
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2013**

or

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

For the transition period from to

Commission File Number: **001-15491**

KEMET CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

57-0923789

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

2835 KEMET WAY, SIMPSONVILLE, SOUTH CAROLINA 29681

(Address of principal executive offices, zip code)

(864) 963-6300

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(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 of July 29, 2013 was 45,088,744.

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

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

| | | |
|--|-------------------|-------------------|
| Accumulated other comprehensive income | 9,420 | 7,694 |
| Treasury stock, at cost (1,431 and 1,519 shares at June 30, 2013 and March 31, 2013, respectively) | (32,908) | (35,104) |
| Total stockholders' equity | <u>244,369</u> | <u>276,916</u> |
| Total liabilities and stockholders' equity | <u>\$ 881,170</u> | <u>\$ 911,591</u> |

See accompanying notes to the unaudited condensed consolidated financial statements.

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

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

See accompanying notes to the unaudited condensed consolidated financial statements.

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

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

See accompanying notes to the unaudited condensed consolidated financial statements.

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

| | Quarters Ended June 30, | |
|---|-------------------------|-------------------|
| | 2013 | 2012 |
| Net loss | \$ (35,139) | \$ (17,753) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 13,731 | 11,656 |
| Amortization of debt discount and debt issuance costs | 1,014 | 971 |
| Equity loss from NEC TOKIN | 3,377 | — |
| Net loss on sales and disposals of assets | — | 104 |
| Stock-based compensation expense | 968 | 1,264 |
| Long-term receivable write down | 1,444 | — |
| Change in deferred income taxes | (241) | 122 |
| Change in operating assets | (14,385) | (12,029) |
| Change in operating liabilities | 1,706 | (5,490) |
| Other | (106) | (52) |
| Net cash used in operating activities | <u>(27,631)</u> | <u>(21,207)</u> |
| Investing activities: | | |
| Capital expenditures | (15,481) | (13,101) |
| Change in restricted cash | 1,591 | — |
| Net cash used in investing activities | <u>(13,890)</u> | <u>(13,101)</u> |
| Financing activities: | | |
| Proceeds from issuance of debt | — | 15,825 |
| Deferred acquisition payments | (1,204) | (1,439) |
| Payments of long-term debt | (306) | (1,576) |
| Proceeds from exercise of stock options | 19 | 41 |
| Debt issuance costs | — | (275) |
| Net cash provided by (used in) financing activities | <u>(1,491)</u> | <u>12,576</u> |
| Net decrease in cash and cash equivalents | (43,012) | (21,732) |
| Effect of foreign currency fluctuations on cash | 189 | (943) |
| Cash and cash equivalents at beginning of fiscal period | 95,978 | 210,521 |
| Cash and cash equivalents at end of fiscal period | <u>\$ 53,155</u> | <u>\$ 187,846</u> |

See accompanying notes to the unaudited condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements

Note 1. Basis of Financial Statement Presentation

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

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

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

Use of Estimates and Assumptions

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

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

Recently Issued Accounting Pronouncements

New accounting standards adopted

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

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

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

Restricted Cash

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

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

Fair Value Measurement

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

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

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

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

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

(1) Included in the line item "Cash and cash equivalents" on the Condensed Consolidated Balance Sheets.

(2) The valuation approach used to calculate fair value was a discounted cash flow for each respective debt facility.

(3) See Note 5, Investment in NEC TOKIN, for a description of this net call derivative. The value of the option is interrelated and depend on the enterprise value of NEC TOKIN Corporation and its EBITDA over time. Therefore, the derivative has been valued using option pricing methods in a Monte Carlo simulation.

Inventories

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

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

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

Warrant Liability

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

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Revenue Recognition

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

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

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

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

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

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

Note 2. Debt

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

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

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

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

Advanced Payment from OEM

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

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

10.5% Senior Notes

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

Revolving Line of Credit

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

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

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

Note 3. Restructuring Charges

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

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

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

Quarter ended June 30, 2013

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

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

Quarter Ended June 30, 2012

Restructuring charges in the quarter ended June 30, 2012 were primarily comprised of termination benefits associated with converting the Weymouth, United Kingdom manufacturing facility into a technology center. In addition to these personnel reduction costs, the Company incurred manufacturing relocation costs of \$0.2 million for relocation of equipment to China and Macedonia.

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Reconciliation of restructuring liability

A reconciliation of the beginning and ending liability balances for restructuring charges included in the line items "Accrued expenses" and "Other non-current obligations" on the Condensed Consolidated Balance Sheets are as follows (amounts in thousands):

| | Quarter Ended June 30, 2013 | |
|----------------------------|-----------------------------|---------------------------|
| | Personnel Reductions | Manufacturing Relocations |
| Beginning of period | \$ 13,509 | \$ 567 |
| Costs charged to expense | 4,135 | 475 |
| Costs paid or settled | (8,869) | (1,042) |
| Change in foreign exchange | 172 | — |
| End of period | <u>\$ 8,947</u> | <u>\$ —</u> |

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

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

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

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

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

(1) Due primarily to the Company's permanent re-investment assertion relating to foreign earnings, there was no significant deferred tax effect associated with the cumulative currency translation gains and losses during the quarters ended June 30, 2013 and 2012.

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

Note 5. Investment in NEC TOKIN

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

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

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

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

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

| | June 30, 2013 |
|------------------------|---------------|
| Current assets | \$ 209,185 |
| Noncurrent assets | 391,632 |
| Current liabilities | 106,023 |
| Noncurrent liabilities | 398,739 |

Quarter Ended
June 30, 2013

| | | |
|--------------|----|---------|
| Sales | \$ | 123,192 |
| Gross profit | | 18,300 |
| Net loss | | (8,729) |

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

Note 6. Segment and Geographic Information

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

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

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

Solid Capacitors

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

Film and Electrolytic

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

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

| | Quarters Ended June 30, | |
|--|-------------------------|-------------------|
| | 2013 | 2012 |
| Net sales: | | |
| Solid Capacitors | \$ 149,401 | \$ 160,744 |
| Film and Electrolytic | 53,322 | 62,888 |
| | <u>\$ 202,723</u> | <u>\$ 223,632</u> |
| Operating income (loss)(1): | | |
| Solid Capacitors | \$ 12,808 | \$ 25,518 |
| Film and Electrolytic | (8,043) | (6,208) |
| Unallocated operating expenses | (24,723) | (23,355) |
| | <u>\$ (19,958)</u> | <u>\$ (4,045)</u> |
| Depreciation and amortization expenses: | | |
| Solid Capacitors | \$ 7,310 | \$ 7,191 |
| Film and Electrolytic | 4,507 | 3,449 |
| Unallocated operating expenses | 1,914 | 1,016 |
| | <u>\$ 13,731</u> | <u>\$ 11,656</u> |

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

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

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| | Quarters Ended June 30, | |
|--------------------------------------|-------------------------|-----------|
| | 2013 | 2012 |
| Sales by region: | | |
| North and South America ("Americas") | \$ 59,570 | \$ 60,485 |
| Europe, Middle East, Africa ("EMEA") | 73,041 | 79,385 |
| Asia and Pacific Rim ("APAC") | 70,112 | 83,762 |

\$ 202,723 \$ 223,632

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

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

Note 7. Defined Benefit Pension and Other Postretirement Benefit Plans

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

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

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

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

Note 8. Stock-based Compensation

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

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

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

In the "Operating activities" section of the Condensed Consolidated Statements of Cash Flows, stock-based compensation expense was treated as an adjustment to Net income (loss) for the quarters ended June 30, 2013 and 2012. Approximately six thousand and twenty-one thousand stock options were exercised in the quarters ended June 30, 2013 and 2012, respectively.

Note 9. Income Taxes

During the first quarter of fiscal year 2014, the Company incurred \$1.6 million of income tax expense which is comprised of \$1.5 million related to income taxes for foreign operations and \$0.1 million of state income tax expense. There is no U.S. federal income tax benefit from the first quarter of fiscal year 2014 loss due to a valuation allowance on deferred tax assets.

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

Note 10. Reconciliation of Basic and Diluted Net Loss Per Common Share

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

| Numerator: | Quarters Ended June 30, | |
|------------|-------------------------|------|
| | 2013 | 2012 |
| | | |

| | | | | |
|---|----|---------------|----|---------------|
| Net loss | \$ | (35,139) | \$ | (17,753) |
| Denominator: | | | | |
| Weighted-average shares outstanding: | | | | |
| Basic | | 45,022 | | 44,808 |
| Assumed conversion of employee stock grants | | — | | — |
| Assumed conversion of warrants | | — | | — |
| Diluted | | <u>45,022</u> | | <u>44,808</u> |
| Basic loss per share | \$ | (0.78) | \$ | (0.40) |
| Diluted loss per share | \$ | (0.78) | \$ | (0.40) |

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

| | | |
|---|--------------------------------|-------------|
| | <u>Quarters Ended June 30,</u> | |
| | <u>2013</u> | <u>2012</u> |
| Assumed conversion of employee stock grants | 1,987 | 1,469 |
| Assumed conversion of warrants | 6,687 | 7,160 |

Note 11. Concentrations of Risks

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

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

Electronics distributors are an important distribution channel in the electronics industry and accounted for 46% of the Company's net sales in the quarters ended June 30, 2013 and 2012. As a result of the Company's concentration of sales to electronics distributors, the Company may experience fluctuations in the Company's operating results as electronics distributors experience fluctuations in end-market demand or adjust their inventory stocking levels.

Note 12. Condensed Consolidating Financial Statements

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

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

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Condensed Consolidating Balance Sheet June 30, 2013 (Unaudited)

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Reclassifications and Eliminations | Consolidated |
|---|-------------------|---------------------------|-------------------------------|---------------------------------------|-------------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 8,822 | \$ 26,088 | \$ 18,245 | \$ — | \$ 53,155 |
| Accounts receivable, net | — | 46,683 | 54,571 | — | 101,254 |
| Intercompany receivable | 298,203 | 274,135 | 175,292 | (747,630) | — |
| Inventories, net | — | 133,048 | 84,495 | — | 217,543 |
| Prepaid expenses and other | 3,182 | 17,170 | 21,977 | (2,952) | 39,377 |
| Deferred income taxes | — | 990 | 3,260 | — | 4,250 |
| Total current assets | <u>310,207</u> | <u>498,114</u> | <u>357,840</u> | <u>(750,582)</u> | <u>415,579</u> |
| Property and equipment, net | 344 | 113,476 | 196,057 | — | 309,877 |
| Investments in NEC TOKIN | — | 48,709 | — | — | 48,709 |
| Investments in subsidiaries | 399,792 | 424,386 | 10,750 | (834,928) | — |
| Goodwill | — | 35,584 | — | — | 35,584 |
| Intangible assets, net | — | 29,417 | 8,893 | — | 38,310 |
| Restricted cash | — | 15,851 | — | — | 15,851 |
| Deferred income taxes | — | 1,500 | 6,821 | — | 8,321 |
| Other assets | 6,410 | 1,146 | 1,383 | — | 8,939 |
| Long-term intercompany receivable | 77,549 | 57,549 | 2,800 | (137,898) | — |
| Total assets | <u>\$ 794,302</u> | <u>\$ 1,225,732</u> | <u>\$ 584,544</u> | <u>\$ (1,723,408)</u> | <u>\$ 881,170</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |

| | | | | | |
|--|------------|--------------|------------|----------------|------------|
| Current liabilities: | | | | | |
| Current portion of long-term debt | \$ 6,391 | \$ 15 | \$ 1,242 | \$ — | \$ 7,648 |
| Accounts payable, trade | 137 | 44,246 | 45,471 | — | 89,854 |
| Intercompany payable | 122,753 | 510,941 | 113,936 | (747,630) | — |
| Accrued expenses | 28,360 | 14,643 | 40,310 | — | 83,313 |
| Income taxes payable and deferred income taxes | — | 3,124 | 1,891 | (2,952) | 2,063 |
| Total current liabilities | 157,641 | 572,969 | 202,850 | (750,582) | 182,878 |
| Long-term debt, less current portion | 375,084 | — | 561 | — | 375,645 |
| Other non-current obligations | 17,208 | 2,975 | 49,401 | — | 69,584 |
| Deferred income taxes | — | 3,219 | 5,475 | — | 8,694 |
| Long-term intercompany payable | — | 77,549 | 60,349 | (137,898) | — |
| Stockholders' equity | 244,369 | 569,020 | 265,908 | (834,928) | 244,369 |
| Total liabilities and stockholders' equity | \$ 794,302 | \$ 1,225,732 | \$ 584,544 | \$ (1,723,408) | \$ 881,170 |

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**Condensed Consolidating Balance Sheet
March 31, 2013**

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Reclassifications and Eliminations | Consolidated |
|-----------------------------------|------------|------------------------|----------------------------|------------------------------------|--------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 17,202 | \$ 52,056 | \$ 26,720 | \$ — | \$ 95,978 |
| Accounts receivable, net | — | 42,051 | 54,513 | — | 96,564 |
| Intercompany receivable | 287,513 | 251,524 | 150,376 | (689,413) | — |
| Inventories, net | — | 126,286 | 79,329 | — | 205,615 |
| Prepaid expenses and other | 3,186 | 13,564 | 27,303 | (2,952) | 41,101 |
| Deferred income taxes | — | 578 | 3,589 | — | 4,167 |
| Total current assets | 307,901 | 486,059 | 341,830 | (692,365) | 443,425 |
| Property and equipment, net | 361 | 111,584 | 192,563 | — | 304,508 |
| Investments in NEC TOKIN | — | 52,738 | — | — | 52,738 |
| Investments in subsidiaries | 423,695 | 424,386 | 10,750 | (858,831) | — |
| Goodwill | — | 35,584 | — | — | 35,584 |
| Intangible assets, net | — | 29,763 | 8,883 | — | 38,646 |
| Restricted cash | — | 17,397 | — | — | 17,397 |
| Deferred income taxes | — | 1,500 | 6,494 | — | 7,994 |
| Other assets | 6,741 | 3,173 | 1,385 | — | 11,299 |
| Long-term intercompany receivable | 75,919 | 56,338 | 2,800 | (135,057) | — |
| Total assets | \$ 814,617 | \$ 1,218,522 | \$ 564,705 | \$ (1,686,253) | \$ 911,591 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | | | | |
|--|------------|--------------|------------|----------------|------------|
| Current liabilities: | | | | | |
| Current portion of long-term debt | \$ 9,561 | \$ 16 | \$ 1,216 | \$ — | \$ 10,793 |
| Accounts payable, trade | 61 | 37,444 | 36,164 | — | 73,669 |
| Intercompany payable | 100,947 | 481,707 | 106,759 | (689,413) | — |
| Accrued expenses | 37,490 | 19,615 | 38,839 | — | 95,944 |
| Income taxes payable | — | 3,046 | 980 | (2,952) | 1,074 |
| Total current liabilities | 148,059 | 541,828 | 183,958 | (692,365) | 181,480 |
| Long-term debt, less current portion | 372,157 | — | 550 | — | 372,707 |
| Other non-current obligations | 17,485 | 3,899 | 50,562 | — | 71,946 |
| Deferred income taxes | — | 2,808 | 5,734 | — | 8,542 |
| Long-term intercompany payable | — | 75,919 | 59,138 | (135,057) | — |
| Stockholders' equity | 276,916 | 594,068 | 264,763 | (858,831) | 276,916 |
| Total liabilities and stockholders' equity | \$ 814,617 | \$ 1,218,522 | \$ 564,705 | \$ (1,686,253) | \$ 911,591 |

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

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Reclassifications and Eliminations | Consolidated |
|--|----------|------------------------|----------------------------|------------------------------------|--------------|
| Net sales | \$ 19 | \$ 237,323 | \$ 208,303 | \$ (242,922) | \$ 202,723 |
| Operating costs and expenses: | | | | | |
| Cost of sales | 403 | 227,155 | 190,419 | (232,788) | 185,189 |
| Selling, general and administrative expenses | 10,611 | 12,266 | 13,759 | (10,134) | 26,502 |
| Research and development | 90 | 4,275 | 2,015 | — | 6,380 |
| Restructuring charges | — | 1,934 | 2,676 | — | 4,610 |
| Total operating costs and expenses | 11,104 | 245,630 | 208,869 | (242,922) | 222,681 |
| Operating income (loss) | (11,085) | (8,307) | (566) | — | (19,958) |

| | | | | | |
|--|--------------------|--------------------|-------------------|------------------|--------------------|
| Other (income) expense, net | 59 | 11,058 | (893) | — | 10,224 |
| Equity in earnings of subsidiaries | 23,995 | — | — | (23,995) | — |
| Income (loss) before income taxes and equity loss from NEC TOKIN | (35,139) | (19,365) | 327 | 23,995 | (30,182) |
| Income tax expense | — | 55 | 1,525 | — | 1,580 |
| Income (loss) before equity loss from NEC TOKIN | (35,139) | (19,420) | (1,198) | 23,995 | (31,762) |
| Equity loss from NEC TOKIN | — | (3,377) | — | — | (3,377) |
| Net income (loss) | <u>\$ (35,139)</u> | <u>\$ (22,797)</u> | <u>\$ (1,198)</u> | <u>\$ 23,995</u> | <u>\$ (35,139)</u> |

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

| | | | | | |
|-----------------------------|--------------------|--------------------|---------------|------------------|--------------------|
| Comprehensive income (loss) | <u>\$ (33,510)</u> | <u>\$ (24,340)</u> | <u>\$ 442</u> | <u>\$ 23,995</u> | <u>\$ (33,413)</u> |
|-----------------------------|--------------------|--------------------|---------------|------------------|--------------------|

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

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

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

| | | | | | |
|-----------------------------|--------------------|-------------------|-------------------|-----------------|--------------------|
| Comprehensive income (loss) | <u>\$ (22,294)</u> | <u>\$ (5,751)</u> | <u>\$ (3,003)</u> | <u>\$ 5,502</u> | <u>\$ (25,546)</u> |
|-----------------------------|--------------------|-------------------|-------------------|-----------------|--------------------|

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**Condensed Consolidating Statement of Cash Flows
For the Quarter Ended June 30, 2013**

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

| | | | | | |
|---|----------|-----------|-----------|------|-----------|
| Cash and cash equivalents at end of fiscal period | \$ 8,822 | \$ 26,088 | \$ 18,245 | \$ — | \$ 53,155 |
|---|----------|-----------|-----------|------|-----------|

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

| | 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 | \$ (14,653) | \$ (15,306) | \$ 8,752 | \$ — | \$ (21,207) |
| Investing activities: | | | | | |
| Capital expenditures | — | (3,660) | (9,441) | — | (13,101) |
| Net cash used in investing activities | — | (3,660) | (9,441) | — | (13,101) |
| Financing activities: | | | | | |
| Proceeds from issuance of debt | 15,825 | — | — | — | 15,825 |
| Payments of long-term debt | — | — | (1,576) | — | (1,576) |
| Acquisition, net of cash received | (439) | (1,000) | — | — | (1,439) |
| Proceeds from exercise of stock options | 41 | — | — | — | 41 |
| Debt issuance costs | (275) | — | — | — | (275) |
| Net cash provided by (used in) financing activities | 15,152 | (1,000) | (1,576) | — | 12,576 |
| Net increase (decrease) in cash and cash equivalents | 499 | (19,966) | (2,265) | — | (21,732) |
| Effect of foreign currency fluctuations on cash | — | — | (943) | — | (943) |
| Cash and cash equivalents at beginning of fiscal period | 7,933 | 178,205 | 24,383 | — | 210,521 |
| Cash and cash equivalents at end of fiscal period | \$ 8,432 | \$ 158,239 | \$ 21,175 | \$ — | \$ 187,846 |

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

This report contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from those expressed in, or implied by, our forward-looking statements. Words such as “expects,” “anticipates,” “believes,” “estimates” and other similar expressions or future or conditional verbs such as “will,” “should,” “would” and “could” are intended to identify such forward-looking statements. Readers of this report should not rely solely on the forward-looking statements and should consider all uncertainties and risks throughout this report as well as those discussed under Part I, Item 1A of the Company's 2013 Annual Report. The statements are representative only as of the date they are made, and we undertook no obligation to update any forward-looking statement.

All forward-looking statements, by their nature, are subject to risks and uncertainties. Our actual future results may differ materially from those set forth in our forward-looking statements. We face risks that are inherent in the businesses and the market places in which we operate. While management believes these forward-looking statements are accurate and reasonable, uncertainties, risks and factors, including those described below, could cause actual results to differ materially from those reflected in the forward-looking statements.

Factors that may cause actual outcome and results to differ materially from those expressed in, or implied by, these forward-looking statements include, but are not necessarily limited to, the following: (i) adverse economic conditions could impact our ability to realize operating plans if the demand for our products declines, and such conditions could adversely affect our liquidity and ability to continue to operate; (ii) adverse economic conditions could cause the write down of long-lived assets or goodwill; (iii) an increase in the cost or a decrease in the availability of our principal or single-sourced purchased materials; (iv) changes in the competitive environment; (v) uncertainty of the timing of customer product qualifications in heavily regulated industries; (vi) economic, political, or regulatory changes in the countries in which we operate; (vii) difficulties, delays or unexpected costs in completing the restructuring plan; (viii) equity method investments expose us to a variety of risks; (ix) acquisitions and other strategic transactions expose us to a variety of risks; (x) inability to attract, train and retain effective employees and management; (xi) inability to develop innovative products to maintain customer relationships and offset potential price erosion in older products; (xii) exposure to claims alleging product defects; (xiii) the impact of laws and regulations that apply to our business, including those relating to environmental matters; (xiv) the impact of international laws relating to trade, export controls and foreign corrupt practices; (xv) volatility of financial and credit markets affecting our access to capital; (xvi) the need to reduce the total costs of our products to remain competitive; (xvii) potential limitation on the use of net operating losses to offset possible future taxable income; (xviii) restrictions in our debt agreements that limit our flexibility in operating our business; and (xix) additional exercise of the warrant by K Equity which could potentially result in the existence of a significant stockholder who could seek to influence our corporate decisions.

Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations and could cause actual results to differ materially from those included, contemplated or implied by the forward-looking statements made in this report, and the reader should not consider the above list of factors to be a complete set of all potential risks or uncertainties.

ACCOUNTING POLICIES AND ESTIMATES

The following discussion and analysis of financial condition and results of operations are based on the unaudited condensed consolidated financial statements included herein. Our significant accounting policies are described in Note 1 to the consolidated financial statements in our 2013 Annual Report. Our critical accounting policies are described under the caption “Critical Accounting Policies” in Item 7 of our 2013 Annual Report.

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

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

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Business Overview

We are a leading global manufacturer of a wide variety of capacitors. Capacitors are fundamental components of most electronic circuits and are found in communication systems, data processing equipment, personal computers, cellular phones, automotive electronic systems, defense and aerospace systems, consumer electronics, power management systems and many other electronic devices and systems. Capacitors are typically used to filter out interference, smooth the output of power supplies, block the flow of direct current while allowing alternating current to pass and for many other purposes.

KEMET's broad line of tantalum, multilayer ceramic, solid and electrolytic aluminum and film and paper capacitors are manufactured using a variety of raw materials and are available in many different sizes and. Our product line consists of over 250,000 distinct part configurations distinguished by various attributes, such as dielectric (or insulating) material, configuration, encapsulation, capacitance level and tolerance, performance characteristics and packaging. Because most of our customers have multiple capacitance requirements, often within each of their products, our broad product offering allows us to meet the majority of their needs independent of application and end use.

In fiscal year 2013, we shipped approximately 32 billion capacitors and in the quarter ended June 30, 2013, we shipped approximately 9 billion capacitors. We believe the long-term demand for capacitors will grow on a regional and global basis due to a variety of factors, including increasing demand for and complexity of electronic products, growing demand for technology in emerging markets and the ongoing development of new solutions for energy generation and conservation.

We operate 23 production facilities in Europe, North America, and Asia and employ approximately 9,600 employees worldwide. Commodity manufacturing in the United States has been substantially relocated to our lower-cost manufacturing facilities in Mexico and China. Production that remains in the United States focuses primarily on early-stage manufacturing of new products and other specialty products for which customers are predominantly located in North America. For the quarters ended June 30, 2013 and 2012, our consolidated net sales were \$202.7 million and \$223.6 million, respectively.

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

Recent Developments and Trends

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

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

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

Equity Investment

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

Restructuring

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

Outlook

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

CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

Consolidated Comparison of the First Quarter of Fiscal Year 2014 with the First Quarter of Fiscal Year 2013

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

| | June 30, 2013 | | June 30, 2012 | |
|---|---------------|------------------|---------------|------------------|
| | Amount | % to Total Sales | Amount | % to Total Sales |
| Net sales | \$ 202,723 | | \$ 223,632 | |
| Gross margin | 17,534 | 8.6% | 32,311 | 14.4% |
| Selling, general and administrative expenses | 26,502 | 13.1% | 27,255 | 12.2% |
| Research and development | 6,380 | 3.1% | 7,733 | 3.5% |
| Restructuring charges | 4,610 | 2.3% | 1,264 | 0.6% |
| Net loss on sales and disposals of assets | — | — | 104 | — |
| Operating loss | (19,958) | | (4,045) | |
| Other (income) expense, net | 10,224 | 5.0% | 11,937 | 5.3% |
| Loss before income taxes and equity loss from NEC TOKIN | (30,182) | (14.9)% | (15,982) | (7.1)% |
| Income tax expense | 1,580 | 0.8% | 1,771 | 0.8% |
| Loss before equity loss from NEC TOKIN | (31,762) | (15.7)% | (17,753) | (7.9)% |
| Equity loss from NEC TOKIN | (3,377) | (1.7)% | — | — |
| Net loss | \$ (35,139) | (17.3)% | \$ (17,753) | (7.9)% |

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Consolidated Comparison of the First Quarter of Fiscal Year 2014 with the First Quarter of Fiscal Year 2013

Net Sales

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

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

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

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

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

Gross Margin

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

Selling, General and Administrative Expenses

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

Research and Development

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

Restructuring Charges

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

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related to an additional CIGS plan which will cover a maximum of 170 employees for up to 12 months in Italy and \$0.7 million related to the Company's initiative to reduce

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

The restructuring charges in the first quarter of fiscal year 2013 included termination benefits of \$1.1 million primarily associated with converting the Weymouth, United Kingdom manufacturing facility into a technology center and manufacturing relocation costs of \$0.2 million for relocation of equipment to China and Macedonia. The total termination benefits expected for the Weymouth facility conversion are \$2.6 million and are expected to be completed in the third quarter of fiscal year 2014.

Operating Loss

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

Other (Income) Expense, net

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

Income Taxes

Our income tax expense for the first quarter of fiscal year 2014 was \$1.6 million compared to income tax expense of \$1.8 million for the first quarter of fiscal year 2013. Income tax expense for the first quarter of fiscal year 2014 is comprised of \$1.5 million related to income taxes for foreign operations and \$0.1 million of state income tax expense. There is no U.S. federal income tax benefit from the first quarter of fiscal year 2013 loss due to a valuation allowance on deferred tax assets.

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

Equity loss from NEC TOKIN

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

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Business Groups Comparison of the Quarter Ended June 30, 2013 with the Quarter Ended June 30, 2012

Solid Capacitors

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

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

Net Sales

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

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

Operating Income

Operating income for the first quarter of fiscal year 2014 was \$12.8 million compared to operating income of \$25.5 million in the first quarter of fiscal year 2013. The \$12.7 million decrease was primarily attributable to a decrease in gross margin of \$11.5 million driven by higher priced raw materials, the shift in product line mix to lower priced products and an inventory write down of \$3.9 million. In addition, restructuring charges increased \$2.9 million in the first quarter of fiscal year 2014 compared to the first quarter of fiscal year 2013. These decreases were partially offset by a \$0.5 million decrease in SG&A expenses and a \$1.1 million decrease in R&D expenses when comparing the first quarter of fiscal year 2014 to the first quarter of fiscal year 2013.

Film and Electrolytic

The following table sets forth Net sales, Operating loss and Operating loss as a percentage of Net sales for our Film and Electrolytic business group for the quarters

ended June 30, 2013 and 2012 (amounts in thousands, except percentages):

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

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Net Sales

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

Operating Loss

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

Liquidity and Capital Resources

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

Issuance of 10.5% Senior Notes

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

Revolving Line of Credit

On September 30, 2010, KEMET Electronics Corporation ("KEC") and KEMET Electronics Marketing (S) Pte Ltd. ("KEMET Singapore") (each a "Borrower" and, collectively, the "Borrowers") entered into a Loan and Security Agreement (the "Loan and Security Agreement"), with Bank of America, N.A. as the administrative agent and the initial lender. The Loan and Security Agreement provides a \$50 million revolving line of credit, which is bifurcated into a U.S. facility (for which KEC is the Borrower) and a Singapore facility (for which KEMET Singapore is the Borrower). The size of the U.S. facility and Singapore facility can fluctuate as long as the Singapore facility does not exceed \$30 million and the total facility does not exceed \$50 million. A portion of the U.S. facility and of the Singapore facility can be used to issue letters of credit. The facilities expire on September 30, 2014. Two letters of credit totaling \$17.4 million were issued under the Loan and Security Agreement as of June 30, 2013. There were no borrowings against the Loan and Security Agreement as of June 30, 2013 or March 31, 2013. As of June 30, 2013 our borrowing capacity under the revolving line of credit was \$23.7 million.

Advanced Payment from OEM

On August 28, 2012, we entered into an Agreement, with an OEM pursuant to which the OEM agreed to the Advance Payment. The Agreement provides that on a monthly-basis starting eight months following the receipt of the Advance Payment, we will pay the OEM an amount equal to a percentage of the aggregate purchase price of the capacitors sold to the OEM the preceding month, not to exceed \$1.0 million per month. Pursuant to the terms of the Agreement, the percentage of the aggregate purchase price of capacitors sold to the OEM that will be used to repay the Advance Payment will double, and the total amount to be repaid will not exceed \$2.0 million per month, in the event that (1) the OEM provides evidence that the price charged by us for a particular capacitor during any prior quarter was equal to or greater than 110% of the price paid by the OEM or its affiliates for a third-party part qualified for the same product, and shipping in volume during such period, and (2) agreement cannot be reached between the OEM and KEMET for a price adjustment during the current quarter which would bring our price within 110% of the third-party price. Thirty-two months after the date of the Advance Payment, the remaining outstanding balance, if any, is due in full. Pursuant to the terms of the Agreement, we delivered to the OEM an irrevocable standby letter of credit in the amount of \$16.0 million on October 8, 2012 which reduced our availability under the Loan and Security Agreement. On October 22, 2012 we received the Advance Payment from the OEM.

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

Short-term Liquidity

Total cash and restricted cash balance as of June 30, 2013 was \$69.0 million. Unrestricted cash and cash equivalents totaled \$53.2 million as of June 30, 2013, representing a decrease of \$42.8 million as compared to \$96.0 million as of March 31, 2013. Our net working capital (current assets less current liabilities) as of June 30, 2013 was \$232.7 million compared to \$261.9 million of net working capital as of March 31, 2013. Cash and cash equivalents held by our foreign subsidiaries totaled \$18.2 million and \$26.7 million at June 30, 2013 and March 31, 2013, respectively. Our operating income outside the U.S. is deemed to be permanently reinvested in foreign jurisdictions. As a result, we currently do not intend nor foresee a need to repatriate cash and cash equivalents held by foreign subsidiaries. If these funds are needed for our operations in the U.S., we may be required to account for U.S. taxes to repatriate these funds.

We have taken steps to improve our operating results by decreasing global headcount and vertically integrating our supply chain. Based on our current operating plans, we believe that domestic cash and cash equivalents and cash from the revolving line of credit will continue to be sufficient to fund our operating requirements for the next twelve months, including \$37.3 million in interest payments, \$25.0 million to \$30.0 million in expected capital expenditures, \$6.8 million related to the Advance Payment discussed above, deferred acquisition payments of \$22.4 million, payments of \$8.9 million related to restructuring liabilities, and \$1.3 million in debt principal payments. As of June 30, 2013 our borrowing capacity under the revolving line of credit was \$23.7 million.

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

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

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

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

Operations

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

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

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

Investing

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

Financing

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

Commitments

Our commitments have not changed materially from those disclosed in the Company's 2013 Annual Report.

Non-U.S. GAAP Financial Measures

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

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

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

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

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

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

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

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

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

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

Adjusted EBITDA represents net loss before interest expense, net, income tax expense, and depreciation and amortization expense, adjusted to exclude the following items: restructuring charges, inventory adjustment, equity loss from NEC TOKIN, long-term receivable write down, NEC TOKIN investment related expenses, plant start-up costs, ERP integration costs, stock-based compensation, net foreign exchange gain/loss, net loss on sales and disposals of assets, and registration related fees. We present Adjusted EBITDA as a supplemental measure of our performance and ability to service debt. We also present Adjusted EBITDA because we believe such measure is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry.

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

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

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

- it does not reflect our cash expenditures, future requirements for capital expenditures or contractual commitments;
- it does not reflect changes in, or cash requirements for, our working capital needs;
- it does not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and our Adjusted EBITDA measure does not reflect any cash requirements for such replacements;
- it is not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;
- it does not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations;
- it does not reflect limitations on or costs related to transferring earnings from our subsidiaries to us; and
- other companies in our industry may calculate this measure differently than we do, limiting its usefulness as a comparative measure.

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

Off-Balance Sheet Arrangements

Other than operating lease commitments, we are not a party to any material off-balance sheet financing arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

Impact of Recently Issued Accounting Standards

New accounting standards adopted

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material changes regarding the Company’s market risk position from the information included in the Company’s 2013 Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of June 30, 2013, an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

We are in the process of implementing Oracle R12 on a worldwide basis. This software implementation project will result in changes in our business processes and related internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act). Management will continue to monitor, evaluate and update the related processes and internal controls as necessary during the post implementation period to ensure adequate internal control over financial reporting.

Other than the change described above, there has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended June 30, 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

At any one time we or our subsidiaries may be party to one or more lawsuits arising out of our respective operations, including customer warranty or negligence claims, workers' compensation claims and/or work place safety claims. Although there can be no assurance, based upon information known to us, we do not believe that any liability which might result from an adverse determination of such lawsuits would have a material adverse effect on our financial condition or results of operations.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A, of the Company's 2013 Annual Report

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit 10.1 Consolidated Amendment to Loan and Security Agreement

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

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

Exhibit 32.1 Section 1350 Certification - Principal Executive Officer

Exhibit 32.2 Section 1350 Certification - Principal Financial Officer

Exhibit 101 The following financial information from KEMET Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations for the quarters ended June 30, 2013 and 2012, (ii) Condensed Consolidated Balance Sheets at June 30, 2013 and March 31, 2013, (iii) Condensed Consolidated Statements of Cash Flows for the quarters ended June 30, 2013, and 2012, and (iv) the Notes to Condensed Consolidated Financial Statements.

SIGNATURE

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

Date: August 2, 2013

KEMET Corporation

/s/ WILLIAM M. LOWE, JR.

William M. Lowe, Jr.

Executive Vice President and Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

(Duly Authorized Officer)

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EXHIBIT INDEX

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CONSOLIDATED AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS CONSOLIDATED AMENDMENT TO LOAN AND SECURITY AGREEMENT (this "**Amendment**") is made as of July 8, 2013 by and among KEMET ELECTRONICS CORPORATION, a Delaware corporation ("**KEC**"), KEMET FOIL MANUFACTURING, LLC, a Delaware limited liability company ("**KEMET Foil**"), KEMET BLUE POWDER CORPORATION, a Nevada corporation ("**KEMET Blue**" and, together with KEC and KEMET Foil, collectively, "**U.S. Borrowers**"), KEMET ELECTRONICS MARKETING (S) PTE LTD., a Singapore corporation ("**Singapore Borrower**" and, together with U.S. Borrowers, each individually, a "**Borrower**" and, collectively, "**Borrowers**"), the financial institutions party hereto as lenders (collectively, "**Lenders**") and BANK OF AMERICA, N.A., a national banking association, as agent for the Lenders ("**Agent**").

WITNESSETH:

WHEREAS, Borrowers, Lenders and Agent have entered into a Loan and Security Agreement, dated as of September 30, 2010 (as amended, restated, renewed, extended, substituted, modified and otherwise supplemented from time to time, the "**Loan Agreement**"), and certain other Loan Documents (as defined in the Loan Agreement);

WHEREAS, Borrowers have entered into certain amendments since the effective date of the Loan Agreement and, for ease of reference, Borrowers, Lenders and Agent desire to consolidate all amendments to the Loan Agreement in the same document;

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. DEFINITIONS.

Capitalized terms used and not defined in this Amendment shall have the respective meanings given them in the Loan Agreement.

"OEM Transactions" means the transactions between Parent and an original equipment manufacturer ("**OEM**"), pursuant to one or more of the OEM Transaction Agreements.

"OEM Transaction Agreements" means the advance payment agreement, statement of work and master purchase agreement, each of which was executed on August 28, 2012, the forms of which were provided to Agent and Lenders, receipt of which is hereby acknowledged, and which are further described in Parent's Report on Form 10-K filed with the Securities and Exchange Commission on September 4, 2012.

"Prepayment" means a certain prepayment made by OEM to Parent, the proceeds of which were used by Parent to acquire the Subject CapEx.

"Repayment" means any repayment by Parent of the Prepayment in accordance with the terms of the OEM Transaction Agreements.

"Subject CapEx" means the fixed assets purchased by Parent from the proceeds of the Prepayment.

SECTION 2. ACKNOWLEDGMENTS.

2.1 Acknowledgment of Obligations. Each Borrower hereby acknowledges, confirms and agrees that as of July 8, 2013, U.S. Borrower jointly and severally are indebted to Agent and Lenders in respect of Revolver Loans in the principal amount of \$0 and in respect of LC Obligations in the amounts of \$16,000,000.00 and EUR 1,105,254.95, and Singapore Borrower is indebted to Agent and Lenders in respect of the Revolver Loans in the principal amount of \$0. All such amounts, together with interest accrued and accruing thereon, and fees, costs, expenses and other charges now or hereafter payable by each Borrower to Agent and Lenders, are unconditionally owing by such Borrower to Agent and Lenders in accordance with the terms of the Loan Documents, without offset, defense or counterclaim of any kind, nature or description whatsoever.

2.2 Acknowledgment of Security Interests. Each Borrower hereby acknowledges, confirms and agrees that Agent, for the benefit of Secured Parties, has and shall continue to have valid, enforceable and perfected first priority Liens, subject to Permitted Liens, upon and security interests in the Collateral of such Borrower heretofore granted to Agent, for the benefit of Secured Parties, pursuant to the Loan Documents or otherwise granted to or held by Agent, for the benefit of Secured Parties, and upon and in which Agent, for the benefit of Secured Parties, presently has perfected first priority Liens and security interests.

2.3 Binding Effect of Documents. Each Borrower hereby acknowledges, confirms and agrees that: (a) each of the Loan Documents to which it is a party has been duly executed and delivered, and each is in full force and effect as of the date hereof, (b) the agreements and obligations of such Borrower contained in the Loan Documents and in this Amendment constitute the legal, valid and binding obligations of such Borrower, enforceable against it in accordance with their respective terms, and such Borrower has no valid defense to the enforcement of such obligations, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting the rights of creditors generally and to the effect of general principles of equity whether applied by a court of law or equity, and (c) Agent and Lenders are and shall be entitled to the rights, remedies and benefits provided for in the Loan Documents and applicable law.

2.4 Acknowledgment of Guarantor. Parent hereby makes the acknowledgments, confirmations and agreements (i) set forth in Section 2.2 hereof with respect to the security interests granted by Parent pursuant to the Loan Documents to which it is party, and (ii) set forth in Section 2.3 hereof with respect to the Loan Documents to which it is party, including without limitation, the Guaranty to which it is party.

SECTION 3. AMENDMENTS.

3.1 The definition of "Equipment Formula Amount" set forth in Section 1.1 of the Loan Agreement has been amended and restated in its entirety as follows:

"Equipment Formula Amount: the lesser of (a) \$6,000,000 and (b) 80% of the NOLV Percentage of the Value of Eligible Equipment."

3.2 The definition of "Letter of Credit Subline" set forth in Section 1.1 of the Loan Agreement has been amended and restated in its entirety as follows:

"Letter of Credit Subline: \$20,000,000."

3.3 All references to the terms "Borrower" and "Borrowers" in the Loan Agreement and the other Loan Documents have been amended to mean, individually and collectively, jointly and severally, KEC, Singapore Borrower, KEMET Foil, and KEMET Blue.

3.4 All references to the term “U.S. Borrower” in the Loan Agreement and the other Loan Documents have been amended to mean, individually and collectively, jointly and severally, KEC, KEMET Foil and KEMET Blue.

3.5 Schedules 8.5, 8.6.1, 9.1.4, 9.1.11, 9.1.14, 9.1.15, 9.1.16, 9.1.18, 9.1.20, 10.2.2, 10.2.6, 10.2.8, 10.2.9 and 10.2.17 have been replaced with updated Schedules which have been provided to Agent and Lenders in connection with previous amendments to the Loan Agreement.

3.6 Section 1.1 of the Loan Agreement has been amended by inserting the following new definitions in the appropriate alphabetical order:

“Banker’s Acceptance: a time draft or bill of exchange or other deferred payment obligation relating to a documentary Letter of Credit which has been accepted by U.S. Issuing Bank for the benefit of U.S. Borrower.”

“Spot Rate: the exchange rate, as determined by Agent, that is applicable to conversion of one currency into another currency, which is (a) the exchange rate reported by Bloomberg (or other commercially available source designated by Agent) as of the end of the preceding business day in the financial market for the first currency; or (b) if such report is unavailable for any reason, the spot rate for the purchase of the first currency with the second currency as in effect during the preceding business day in Agent’s principal foreign exchange trading office for the first currency.”

3.7 The definition of “LC Conditions” in Section 1.1 of the Loan Agreement has been amended in its entirety to read as follows:

“LC Conditions: the following conditions necessary for issuance of a Letter of Credit: (a) each of the conditions set forth in Section 6; (b) after giving effect to such issuance, total LC Obligations do not exceed the Letter of Credit Subline, no Overadvance exists and, if no Revolver Loans are outstanding, the U.S. LC Obligations do not exceed the U.S. Borrowing Base (without giving effect to the LC Reserve for purposes of this calculation) and the Singapore LC Obligations do not exceed the Singapore Borrowing Base (without giving effect to the LC Reserve for purposes of this calculation); (c) the expiration date of such Letter of Credit is (i) no more than three hundred sixty-five (365) days from issuance, in the case of standby Letters of Credit (subject to automatic renewals), (ii) no more than three hundred (300) days from issuance, in the case of documentary Letters of Credit, and (iii) at least twenty (20) Business Days prior to the Revolver Termination Date; (d) the Letter of Credit and payments thereunder are denominated in Dollars or such other currency as is acceptable to Agent and Issuing Bank in their sole discretion; and (e) the purpose and form of the proposed Letter of Credit is reasonably satisfactory to Agent and Issuing Bank.”

3.8 The definition of “U.S. Letter of Credit” Section 1.1 of the Loan Agreement has been amended in its entirety to read as follows:

“U.S. Letter of Credit: any standby or documentary letter of credit issued by U.S. Issuing Bank for the account of U.S. Borrower, any Bankers Acceptance, or any indemnity, guarantee, exposure transmittal memorandum or similar form of credit support issued by Agent or U.S. Issuing Bank for the benefit of U.S. Borrower.”

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3.9 Section 1.4 of the Loan Agreement has been amended by deleting the words “issuances of Letters of Credit” from the seventh sentence of such Section.

3.10 Section 1 of the Loan Agreement has been amended by inserting at the end of such Section the following new Section 1.5:

1.5. Currency Equivalents.

1.5.1. Calculations. All references in the Loan Documents to Loans, Letters of Credit, Obligations, Borrowing Base components and other amounts shall be denominated in Dollars, unless expressly provided otherwise. The Dollar equivalent of any amounts denominated or reported under a Loan Document in a currency other than Dollars shall be determined by Agent on a daily basis, based on the current Spot Rate. Borrowers shall report Value and other Borrowing Base components to Agent in the currency invoiced by Borrowers or shown in Borrowers’ financial records, and unless expressly provided otherwise, shall deliver financial statements and calculate financial covenants in Dollars. Notwithstanding anything herein to the contrary, if any Obligation is funded and expressly denominated in a currency other than Dollars, Borrowers shall repay such Obligation in such other currency.

1.5.2. Judgments. If, for purposes of obtaining judgment in any court, it is necessary to convert a sum from the currency provided under a Loan Document (“Agreement Currency”) into another currency, the Spot Rate shall be used as the rate of exchange. Notwithstanding any judgment in a currency (“Judgment Currency”) other than the Agreement Currency, a Borrower shall discharge its obligation in respect of any sum due under a Loan Document only if, on the Business Day following receipt by Agent of payment in the Judgment Currency, Agent can use the amount paid to purchase the sum originally due in the Agreement Currency. If the purchased amount is less than the sum originally due, such Borrower agrees, as a separate obligation and notwithstanding any such judgment, to indemnify Agent and Lenders against such loss. If the purchased amount is greater than the sum originally due, Agent shall return the excess amount to such Borrower (or to the Person legally entitled thereto).

SECTION 4. CAPITAL EXPENDITURES AND FIXED CHARGES IN RESPECT OF THE OEM TRANSACTIONS.

4.1 Notwithstanding anything to the contrary contained in the Loan Agreement or any of the other Loan Documents, the following amounts shall not be included in calculating Capital Expenditures permitted under Section 10.2.3 of the Loan Agreement, including, without limitation, in calculating the Fixed Charge Coverage Ratio for the purposes thereof: (i) payments made in respect of the Subject CapEx; and (ii) an additional amount of Capital Expenditures, not to exceed \$8,000,000, made by Borrowers solely in connection with the OEM Transactions.

4.2 Notwithstanding anything to the contrary contained in the Loan Agreement or any of the other Loan Documents, to the extent that any Repayment amounts constitute principal payments on Borrowed Money, such Repayment amounts shall not be included in calculating the Fixed Charges or the Fixed Charge Coverage Ratio.

SECTION 5. REPRESENTATIONS, WARRANTIES AND COVENANTS.

Each Borrower and Parent hereby represents, warrants and covenants with and to Agent and Lenders as follows:

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5.1 **Representations in Loan Documents.** Each of the representations and warranties made by or on behalf of such Borrower to Agent and Lenders in any of the Loan Documents was true and correct in all material respects when made (except for those representations and warranties that were already qualified by concepts of materiality or by express thresholds, which representations and warranties shall be true and correct in all respects) and is true and correct in all material respects on and as of the date of this Amendment with the same full force and effect as if each of such representations and warranties had been made by or on behalf of such Borrower on the date hereof and in this Amendment (other than such representations and warranties that relate solely to a specific prior date).

5.2 **Binding Effect of Documents.** This Amendment and the other Loan Documents have been duly executed and delivered to the Lender by such Borrower and are in full force and effect, as modified hereby.

5.3 No Conflict, Etc. The execution, delivery and performance of this Amendment by such Borrower will not violate or cause a default under any Applicable Law (including, without limitation, federal and state securities laws) or Material Contract of such Borrower and will not result in, or require, the creation or imposition of any Lien on any of its properties or revenues, other than Permitted Liens.

5.4 No Default or Event of Default. No Default or Event of Default (including, without limitation, an Event of Default arising under Section 11.1(f) of the Loan Agreement in respect of any breach or default under any Convertible Notes Document or Senior Notes Document) exists immediately prior to the execution of this Amendment and no Default or Event of Default (including, without limitation, an Event of Default arising under Section 11.1(f) of the Loan Agreement in respect of any breach or default under any Convertible Notes Document or Senior Notes Document) will exist immediately after the execution of this Amendment and the other documents, instruments and agreements executed and delivered in connection herewith.

5.5 Additional Covenants. In addition to the covenants set forth in the Loan Agreement and the other Loan Documents, Parent hereby agrees that such Obligor shall not agree to, nor permit any Person to agree to, any amendment of any OEM Transaction Agreement that is adverse to Agent or to any Lender, as determined by Agent in its sole discretion, without the prior written consent of Agent.

5.6 Additional Events of Default. Any misrepresentation by any Borrower or Parent, or any failure of any Borrower or Parent to comply with the covenants, conditions and agreements contained in any Loan Document, herein or in any other document, instrument or agreement at any time executed and/or delivered by any Borrower or Parent with, to or in favor of Agent and/or Lenders shall, subject to the terms and provisions of the Loan Agreement and the other Loan Documents, constitute an Event of Default hereunder, under the Loan Agreement and the other Loan Documents.

SECTION 6. PROVISIONS OF GENERAL APPLICATION.

6.1 Effect of this Amendment. Except as modified pursuant hereto, and pursuant to the other documents, instruments and agreements executed and delivered in connection herewith, no other changes or modifications to the Loan Documents are intended or implied and in all other respects the Loan Documents are hereby specifically ratified, restated and confirmed by all parties hereto as of the effective date hereof. In no event is this Amendment intended to negate, limit or modify the waivers and consents set forth in any amendments to the Loan Documents executed

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prior to the date hereof. To the extent of conflict between the terms of this Amendment and the other Loan Documents, the terms of the other Loan Documents shall control. Any Loan Document amended hereby shall be read and construed with this Amendment as one agreement.

6.2 Costs and Expenses. Borrowers absolutely and unconditionally agree to pay to Agent, on demand by Agent at any time and as often as the occasion therefor may require, whether or not all or any of the transactions contemplated by this Amendment are consummated: all reasonable fees and disbursements of any counsel to Agent in connection with the preparation, negotiation, execution, or delivery of this Amendment and any agreements delivered in connection with the transactions contemplated hereby and all reasonable out-of-pocket expenses which shall at any time be incurred or sustained by Agent or its directors, officers, employees or agents as a consequence of or in any way in connection with the preparation, negotiation, execution, or delivery of this Amendment and any agreements prepared, negotiated, executed or delivered in connection with the transactions contemplated hereby.

6.3 No Third Party Beneficiaries. The terms and provisions of this Amendment shall be for the benefit of the parties hereto and their respective successors and assigns; no other person, firm, entity or corporation shall have any right, benefit or interest under this Amendment.

6.4 Further Assurances. The parties hereto shall execute and deliver such additional documents and take such additional action as may be reasonably necessary or desirable to effectuate the provisions and purposes of this Amendment.

6.5 Binding Effect. This Amendment shall be binding upon and inure to the benefit of each of the parties hereto and their respective successors and assigns.

6.6 Merger. This Amendment sets forth the entire agreement and understanding of the parties with respect to the matters set forth herein. This Amendment cannot be changed, modified, amended or terminated except in a writing executed by the party to be charged.

6.7 Survival of Representations and Warranties. All representations and warranties made in this Amendment or any other document furnished in connection with this Amendment shall survive the execution and delivery of this Amendment and the other documents, and no investigation by Agent or any closing shall affect the representations and warranties or the right of Agent to rely upon them.

6.8 Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment.

6.9 Reviewed by Attorneys. Each Borrower represents and warrants to Agent and Lenders that it (a) understands fully the terms of this Amendment and the consequences of the execution and delivery of this Amendment, (b) has been afforded an opportunity to have this Amendment reviewed by, and to discuss this Amendment and each document executed in connection herewith with, such attorneys and other persons as such Borrower may wish, and (c) has entered into this Amendment and executed and delivered all documents in connection herewith of its own free will and accord and without threat, duress or other coercion of any kind by any Person. The parties hereto acknowledge and agree that neither this Amendment nor the other documents executed pursuant hereto shall be construed more favorably in favor of one than the other based upon which party drafted the same, it being acknowledged that all parties hereto

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contributed substantially to the negotiation and preparation of this Amendment and the other documents executed pursuant hereto or in connection herewith.

6.10 Governing Law; Consent to Jurisdiction and Venue.

(a) THIS AMENDMENT, UNLESS OTHERWISE SPECIFIED, SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO ANY CONFLICT OF LAW PRINCIPLES (BUT GIVING EFFECT TO FEDERAL LAWS RELATING TO NATIONAL BANKS).

(b) EACH BORROWER HEREBY CONSENTS TO THE NON-EXCLUSIVE JURISDICTION OF ANY FEDERAL OR STATE COURT SITTING IN OR WITH JURISDICTION OVER THE STATE OF NEW YORK, IN ANY PROCEEDING OR DISPUTE RELATING IN ANY WAY HERETO, AND AGREES THAT ANY SUCH PROCEEDING SHALL BE BROUGHT BY IT SOLELY IN ANY SUCH COURT. EACH BORROWER IRREVOCABLY WAIVES ALL CLAIMS, OBJECTIONS AND DEFENSES THAT IT MAY HAVE REGARDING SUCH COURT'S PERSONAL OR SUBJECT MATTER JURISDICTION, VENUE OR INCONVENIENT FORUM. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 14.3.1 OF THE LOAN AGREEMENT. Nothing herein shall limit the right of Agent or any Lender to bring proceedings against any Obligor in any other court, nor limit the right of any party to serve process in any other manner permitted by Applicable Law. Nothing in this Amendment shall be deemed to preclude enforcement by

Agent of any judgment or order obtained in any forum or jurisdiction.

6.11 Waivers. TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, EACH BORROWER WAIVES (A) THE RIGHT TO TRIAL BY JURY (WHICH AGENT AND EACH LENDER HEREBY ALSO WAIVES) IN ANY PROCEEDING OR DISPUTE OF ANY KIND RELATING IN ANY WAY HERETO; (B) PRESENTMENT, DEMAND, PROTEST, NOTICE OF PRESENTMENT, DEFAULT, NON-PAYMENT, MATURITY, RELEASE, COMPROMISE, SETTLEMENT, EXTENSION OR RENEWAL OF ANY COMMERCIAL PAPER, ACCOUNTS, DOCUMENTS, INSTRUMENTS, CHATTEL PAPER AND GUARANTIES AT ANY TIME HELD BY AGENT ON WHICH A BORROWER MAY IN ANY WAY BE LIABLE, AND HEREBY RATIFIES ANYTHING AGENT MAY DO IN THIS REGARD; (C) NOTICE PRIOR TO TAKING POSSESSION OR CONTROL OF ANY COLLATERAL; (D) ANY BOND OR SECURITY THAT MIGHT BE REQUIRED BY A COURT PRIOR TO ALLOWING AGENT TO EXERCISE ANY RIGHTS OR REMEDIES; (E) THE BENEFIT OF ALL VALUATION, APPRAISEMENT AND EXEMPTION LAWS; (F) ANY CLAIM AGAINST AGENT OR ANY LENDER, ON ANY THEORY OF LIABILITY, FOR SPECIAL, INDIRECT, CONSEQUENTIAL, EXEMPLARY OR PUNITIVE DAMAGES (AS OPPOSED TO DIRECT OR ACTUAL DAMAGES) IN ANY WAY RELATING TO ANY ENFORCEMENT ACTION, OBLIGATIONS, LOAN DOCUMENTS OR TRANSACTIONS RELATING THERETO; AND (G) NOTICE OF ACCEPTANCE HEREOF. Each Borrower acknowledges that the foregoing waivers are a material inducement to Agent and Lenders entering into this Amendment and that Agent and Lenders are relying upon the foregoing in their dealings with Borrowers. Each Borrower has reviewed the foregoing waivers with its legal counsel and has knowingly and voluntarily waived its jury trial and other rights following consultation with legal

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counsel. In the event of litigation, this Amendment may be filed as a written consent to a trial by the court.

6.12 Counterparts. This Amendment may be executed in one or more counterparts, each of which shall constitute but one and the same Amendment. In making proof of this Amendment, it shall not be necessary to produce or account for more than one counterpart thereof signed by each of the parties hereto. Delivery of an executed counterpart of this Amendment electronically or by facsimile shall be effective as delivery of an original executed counterpart of this Amendment.

[Signature page follows]

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IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment as of the date first written above.

KEMET ELECTRONICS CORPORATION

By: /s/ MICHAEL W. BOONE

Name: Michael W. Boone

Title: Vice President and Treasurer

KEMET ELECTRONICS MARKETING (S) PTE LTD.

By: /s/ ZHU YING

Name: Zhu Ying

Title: Financial Controller / Director

KEMET FOIL MANUFACTURING, LLC

By: /s/ STEVEN R. LANE

Name: Steven R. Lane

Title: Senior Director / Manager

KEMET BLUE POWDER CORPORATION

By: /s/ CHARLES C. MEEKS, JR.

Name: Charles C. Meeks, Jr.

Title: President

ACKNOWLEDGED AND AGREED

KEMET CORPORATION

By: /s/ MICHAEL W. BOONE

Name: Michael W. Boone

Title: Vice President and Treasurer

BANK OF AMERICA, N.A.,
as Agent and sole Lender

By: /s/ ANDREW A. DOHERTY

Name: Andrew A. Doherty

Title: Senior Vice President

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: August 2, 2013

/s/ PER-OLOF LOOF

Per-Olof Loof

Chief Executive Officer and Director

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: August 2, 2013

/s/ WILLIAM M. LOWE, JR.

William M. Lowe, Jr.

Executive Vice President and Chief Financial Officer

**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 ended June 30, 2013 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: August 2, 2013

/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.

**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 ended June 30, 2013 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: August 2, 2013

/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.
