.9 million of manufacturing relocation costs for transfers of Film and Electrolytic production lines to lower cost regions.

Operating income (loss)

Operating income of $13.9 million for the quarter ended December 31, 2016 improved $5.4 million from operating income of $8.5 million for the quarter ended December 31, 2015. The improvement in operating income was primarily attributable to a $8.6 million improvement in gross margin and a $2.1 million decrease in restructuring charges. These improvements to operating income were partially offset by a $4.4 million increase in SG&A expenses and a $0.9 million increase in R&D expenses.

Non-operating (income) expense, net

Non-operating (income) expense, net was a net expense of $0.4 million for the quarter ended December 31, 2016 compared to a net expense of $7.8 million for the quarter ended December 31, 2015. The change is primarily attributable to a $1.6 million net favorable change in foreign currency exchange gain/(loss), which was primarily due to the change in the value of the Euro and Mexican Peso compared to the U.S. dollar. In addition, we incurred a $6.2 million favorable change in the gain/(loss) from the change in value of the NEC TOKIN option during the quarter ended December 31, 2016 compared to the quarter ended December 31, 2015.

Income taxes

Income tax expense of $1.8 million for the quarter ended December 31, 2016 decreased $1.0 million compared to income tax expense of $2.8 million for the quarter ended December 31, 2015. Income tax expense of $1.7 million for the quarter ended December 31, 2016 was related to foreign operations and $0.1 million was related to state income tax expense. Income tax expense of $2.8 million for the quarter ended December 31, 2015 related to foreign operations.

There was no U.S. federal income tax benefit from net operating losses for thequarters ended December 31, 2016 and 2015 due to a valuation allowance recorded on deferred tax assets.

Equity income (loss) from NEC TOKIN

Equity loss related to our 34% economic interest in NEC TOKIN of$0.1 million for the quarter ended December 31, 2016 reflects a $6.4 million favorable change compared to equity loss of $6.5 million for the quarter ended December 31, 2015. The $6.4 million favorable change was primarily comprised of the following: a $5.5 million decrease in additional accrual charge for antitrust fines and a $1.5 million increase in gross margin (including $1.2 million favorable impact from foreign currency exchange fluctuation) during the quarter ended December 31, 2016 compared to the quarter ended December 31, 2015. The actual improvement in gross margin excluding foreign currency exchange impact was driven primarily by sales mix improvement, improvements in manufacturing efficiencies and reduction of fixed costs. Offsetting these favorable items were primarily the following: a $0.5 million increase in deferred tax expenses and a $0.1 million unfavorable change in selling, general and administrative expenses (including a $0.9 million unfavorable impact from foreign currency change fluctuation) in the quarter ended December 31, 2016 compared to the quarter ended December 31, 2015. Also, the unfavorable change in selling, general and administrative expenses include a $0.6 million decrease in legal expenses relating to antitrust lawsuits.

Business Groups Comparison of the Quarter Ended December 31, 2016 with the Quarter Ended December 31, 2015

The following table reflects each business group's net sales and operating income (loss), for the quarters ended December 31, 2016 and 2015 (amounts in thousands):

	Quarters Ended December 31,	
	2016	2015
Net sales:		
Solid Capacitors	$ 141,555	$ 135,300
Film and Electrolytic	46,474	41,884
Total	$ 188,029	$ 177,184
Operating income (loss):		
Solid Capacitors	$ 37,264	$ 31,359
Film and Electrolytic	2,332	(1,770)
Corporate	(25,746)	(21,096)
Total	$ 13,850	$ 8,493

Solid Capacitors

The following table sets forth net sales, operating income (loss), and operating income (loss) as a percentage of net sales for our Solid Capacitors business group for the quarters ended December 31, 2016 and 2015 (amounts in thousands, except percentages):

	Quarters Ended December 31,			
	2016		2015	
	Amount	% to Net Sales	Amount	% to Net Sales
Tantalum product line net sales	$ 86,266		$ 82,979	
Ceramic product line net sales	55,289		52,321	
Solid Capacitors net sales	$ 141,555		$ 135,300	
Solid Capacitors operating income (loss)	$ 37,264	26.3%	$ 31,359	23.2%

Net sales

Solid Capacitors net sales of $141.6 million for the quarter ended December 31, 2016 increased $6.3 million or 4.6% from $135.3 million for the quarter ended December 31, 2015. The increase was driven by a significant increase in net sales in the distributor channel across all regions, most predominantly in the APAC region. The increase in distributor channel sales was somewhat offset by a decrease in the EMS channel of the APAC region for the Tantalum product line and Americas region for the Ceramics product line as well as the OEM channel of the Americas and EMEA regions for the Tantalum product line and the Americas region for the Ceramics product line.

A summary of Solid Capacitors net sales by channel is shown below (amounts in thousands):

	Quarters Ended December 31,		
	2016	2015	Change in Net Sales
Distributors	$ 66,208	$ 53,566	$ 12,642
EMS	34,089	34,868	(779)
OEM	41,258	46,866	(5,608)
Solid Capacitors net sales	$ 141,555	$ 135,300	$ 6,255

Segment operating income (loss)

Segment operating income of $37.3 million for the quarter ended December 31, 2016 improved $5.9 million or 18.8% from $31.4 million in the quarter ended December 31, 2015. The increase in operating income is primarily a result of a $5.9 million improvement in gross margin. Improvements in gross margin were driven by an increase in net sales and continued variable margin improvement due to our restructuring activities, vertical integration, the favorable foreign currency impact on manufacturing costs, and manufacturing process improvements as a result of our cost reduction activities and our partnership with NEC TOKIN. In addition, there was a $0.9 million decrease in restructuring charges as the quarter ended December 31, 2015 included $0.8 million in charges primarily related to the consolidation and relocation of certain Solid Capacitor manufacturing in Victoria and Matamoros, Mexico. The gross margin improvement was partially offset by a $0.7 million increase in R&D.

Film and Electrolytic

The following table sets forth net sales, operating income (loss), and operating income (loss) as a percentage of net sales for our Film and Electrolytic business group for the quarters ended December 31, 2016 and 2015 (amounts in thousands, except percentages):

	Quarters Ended December 31,			
	2016		2015	
	Amount	% to Net Sales	Amount	% to Net Sales
Net sales	$ 46,474		$ 41,884	
Operating income (loss)	2,332	5.0%	(1,770)	(4.2)%

Net sales

Film and Electrolytic net sales of $46.5 million for the quarter ended December 31, 2016 increased $4.6 million or 11.0% from $41.9 million for the quarter ended December 31, 2015. The increase was primarily driven by increased net sales in the distributor channel across all regions as well as the OEM channel of the APAC region. Included in the net sales increase was an unfavorable impact of $0.2 million from foreign currency exchange due primarily to the change in the value of the Euro compared to the U.S. dollar.

Segment operating income (loss)

Segment operating income of $2.3 million for the quarter ended December 31, 2016 improved $4.1 million from segment operating loss of $1.8 million in the quarter ended December 31, 2015. The increase in segment operating income (loss) was driven by the following: a gross margin improvement of $2.7 million related to the net sales increase and favorable shift in product mix, a $1.2 million decrease in restructuring charges during the quarter ended December 31, 2016 and a decrease of $0.2 million in other operating expenses.

Consolidated Comparison of the Nine-Month Period Ended December 31, 2016 with the Nine-Month Period Ended December 31, 2015

The following table sets forth the Condensed Consolidated Statements of Operations for the nine-month periods ended December 31, 2016 and 2015 (amounts in thousands):

	Nine-Month Periods Ended December 31,			
	2016	% to Total Sales	2015	% to Total Sales
Net sales	$ 560,272		$ 550,897	
Gross margin	136,273	24.3 %	121,267	22.0 %
Selling, general and administrative expenses	78,551	14.0 %	75,656	13.7 %
Research and development	21,107	3.8 %	18,560	3.4 %
Restructuring charges	4,317	0.8 %	3,561	0.6 %
Write down of long-lived assets	6,193	1.1 %	—	n.m.
Net (gain) loss on sales and disposals of assets	307	n.m.	(233)	n.m.
Operating income (loss)	25,798	4.6 %	23,723	4.3 %
Interest income	(14)	n.m.	(10)	n.m.
Interest expense	29,751	5.3 %	29,676	5.4 %
Change in value of NEC TOKIN option	3,500	0.6 %	26,300	4.8 %
Other (income) expense, net	(6,683)	(1.2)%	(2,495)	(0.5)%
Income (loss) from continuing operations before income taxes and equity income from NEC TOKIN	(756)	(0.1)%	(29,748)	(5.4)%
Income tax expense	4,440	0.8 %	3,950	0.7 %
Income (loss) from continuing operations before equity income (loss) from NEC TOKIN	(5,196)	(0.9)%	(33,698)	(6.1)%
Equity income (loss) from NEC TOKIN	271	n.m.	(4,758)	(0.9)%
Net income (loss)	$ (4,925)	(0.9)%	$ (38,456)	(7.0)%

n.m. - not meaningful

Net Sales

Net sales of $560.3 million for the nine-month period ended December 31, 2016 increased $9.4 million or 1.7% from $550.9 million for the nine-month period ended December 31, 2015. Solid Capacitors net sales increased $9.9 million driven by an increase in distribution channel sales specifically in the APAC and EMEA regions. The increase in distribution channel sales was partially offset by declining sales in the OEM channels of the Americas and APAC regions and the EMS channel of the APAC region. In addition, Solid Capacitor net sales were favorably impacted by $0.5 million from foreign currency exchange primarily due to the change in the value of the Euro compared to the U.S. dollar. Film and Electrolytic net sales decreased $0.5 million driven primarily by decreased sales in the EMEA and Americas regions due to a decline in market conditions and declines within the OEM channel corresponding with increased sales in the prior year in anticipation of the relocation of our manufacturing line from Germany to Macedonia. Partially offsetting this decrease was an increase in net sales in the APAC region for the OEM channel as well as Distributor channel for all regions. In addition, there was a favorable impact of $0.4 million from foreign currency exchange primarily due to the change in the value of the Euro compared to the U.S. dollar.

The following table reflects the percentage of net sales by region for the nine-month periods ended December 31, 2016 and 2015:

	Nine-Month Periods Ended December 31,	
	2016	2015
Americas	30 %	31 %
EMEA	31 %	31 %
APAC	39 %	38 %
	100 %	100 %

The following table reflects the percentage of net sales by channel for the nine-month periods ended December 31, 2016 and 2015:

	Nine-Month Periods Ended December 31,	
	2016	2015
Distributors	46 %	41 %
EMS	21 %	22 %
OEM	33 %	37 %
	100 %	100 %

Gross Margin

Gross margin of $136.3 million (24.3% of net sales) for the nine-month period ended December 31, 2016 increased $15.0 million or 12.4% from $121.3 million (22.0% of net sales) for the nine-month period ended December 31, 2015 and gross margin as a percentage of net sales improved 230 basis points. The primary contributor to the increase was an increase in Solid Capacitor gross margin of $15.2 million due to the increase in net sales and an improvement in variable margin corresponding with our restructuring plan, cost reduction activities, vertical integration, the favorable foreign currency impact to manufacturing costs, and manufacturing process improvements as a result of our cost reduction activities and our partnership with NEC TOKIN. This increase was partially offset by a decrease in gross margin for Film and Electrolytic of $0.2 million driven by lower net sales as well as an unfavorable shift in product mix associated with lower OEM sales volumes.

Selling, General and Administrative Expenses

SG&A expenses of $78.6 million (14.0% of net sales) for the nine-month period ended December 31, 2016 increased $2.9 million or 3.8% compared to $75.7 million (13.7% of net sales) for the nine-month period ended December 31, 2015. The increase consists primarily of the following items: a $2.7 million increase in payroll and related expenses and benefits, primarily due to incentive-based compensation, a $0.5 million increase in ERP integration and technology transition costs, a $0.5 million increase in consulting and contractor expenses, a $0.4 million increase in professional fees, a $0.4 million increase in promotional expenses, a $0.3 million increase in depreciation expense, and a $0.3 million increase in office equipment and hardware lease expenses. These increases were partially offset by a $0.9 million decrease in employee development, travel, and training expenses, a $0.9 million decrease in legal expenses, and a $0.6 million decrease related primarily to the change in the allocation of IT and other costs between SG&A and cost of goods sold following an internal usage study.

Research and Development

R&D expenses of $21.1 million (3.8% of net sales) for the nine-month period ended December 31, 2016 increased $2.5 million or 13.7% compared to $18.6 million (3.4% of net sales) for the nine-month period ended December 31, 2015. The increase was primarily related to a $1.4 million increase in payroll-related expenses and benefits and a $0.8 million increase in engineering expenses.

Restructuring Charges

Restructuring charges of $4.3 million for the nine-month period ended December 31, 2016 increased $0.8 million or 21.2% from $3.6 million for the nine-month period ended December 31, 2015.

Restructuring charges in the nine-month period ended December 31, 2016 included $1.9 million of personnel reduction costs and $2.5 million of manufacturing relocation and exit costs. The personnel reduction costs of $1.9 million consist of $0.4 million in headcount reductions related to the shut-down of operations for KFM in Knoxville, Tennessee, $0.3 million related to the consolidation of certain Solid Capacitor manufacturing in Matamoros, Mexico, $0.3 million for overhead reductions in Sweden, $0.3 million in U.S. headcount reductions related to the relocation of global marketing functions to our Fort Lauderdale, Florida office, $0.3 million related to headcount reductions in Europe (primarily Italy and Landsberg, Germany) corresponding with the relocation of certain production lines and laboratories to lower cost regions, $0.2 million related to overhead reductions as we relocate the R&D operations from Weymouth, England to Evora, Portugal, and $0.1 million in manufacturing headcount reductions related to the relocation of the K-Salt operations to the existing Matamoros, Mexico plant. The manufacturing relocation and exit costs of $2.5 million primarily consists of $1.9 million in expenses related to contract termination costs related to the shut-down of operations for KFM, $0.4 million related to transfers of Film and Electrolytic production lines and R&D functions to lower cost regions, and $0.1 million related to the transfer of certain Tantalum production from Simpsonville, South Carolina to Victoria, Mexico.

We incurred $3.6 million in restructuring charges in the nine-month period ended December 31, 2015 comprised of $1.9 million of personnel reduction costs and $1.7 million in manufacturing relocation costs. The personnel reduction costs of $1.9 million consist of the following: $0.9 million for headcount reductions in Matamoros, Mexico related to the relocation of certain Solid Capacitor manufacturing from Matamoros, Mexico to Victoria, Mexico, $0.6 million related to a headcount reduction in Suzhou, China for the Film and Electrolytic production line transfer from Suzhou, China to Anting, China, $0.5 million related to the consolidation of certain Solid Capacitor manufacturing in Victoria, Mexico, $0.4 million for headcount reductions in Europe (primarily Landsberg, Germany) and $0.6 million for headcount reductions related to the outsourcing of the Company's information technology function and overhead reductions in North America and Europe. These personnel reduction costs were partially offset by a $1.2 million reversal of a severance accrual in Italy. We also incurred $1.7 million of manufacturing relocation costs for transfers of Film and Electrolytic production lines to lower cost regions.

Operating Income (Loss)

KEMET's operating income of $25.8 million for the nine-month period ended December 31, 2016, improved $2.1 million from the operating income of $23.7 million for the nine-month period ended December 31, 2015. The improvement is attributable primarily to a $15.0 million improvement in gross margin. This improvement was partially offset by a $6.2 million write-down of long-lived assets in the nine-month period ended December 31, 2016, a $0.8 million increase in restructuring charges, a $2.9 million increase in SG&A expense, a $2.5 million increase in R&D expenses and a $0.5 million change in the loss on disposal of fixed assets.

Write Down of Long-Lived Assets

In the nine-month period ended December 31, 2016 we recorded a write down of long-lived assets of $6.2 million due to the following two actions.

KEC made the decision to shut-down operations of its wholly-owned subsidiary, KFM. Operations at KFM's Knoxville, Tennessee plant ceased as of October 31, 2016. During the second fiscal quarter ending September 30, 2016, we incurred impairment charges totaling $4.1 million comprised of $3.0 million for the write down of property plant and equipment and $1.1 million for the write down of intangible asset.

Solid Capacitors initiated a plan to relocate the equipment at our leased K-Salt facility to our existing Matamoros, Mexico facility which resulted in impairment charges of approximately $2.1 million.

Non-operating (Income) Expense, net

Non-operating (income) expense, net was an expense of $26.6 million for the nine-month period ended December 31, 2016, compared to an expense of $53.5 million for the nine-month period ended December 31, 2015. The decrease is primarily due to the recognition of a $3.5 million decrease in the value of the NEC TOKIN option for the nine-month period ended December 31, 2016 compared to a $26.3 million decrease in the value of the NEC TOKIN option for the nine-month period ended December 31, 2015. In addition, we received $0.5 million from insurance proceeds during the nine-month period ended December 31, 2016 and we incurred a $5.3 million foreign currency exchange gain during the nine-month period ended December 31, 2016 compared to a $3.2 million foreign currency exchange gain for the nine-month period ended December 31, 2015, which was primarily due to the change in the value of the Euro and Mexican Peso compared to the U.S. dollar.

Income Taxes

Income tax expense of $4.4 million for the nine-month period ended December 31, 2016 increased $0.5 million compared to income tax expense of $4.0 million for the nine-month period ended December 31, 2015. Income tax expense of $4.4 million for the nine-month period ended December 31, 2016 was comprised of $4.3 million of income tax expense related to foreign operations and $0.1 million of state income tax expense. Income tax expense of $4.0 million for the nine-month period ended December 31, 2015 was comprised of $4.4 million related to foreign operations, $0.6 million of income tax benefit due to the reduction in the U.S. valuation allowance associated with the acquisition of IntelliData, Inc. ("IntelliData"), and $0.2 million of state income tax expense.

There was no U.S. federal income tax benefit from net operating losses for the nine-month periods ended December 31, 2016 and 2015 due to a valuation allowance on deferred tax assets.

Equity Income (Loss) from NEC TOKIN

Equity income related to our 34% economic interest in NEC TOKIN increased by $5.0 million to equity income of $0.3 million for the nine-month period ended December 31, 2016 compared to equity loss of $4.8 million for the nine-month period ended December 31, 2015. The change was primarily comprised of the following: a $5.1 million decrease in additional accrual charge for antitrust fines and a $2.8 million increase in gross margin (including $3.5 million favorable impact from foreign currency exchange fluctuation) during the nine-month period ended December 31, 2016 compared to the nine-month period ended December 31, 2015. The actual decline in gross margin excluding foreign currency exchange impact was due primarily to a decrease in sales. In addition, there was a $1.0 million favorable legal settlement in Hong Kong for the quarter ended December 31, 2015 and no similar activity in the quarter ended December 31, 2016. Offsetting these favorable items were primarily the following: a $1.1 million unfavorable change in the foreign currency translation gains (losses) and a $0.4 million increase in step up basis adjustment amortization.

Business Groups Comparison of the Nine-Month Period Ended December 31, 2016 with the Nine-Month Period Ended December 31, 2015

The following table reflects each business group's net sales and operating income (loss) for the nine-month periods ended December 31, 2016 and 2015 (amounts in thousands):

	Nine-Month Periods Ended December 31,	
	2016	2015
Net sales:		
Solid Capacitors	$ 426,140	$ 416,261
Film and Electrolytic	134,132	134,636
Total	$ 560,272	$ 550,897
Operating income (loss):		
Solid Capacitors	$ 107,753	$ 95,371
Film and Electrolytic	(6,231)	1,159
Corporate	(75,724)	(72,807)
Total	$ 25,798	$ 23,723

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 nine-month periods ended December 31, 2016 and 2015 (amounts in thousands, except percentages):

	Nine-Month Periods Ended December 31,			
	2016		2015	
	Amount	% to Net Sales	Amount	% to Net Sales
Tantalum product line net sales	$ 252,451		$ 255,430	
Ceramic product line net sales	173,689		160,831	
Solid Capacitors net sales	$ 426,140		$ 416,261	
Solid Capacitors operating income (loss)	$ 107,753	25.3%	$ 95,371	22.9%

Net Sales

Solid Capacitors net sales of $426.1 million for the nine-month period ended December 31, 2016 increased $9.9 million or 2.4% from $416.3 million for the nine-month period ended December 31, 2015. Tantalum product line net sales of $252.5 million for the nine-month period ended December 31, 2016, decreased $3.0 million or 1.2% from $255.4 million for the nine-month period ended December 31, 2015. Tantalum sales were unfavorably impacted by a decrease in net sales in the Americas and EMEA regions as well as the APAC region in the EMS and OEM channels which were partially offset by an increase in the distributor channel of the APAC region. Ceramic net sales of $173.7 million for the nine-month period ended December 31, 2016 increased $12.9 million or 8.0% from $160.8 million for the nine-month period ended December 31, 2015. The Ceramic increase in sales was primarily related to increases in distribution channel sales across all regions. Included in the overall increase in net sales was a favorable impact of $0.5 million from foreign currency exchange primarily due to the change in the value of the Euro compared to the U.S. dollar.

The following table sets forth net sales and change in net sales for our Solid Capacitors business group by channel for the nine-month periods ended December 31, 2016 and 2015 (amounts in thousands, except percentages):

	Nine-Month Periods Ended December 31,		Change in Net Sales
	2016	2015	
Distributors	$ 200,564	$ 174,414	$ 26,150
EMS	102,683	108,245	(5,562)
OEM	122,893	133,602	(10,709)
Solid Capacitors net sales	$ 426,140	$ 416,261	$ 9,879

Segment Operating Income (Loss)

Segment operating income of $107.8 million for the nine-month period ended December 31, 2016 increased $12.4 million or 13.0% from $95.4 million for the nine-month period ended December 31, 2015. The increase in operating income was attributable primarily to an increase in gross margin of $15.2 million due to an increase in net sales, cost improvements in vertical integration, favorable foreign currency impact to manufacturing costs, and manufacturing process improvements as a result of our cost reduction activities and our partnership with NEC TOKIN and a $1.0 million decrease in restructuring charges. Partially offsetting these improvements were a $1.6 million increase in R&D expenses, $2.1 million in non-cash impairment charges resulting from the plan to relocate the K-Salt facility equipment to the existing Matamoros Mexico plant and a $0.1 million increase in operating expenses.

Film and Electrolytic

The following table sets forth net sales, operating income (loss) and operating income (loss) as a percentage of net sales for our Film and Electrolytic business group for the nine-month periods ended December 31, 2016 and 2015 (amounts in thousands, except percentages):

	Nine-Month Periods Ended December 31,			
	2016		2015	
	Amount	% to Net Sales	Amount	% to Net Sales
Net sales	$ 134,132		$ 134,636	
Operating income (loss)	(6,231)	(4.6)%	1,159	0.9%

Net Sales

Film and Electrolytic net sales of $134.1 million for the nine-month period ended December 31, 2016 decreased $0.5 million or 0.4% from $134.6 million for the nine-month period ended December 31, 2015. The decrease was driven by a decrease in net sales in the OEM channel for the Americas and EMEA region, primarily related to increased sales in the prior year in anticipation of the relocation of our manufacturing line from Germany to Macedonia. This decrease was partially offset by an increase in net sales in the Distributor channel through all regions. In addition, there was a favorable impact of $0.4 million from foreign currency exchange primarily due to the change in the value of the Euro compared to the U.S. dollar.

Segment Operating Income (Loss)

Segment operating loss of $6.2 million for the nine-month period ended December 31, 2016, decreased $7.4 million from segment operating income of $1.2 million for the nine-month period ended December 31, 2015. The decline was primarily attributable to impairment charges of $4.1 million (comprised of $1.1 million for the write off of intangible assets and $3.0 million for the write down of property plant and equipment), a $1.9 million increase in restructuring charges, $0.5 million in increased R&D spending, a $0.4 million increase in other operating expenses due primarily to a $0.3 million gain on disposal of fixed assets recognized in the nine-month period ended December 31, 2015 and a $0.1 million loss in the nine-month period ended December 31, 2016, a $0.3 million increase in SG&A charges and a $0.2 million decrease in gross margin driven by lower net sales as well as an unfavorable shift in product mix associated with lower OEM sales volumes.

Liquidity and Capital Resources

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

10.5% Senior Notes

On May 10, 2016, we repurchased and retired $2.0 million of our 10.5% Senior Notes. As of December 31, 2016 and March 31, 2016, we had outstanding $353.0 million and $355.0 million, respectively in aggregate principal amount of our 10.5% Senior Notes due May 1, 2018 (the “10.5% Senior Notes”).

Revolving Line of Credit

On May 2, 2016, the Loan and Security Agreement dated September 30, 2010, as amended, by and among KEMET Electronics Corporation (“KEC”), KEMET Electronics Marketing (S) Pte. Ltd., KEMET Foil Manufacturing, LLC (“KEMET Foil”), KEMET Blue Powder Corporation (“KEMET Blue Powder”), The Forest Electric Company and the financial institutions party thereto (the “Loan and Security Agreement”), was amended and, as a result, the revolving credit facility increased to $65.0 million.

As of December 31, 2016, we had the following activity and resulting balances under our revolving line of credit (amounts in thousands, excluding percentages):

	As of March 31, 2016	Nine-Month Period Ended December 31, 2016		As of December 31, 2016		
	Outstanding Borrowings	Additional Borrowings	Repayments	Outstanding Borrowings	Rate (1) (2)	Due Date
U.S. Facility	$ 19,881	$ —	$ —	$ 19,881	5.000%	December 19, 2019
Singapore Facility						
Singapore Borrowing 1 (3)	12,000	—	—	12,000	3.500%	February 21, 2017
Singapore Borrowing 2 (3)(4)	2,000	—	—	2,000	3.375%	January 9, 2017
Total Facilities	$ 33,881	$ —	$ —	$ 33,881		

(1) For U.S. borrowings, Base Rate plus 1.50%, as defined in the Loan and Security Agreement.

(2) For Singapore borrowings, London Interbank Offer Rate (“LIBOR”), plus a spread of 2.50% as of December 31, 2016.

(3) We have the intent and ability to extend the due date on the Singapore borrowings beyond one year.

(4) In January 2017, the Company extended the due date to April 10, 2017 at 3.625%.

These were the only borrowings under the revolving line of credit as of December 31, 2016.

Short-term Liquidity

Cash and cash equivalents as of December 31, 2016 of $87.4 million increased $22.4 million from $65.0 million as of March 31, 2016. Our net working capital (current assets less current liabilities) as of December 31, 2016 was $238.6 million compared to $228.8 million as of March 31, 2016. Cash and cash equivalents held by our foreign subsidiaries totaled $40.6 million and $28.2 million at December 31, 2016 and March 31, 2016, respectively. Our operating income outside the U.S. is no longer deemed to be permanently reinvested in foreign jurisdictions. As a result, we set up a deferred tax liability as of March 31, 2015 on the undistributed foreign earnings which was offset by a reduction in the valuation allowance on our deferred tax assets. However, 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 accrue U.S. withholding taxes on the distributed foreign earnings.

Based on our current operating plans, we believe domestic cash and cash equivalents are sufficient to fund our operating requirements for the next twelve months, including $38.5 million in interest payments, $20.0 million to $25.0 million in expected capital expenditures and $2.3 million in restructuring payments. As of December 31, 2016, our borrowing capacity under the revolving line of credit was $31.1 million. The revolving line of credit expires on December 19, 2019.

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

Cash and cash equivalents increased $22.4 million for the nine-month period ended December 31, 2016, as compared to a decrease of $13.2 million during the nine-month period ended December 31, 2015.

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

	Nine-Month Periods Ended December 31,	
	2016	2015
Net cash provided by (used in) operating activities	$ 42,144	$ (557)
Net cash provided by (used in) investing activities	(15,011)	(16,114)
Net cash provided by (used in) financing activities	(3,411)	3,328
Effect of foreign currency fluctuations on cash	(1,370)	139
Net increase (decrease) in cash and cash equivalents	$ 22,352	$ (13,204)

Operating

Cash provided by operating activities during the nine-month period ended December 31, 2016 of $42.1 million increased $42.7 million compared to cash used in operating activities of $0.6 million in the nine-month period ended December 31, 2015. Contributing to the positive changes in cash was a $12.0 million increase in operating cash flows led by an improvement in net income (loss) net of the following non-cash income statement items: depreciation and amortization, change in value of NEC TOKIN options, equity (income) loss from NEC TOKIN, write down of long-lived assets, non-cash debt and financing costs, stock-based compensation expense, receivable write down, net (gain) loss on sales and disposals of assets, pension and other post-retirement benefits, and deferred income taxes for the nine-month period ended December 31, 2016 compared to the nine-month period ended December 31, 2015.

Also contributing to the positive changes in cash was a $16.7 million improvement in cash from operating assets, excluding foreign currency exchange, primarily due to a decrease in inventory of $10.2 million, excluding foreign currency exchange, in the nine-month period ended December 31, 2016 compared to a $3.6 million increase, excluding foreign currency exchange, in the nine-month period ended December 31, 2015. The decrease in inventory as of December 31, 2016 was primarily related to continued improvements related to vertical integration of the Tantalum product line supply chain. The increase in inventory as of December 31, 2015 was primarily related to an increase of Film and Electrolytic's inventory in preparation for the temporary shut-down of production lines to relocate the production lines. Additionally, in the nine-month period ended December 31, 2016, a decrease in accounts receivable generated $9.9 million, excluding foreign currency exchange, compared to the nine-month period ended December 31, 2015, during which accounts receivable decreased by $1.3 million, with immaterial foreign currency exchange impact.

Another contribution to the positive changes in cash was a $14.0 million improvement in cash from operating liabilities, excluding foreign currency exchange, primarily due to using $24.5 million of cash, excluding foreign currency exchange, to reduce accrued expenses during the nine-month period ended December 31, 2015 compared to only using $13.3 million of cash, excluding foreign currency exchange, to reduce accrued expenses during the nine-month period ended December 31, 2016. The primary reason for the change in accrued expenses is due to a $7.9 million change for our incentive-based compensation largely related to performance improvements. The remainder of the increase in cash resulting from the change in operating liabilities is due to the timing of supplier payments.

Investing

Cash used in investing activities during the nine-month period ended December 31, 2016 of $15.0 million reflects a $1.1 million decrease compared to cash used in investing activities of $16.1 million in the nine-month period ended December 31, 2015. The reduction is primarily related to cash used for the acquisition of IntelliData of $2.9 million in the nine-month period ended December 31, 2015 compared to no acquisitions in the nine-month period ended December 31, 2016.

Cash used in investing activities during the nine-month period ended December 31, 2016 includes capital expenditures of $15.0 million primarily related to expanding capacity at our manufacturing facilities in Monterrey and Matamoros, Mexico; Pontecchio, Italy; Evora, Portugal; and Suzhou, China.

In comparison, cash used in investing activities during the nine-month period ended December 31, 2015 included $14.1 million used for capital expenditures primarily related to expanding capacity at our manufacturing facilities in Suzhou, China; Pontecchio, Italy; Gränna, Sweden; and Evora, Portugal as well as information technology projects. During this same period, we also received $0.9 million in proceeds from sales of assets.

Financing

Cash used in financing activities during the nine-month period ended December 31, 2016 of $3.4 million reflects a $6.7 million change from cash provided by financing activities of $3.3 million in the nine-month period ended December 31, 2015, primarily due to a decrease in net proceeds from the revolving line of credit of $4.5 million in the nine-month period ended December 31, 2015 compared to no borrowings in the nine-month period ended December 31, 2016.

During the nine-month period ended December 31, 2016, we used $1.9 million to retire $2.0 million face value of our 10.5% Senior Notes, $1.1 million for the purchase of treasury stock related to shares withheld to pay taxes due upon the vesting of restricted stock, and $0.6 million for payment of other long-term obligations. In comparison, during the nine-month period ended December 31, 2015, we used $0.5 million for foreign subsidiary debt payments and $0.7 million for the purchase of treasury stock, again related to shares withheld to pay taxes due upon vesting of restricted stock.

Commitments

With the exception of our purchase commitments, our commitments have not materially changed from those disclosed in the Company's 2016 Annual Report. Due to large, newly negotiated or renegotiated contracts, an update to our purchase commitments is as follows (amounts in thousands):

		Payment Due by Period			
Contractual obligations	**Total**	**Year 1**	**Years 2 - 3**	**Years 4 - 5**	**More than 5 years**
Purchase commitments	$ 4,414	$ 2,239	$ 2,175	$ —	$ —

Non-U.S. Generally Accepted Accounting Principles ('GAAP") Financial Measures

To complement our Condensed Consolidated Statements of Operations and Cash Flows, we use non-U.S. GAAP financial measures of Adjusted gross margin, Adjusted operating income (loss), Adjusted net income (loss) and Adjusted EBITDA. Management believes that Adjusted gross margin, Adjusted operating income (loss), Adjusted net income (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.

The following table provides reconciliation from U.S. GAAP Gross margin to Non-U.S. GAAP Adjusted gross margin (amounts in thousands, except percentages):

	Quarters Ended December 31,		Nine-Month Periods Ended December 31,	
	2016	**2015**	**2016**	**2015**
Net sales	$ 188,029	$ 177,184	$ 560,272	$ 550,897
Cost of sales	140,692	138,436	423,999	429,630
Gross margin (U.S. GAAP)	$ 47,337	$ 38,748	$ 136,273	$ 121,267
Gross margin as a % of net sales	25.2%	21.9%	24.3%	22.0%
Adjustments:				
Plant start-up costs	—	160	427	542
Stock-based compensation expense	308	268	993	1,140
Plant shut-down costs	—	231	—	231
Adjusted gross margin (non-U.S. GAAP)	$ 47,645	$ 39,407	$ 137,693	$ 123,180
Adjusted gross margin as a % of net sales	25.3%	22.2%	24.6%	22.4%

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The following table provides reconciliation from U.S. GAAP Operating income (loss) to non-U.S. GAAP Adjusted operating income (loss) (amounts in thousands):

	Quarters Ended December 31,		Nine-Month Periods Ended December 31,	
	2016	2015	2016	2015
Operating income (loss) (U.S. GAAP)	$ 13,850	$ 8,493	$ 25,798	$ 23,723
Adjustments:				
Write down of long-lived assets	—	—	6,193	—
Restructuring charges	(369)	1,714	4,317	3,561
ERP integration/IT transition costs	1,734	167	5,285	4,818
Stock-based compensation expense	1,139	1,154	3,471	3,761
Legal expenses related to antitrust class actions	293	1,300	2,234	2,559
NEC TOKIN investment-related expenses	204	225	604	635
Plant start-up costs	—	160	427	542
Plant shut-down costs	—	231	—	231
Net (gain) loss on sales and disposals of assets	132	129	307	(233)
Pension plan adjustment	—	—	—	312
Adjusted operating income (loss) (non-U.S. GAAP)	$ 16,983	$ 13,573	$ 48,636	$ 39,909

The following table provides reconciliation from U.S. GAAP Net income (loss) to non-U.S. GAAP Adjusted net income (loss) (amounts in thousands):

	Quarters Ended December 31,		Nine-Month Periods Ended December 31,	
	2016	2015	2016	2015
Net income (loss) (U.S. GAAP)	$ 12,278	$ (8,600)	$ (4,925)	$ (38,456)
Adjustments:				
Write down of long-lived assets	—	—	6,193	—
Restructuring charges	(369)	1,714	4,317	3,561
ERP integration/IT transition costs	1,734	167	5,285	4,818
Stock-based compensation expense	1,139	1,154	3,471	3,761
Change in value of NEC TOKIN option	(6,900)	(700)	3,500	26,300
Legal expenses related to antitrust class actions	293	1,300	2,234	2,559
Net foreign exchange (gain) loss	(2,621)	(1,036)	(5,265)	(3,158)
Plant shut-down costs	—	231	—	231
NEC TOKIN investment-related expenses	204	225	604	635
Amortization included in interest expense	183	212	561	649
Equity (income) loss from NEC TOKIN	133	6,505	(271)	4,758
Plant start-up costs	—	160	427	542
Net (gain) loss on sales and disposals of assets	132	129	307	(233)
Pension plan adjustment	—	—	—	312
Income tax effect of non-U.S. GAAP adjustments (1)	(396)	710	(367)	826
Adjusted net income (loss) (non-U.S. GAAP)	$ 5,810	$ 2,171	$ 16,071	$ 7,105

(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.

The following table provides reconciliation from U.S. GAAP Net income (loss) to non-U.S. GAAP Adjusted EBITDA (amounts in thousands):

	Quarters Ended December 31,		Nine-Month Periods Ended December 31,	
	2016	2015	2016	2015
Net income (loss) (U.S. GAAP)	$ 12,278	$ (8,600)	$ (4,925)	$ (38,456)
Adjustments:				
Interest expense, net	9,913	9,848	29,737	29,666
Income tax expense (benefit)	1,810	2,760	4,440	3,950
Depreciation and amortization	9,095	9,674	27,971	28,856
Write down of long-lived assets	—	—	6,193	—
Restructuring charges	(369)	1,714	4,317	3,561
ERP integration/IT transition costs	1,734	167	5,285	4,818
Change in value of NEC TOKIN option	(6,900)	(700)	3,500	26,300
Stock-based compensation expense	1,139	1,154	3,471	3,761
Legal expenses related to antitrust class actions	293	1,300	2,234	2,559
Net foreign exchange (gain) loss	(2,621)	(1,036)	(5,265)	(3,158)
NEC TOKIN investment-related expenses	204	225	604	635
Equity (income) loss from NEC TOKIN	133	6,505	(271)	4,758
Plant start-up costs	—	160	427	542
Plant shut-down costs	—	231	—	231
Net (gain) loss on sales and disposals of assets	132	129	307	(233)
Pension plan adjustment	—	—	—	312
Adjusted EBITDA (non-U.S. GAAP)	$ 26,841	$ 23,531	$ 78,025	$ 68,102

Adjusted gross margin represents net sales less cost of sales excluding adjustments which are outlined in the quantitative reconciliation provided above. We use Adjusted gross margin to facilitate our analysis and understanding of our business operations by excluding the items outlined in the quantitative reconciliation provided above which might otherwise make comparisons of our ongoing business with prior periods more difficult and obscure trends in ongoing operations. The Company believes that Adjusted gross margin is useful to investors because it provides a supplemental way to understand the underlying operating performance of the Company. Adjusted gross margin should not be considered as an alternative to gross margin or any other performance measure derived in accordance with U.S. GAAP.

Adjusted operating income (loss) represents operating income (loss), excluding adjustments which are outlined in the quantitative reconciliation provided above. We use Adjusted operating income (loss) to facilitate our analysis and understanding of our business operations by excluding the items outlined in the quantitative reconciliation provided above which might otherwise make comparisons of our ongoing business with prior periods more difficult and obscure trends in ongoing operations. The Company believes that Adjusted operating income (loss) is useful to investors to provide a supplemental way to understand our underlying operating performance and monitor and understand changes in our ability to generate income from ongoing business operations. Adjusted operating income (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 income (loss) represents net income (loss), excluding adjustments which are more specifically outlined in the quantitative reconciliation provided above. We use Adjusted net income (loss) to evaluate our operating performance by excluding the items outlined in the quantitative reconciliation provided above which might otherwise make comparisons of our ongoing business with prior periods more difficult and obscure trends in ongoing operations. The Company believes that Adjusted net income (loss) is useful to investors because it provides a supplemental way to understand our underlying operating performance and allows investors to monitor and understand changes in our ability to generate income from ongoing business operations. Adjusted net income (loss) should not be considered as an alternative to net income (loss) from continuing operations, operating income (loss) or any other performance measures derived in accordance with U.S. GAAP.

Adjusted EBITDA represents net income (loss) before interest expense, net, income tax expense (benefit), and depreciation and amortization expense, excluding adjustments which are outlined in the quantitative reconciliation provided above. We present Adjusted EBITDA as a supplemental measure of our performance and ability to service debt. We also present Adjusted EBITDA because we believe this measure is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. Adjusted EBITDA is also used as a measure to determine incentive compensation.

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

Our Adjusted EBITDA measure has limitations as an analytical tool, and should not be considered 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 as supplementary information.

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/issued

In October 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-16, Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory. The update requires entities to recognize the income tax consequences of many intercompany asset transfers at the transaction date. The seller and buyer will immediately recognize the current and deferred income tax consequences of an intercompany transfer of an asset other than inventory. The tax consequences were previously deferred. The effective date of this update is for fiscal years, and interim

periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The update requires modified retrospective transition method which is a cumulative effect adjustment to retained earnings as of the beginning of the first effective reporting period. The Company is currently evaluating the impact of the adoption of this guidance on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15,Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The update clarifies how cash receipts and cash payments in certain transactions are presented and classified in the statement of cash flows. The effective date of this update is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The update requires retrospective application to all periods presented but may be applied prospectively if retrospective application is impracticable. The Company is currently evaluating the impact of the adoption of this guidance on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation. This guidance changes several aspects of the accounting for share-based payment award transactions, including: (1) Accounting and Cash Flow Classification for Excess Tax Benefits and Deficiencies, (2) Forfeitures, and (3) Tax Withholding Requirements and Cash Flow Classification. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016. Early application is permitted, and KEMET adopted ASU No. 2016-09 as of April 1, 2016. The Company elected to discontinue estimating forfeitures that are expected to occur and recorded a cumulative effect adjustment to retained earnings of $130,000 as of April 1, 2016. There was no cumulative adjustment related to the excess tax benefits as the Company did not have an additional paid in capital pool of excess tax benefits. The adoption did not have a significant impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The ASU requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than short-term leases). The guidance is to be applied using a modified retrospective approach at the beginning of the earliest comparative period in the financial statements. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2018. Early application is permitted. We are currently in the process of assessing the impact the adoption of this guidance will have on our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. The ASU requires an entity that uses first-in, first-out or average cost to measure its inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 was effective for interim and annual reporting periods beginning April 1, 2016. The adoption of ASU 2015-11 did not materially impact the Company's operating results and financial position.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The ASU specifies that debt issuance costs related to a note shall be reported in the balance sheet as a direct reduction from the face amount of the note. In August 2015, the FASB issued ASU No. 2015-15, Interest - Imputation of Interest (Subtopic 835-30) - Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which clarifies the treatment of debt issuance costs associated with line-of-credit arrangements that were not specifically addressed in ASU 2015-03. ASU 2015-15 states that entities may elect to continue to treat debt issuance costs associated with lines of credit as an asset, consistent with current treatment. The Company adopted these ASUs in the first quarter of 2017. The ASUs did not impact the Company's results of operations or liquidity. The balance sheet as of March 31, 2016 has been adjusted to reflect retrospective application of the new accounting guidance as follows (amounts in thousands):

	As Previously Reported	Retrospective Adjustment	As Adjusted
Other assets	$ 5,832	$ (2,764)	$ 3,068
Total assets	702,544	(2,764)	699,780
Long-term debt, less current portion	388,597	(2,764)	385,833
Total liabilities and stockholders' equity	702,544	(2,764)	699,780

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern. The new guidance requires management to assess if there is substantial doubt about an entity's ability to continue as a going concern for each annual and interim period. If conditions or events give rise to substantial doubt, disclosures are required. ASU 2014-15 is

effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter; early application is permitted. This new guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which supersedes existing accounting standards for revenue recognition and creates a single framework. The new guidance requires either a retrospective or a modified retrospective approach at adoption. Additional updates to Topic 606 issued by the FASB in 2015 and 2016 include the following:

- ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of the new guidance such that the new provisions will now be required for fiscal years, and interim periods within those years, beginning after December 15, 2017 (ASU 2015-14 is effective for the Company's fiscal year that begins on April 1, 2018 and interim periods within that fiscal year).
- ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations, which clarifies the implementation guidance on principal versus agent considerations (reporting revenue gross versus net).
- ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies the implementation guidance on identifying performance obligations and classifying licensing arrangements.
- ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which clarifies the implementation guidance in a number of other areas.
- ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.

The effective date of this guidance is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted, but not before the Company's fiscal year that begins on April 1, 2017 (the original effective date of the ASU). The Company plans to adopt the requirements of the new standard in the first quarter of fiscal year 2019. The Company is currently in the process of assessing the impact the adoption of the new revenue standards will have on its consolidated financial statements and related disclosures.

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 have been no material changes regarding the Company's market risk position from the information included in the Company's2016 Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of December 31, 2016, 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

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 December 31, 2016 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

"Item 3. Legal Proceedings" of our 2016 Annual Report includes a discussion of our legal proceedings. There have been no material changes from the Company's legal proceedings described in our 2016 Annual Report, except as noted in our Form 10-Q filed on November 2, 2016. For an update on certain legal matters concerning NEC TOKIN, our equity method investee, see Note 6, "Investment in NEC TOKIN."

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A Risk Factors, of the Company's 2016 Annual Report other than the supplemental risk factor set forth below:

Changes impacting international trade and corporate tax provisions related to the global manufacturing and sales of our products may have an adverse effect on our financial condition and results of operations.

A significant portion of our business activities are conducted in foreign countries, including Mexico and China. Our business benefits from free trade agreements such as the North American Free Trade Agreement ("NAFTA") and we also rely on various U.S. corporate tax provisions related to international commerce as we build, market and sell our products globally. Changes in trade treaties and corporate tax policy could impact U.S. trade relations with other countries such as Mexico, and adversely affect our financial condition and results of operations.

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

The following table provides information relating to our purchase of shares of our common stock during the quarter ended December 31, 2016 (amounts in thousands, except per share price):

Periods	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Programs	(d) Maximum Number of Shares that may yet be Purchased Under the Programs
October 1 to October 31, 2016	—	$ —	—	—
November 1 to November 30, 2016	—	—	—	—
December 1 to December 31, 2016	78	5.41	—	—
Total for Quarter Ended December 31, 2016	78	$ 5.41		

(1) Represents shares withheld by the Company upon vesting of restricted stock to pay taxes due. The Company does not currently have a publicly announced share repurchase plan or program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit 10.1 Employment Offer Letter, dated as of July 7, 2015, between KEMET Corporation and Claudio Lollini

Exhibit 10.2 Employee Transfer Agreement, dated as of December 5, 2016, between KEMET Corporation and Claudio Lollini

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 December 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations for the quarters and nine-month periods ended December 31, 2016 and 2015, (ii) Condensed Consolidated Balance Sheets at December 31, 2016 and March 31, 2016, (iii) Condensed Consolidated Statements of Cash Flows for the nine-month periods ended December 31, 2016, and 2015, and (iv) the Notes to Condensed Consolidated Financial Statements.

SIGNATURES

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

Date: February 2, 2017

KEMET Corporation

By: /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)

EXHIBIT INDEX

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Exhibit 10.1

101 NE 3 rd Avenue, Suite 1700 Fort Lauderdale, Florida 33301
Phone: 954.766.2812 Fax: 954.766.2805

Per-Olof Loof
Chief Executive Officer

July 7, 2015

Mr. Claudio Lollini

Dear Claudio,

As discussed with you, we are pleased to appoint you as Senior Vice President of Global Sales and Marketing, reporting to me.

It is understood that your work location will be based in Fort Lauderdale (FL) We will keep your current expatriate agreement in Hong Kong until July 2016; thereafter, you will be directly employed by KEMET USA.

Effective July 2015 your gross annual salary will be 265.000 USD, which will include all your current expat allowance in Hong Kong with the exception of housing.

Your KAIP FY16 (KEMET Annual Incentive Plan) bonus program will have a target bonus equal to 60% of your base salary. Your LTIP FY16-17 (KEMET Long Term Incentive Plan) will have a target expressed as 75% of your base salary.

As of the effective date of your promotion you will receive 100,000 RSUs (Restricted Stock Units) valued (for tax purposes) at the fair market value when they vest. Your RSUs will vest annually on the anniversary of each year following the date of Grant. The vesting schedule will be 33% in the first year, 33% in the second year and 34% in the third year. The RSU grant is subject to a standard non-compete commitment.

Once the relocation of your family is underway you will receive a bonus (gross) of 100.000 USD to cover the expenses you will encounter during your first year of residency in the USA. Your base salary will be elevated to 300.000 USD on January 1, 2016.

It is understood that the validity of this letter is submitted to the formal approval from the KEMETBoard of Directors.

Best Regards,

/c/ Per Olof-Loof

Per Olof-Loof

Exhibit 10.2

101 NE 3 rd Avenue, Suite 1700 Fort Lauderdale, Florida 33301
Phone: 954.766.2812 Fax: 954.766.2805

December 5, 2016

Mr. Claudio Lollini
510 SE 5th Avenue
Fort Lauderdale, FL 33301

Dear Claudio:

As discussed, you will be moving to KEMET's U.S. payroll effective January 1, 2017 in your current role as Senior Vice President of Global Sales and Marketing, continuing to report to Per Loof, CEO. Your work location will be based in Fort Lauderdale Florida.

The details of your compensation package are as follows:

1. Effective January 1, 2017, your base salary will be $25,750.00 per month (if annualized, then $309,000.00). You will be paid on the last banking day of each month via direct deposit to the bank account of your choice.

2. At the time of relocation, you will receive a bonus (gross) of $100,000.00 to cover the expenses you will encounter during your first year of residency in the U.S. This will be paid out in four (4) installments of $25,000.00 per installment. The dates of payment will be January 31, 2017, April 28, 2017, July 31, 2017, and October 31, 2017.

3. You will continue to participate in the KEMET Annual Incentive Program (KAIP) with a target bonus equal to 60% of your base salary.

4. You will continue to participate in the FY17/FY18 KEMET Long Term Incentive Plan (LTIP) with a target bonus equal to 75% of your base salary.

5. As a U.S. paid employee, you will move to the U.S. vacation eligibility schedule and observe the U.S. holiday schedule. However, KEMET will honor your company service at KEMET Italy. Accordingly, you will be eligible for 4 weeks of vacation.

6. You will be eligible to participate in the U.S. benefit program. You will be responsible for the employee cost of the benefits that you elect and all co-pays/deductible up to the annual out-of-pocket maximum.

7. You will continue to be provided with a company vehicle. Please note that the value of your personal use of this vehicle will be considered as taxable income and must be reported accordingly.

8. We will provide tax preparation assistance for the tax years in which you receive a benefit on your U.S. tax filing related to the Hong Kong departure taxes of your unvested stock of 129,678. However, you will be financially responsible for meeting your tax liabilities.

    a. The Hong Kong departure taxes for the unvested stock of 129,678 is estimated at $120,000.00 which is requested to be paid by you. KEMET will provide a payout to you on December 30, 2016 in a gross amount of $120,000 to be used to pay the Hong Kong departure taxes that has been estimated for the unvested stock. In turn, you will provide receipt of payment to KEMET for the amount paid for your departure taxes. Should the payment of the departure taxes be lower or higher than $120,000.00, the difference will either be paid back to KEMET or an additional amount will be paid to you.

b. Any foreign tax credit claimed on your future U.S. tax filings related to the Hong Kong departure taxes relating to the amount paid out to you of $120,000.00 must be repaid to KEMET through a tax settlement calculation, prepared by PwC. The tax settlement will continue for all years until the Hong Kong tax credit has either been repaid to KEMET or expired whichever comes first.

Since you will be moving to the U.S. payroll, we advise that you consult with a financial planner to understand the financial implications of leaving the Italian benefit schemes. This should be completed before the resolution of this offer.

As a Senior Vice President of KEMET you are entitled to the Change in Control Agreement (24 months - base gross salary).

Employment at KEMET Corporation is employment at-will, which means that the employment relationship may be terminated at the will of the employer or the employee, at any time, for any reason with or without cause.

In the event that your employment is terminated by KEMET without Cause or by you for Good Reason, you will be eligible for a severance package covered by the U.S. Severance Pay Policy. In accordance with the severance policy you are entitled to receive a total of 12 months (base gross salary) which will be paid out in equal installments on the normal payroll cycle over the severance period of 12 months. The severance period will begin as soon as practical following the seven (7) day revocation period from the date the severance agreement is signed.

Payment is submitted to the respect of a non-compete period which beginning on the date of the termination and ending on the date the Company is no longer obligated to pay any severance hereunder. Non-compete means you shall not directly or indirectly own any interest in, manage, control, participate in, consult with, render services for, be employed by, or in any manner associate with or engage in any business competing with the businesses of the Company or its Subsidiaries, as such businesses exist or are in process during your employment with the Company and on the date of the termination or expiration of your employment with the Company, within any geographical areas in which the Company or its Subsidiaries engage or plan to engage in such businesses.

For the sake of clarification we specify that:

“Cause” means termination due to (i) willful and continued failure for a significant period of time to substantially perform your duties with the Company, (ii) willful engagement in gross misconduct materially and demonstrably injurious to the Company, or (iii) any intentional violation of Company policy.
“Good Reason” means, unless corrected by the Company within 30 days of timely written notice from you, (i) the assignment to you of duties inconsistent with your position, duties, responsibilities and status with the Company as in effect as of the date of this letter, or (ii) a material reduction in your base salary.

Payment of the foregoing severance payments shall be conditioned upon you executing and delivering to the Company the signed standard Release Agreement.

Should you have any questions concerning the details of this offer, please feel free to contact me for further details.

Sincerely,

/s/ Stefano Vetralla

Stefano Vetralla
Senior Vice President & Chief HR Officer

I accept the terms and conditions of this offer as detailed in the preceding letter.

/s/ Claudio Lollini December 5, 2016
Claudio Lollini Date

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Per-Olof Loof, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KEMET Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 2, 2017

/s/ PER-OLOF LOOF

Per-Olof Loof
Chief Executive Officer and Director

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, William M. Lowe, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of KEMET Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 2, 2017

/s/ WILLIAM M. LOWE, JR.

William M. Lowe, Jr.
Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350 ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Per-Olof Loof, hereby certify pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that, to my knowledge:

The accompanying Quarterly Report on Form 10-Q for the quarter endedDecember 31, 2016 fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

The information contained in such report fairly presents, in all material respects, the financial condition and results of operations of KEMET Corporation.

Date: February 2, 2017

/s/ PER-OLOF LOOF

Per-Olof Loof
Chief Executive Officer and Director

The foregoing certifications are being furnished solely pursuant to 18 U.S.C. Section 1350 and are not being filed as part of this report or as a separate disclosure document.

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350 ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, William M. Lowe, Jr., hereby certify pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that, to my knowledge:

The accompanying Quarterly Report on Form 10-Q for the quarter endedDecember 31, 2016 fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

The information contained in such report fairly presents, in all material respects, the financial condition and results of operations of KEMET Corporation.

Date: February 2, 2017

/s/ WILLIAM M. LOWE, JR.
William M. Lowe, Jr.
Executive Vice President and Chief Financial Officer

The foregoing certifications are being furnished solely pursuant to 18 U.S.C. Section 1350 and are not being filed as part of this report or as a separate disclosure document.