KEMET CORP
Form 10-Q
February 03, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2009

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

Commission File Number: 0-20289

KEMET CORPORATION

(Exact name of registrant as specified in its charter)

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

2835 KEMET WAY, SIMPSONVILLE, SOUTH CAROLINA 29681

(Address of principal executive offices, zip code)

(864) 963-6300

(Registrant s telephone number, including area code)

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

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

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

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o YES x NO

The number of shares outstanding of the registrant s common stock, par value $0.01 per share, as of February 2, 2010 was 80,867,509.

Table of Contents

KEMET CORPORATION AND SUBSIDIARIES

Form 10-Q for the Quarter Ended December 31, 2009

INDEX

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

KEMET CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Amounts in thousands, except per share data)

(Unaudited)

	December 31, 2009	March 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 64,974	$ 39,204
Accounts receivable, net	137,460	120,139
Inventories	150,051	154,981
Prepaid expenses and other current assets	11,057	11,245
Deferred income taxes	2,539	151
Total current assets	366,081	325,720
Property and equipment, net of accumulated depreciation of $690,017 and $646,966 as of December 31, 2009 and March 31, 2009, respectively	338,732	357,977
Intangible assets, net	23,384	24,094
Other assets	15,499	6,360
Total assets	$ 743,696	$ 714,151
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 34,983	$ 25,994
Accounts payable, trade	67,368	52,332
Accrued expenses	55,256	51,125
Income taxes payable	1,367	1,127
Total current liabilities	158,974	130,578
Long-term debt, less current portion	222,138	280,752
Other non-current obligations	63,361	57,316
Deferred income taxes	7,560	5,466
Stockholders equity:		
Common stock, par value $0.01, authorized 300,000 shares, issued 88,525 and 88,525 shares at December 31, 2009 and March 31, 2009, respectively	885	885
Additional paid-in capital	481,097	367,257
Retained deficit	(151,106)	(81,342)
Accumulated other comprehensive income	19,776	12,663
Treasury stock, at cost (7,658 and 7,714 shares at December 31, 2009 and March 31, 2009, respectively)	(58,989)	(59,424)
Total stockholders equity	291,663	240,039
Total liabilities and stockholders equity	$ 743,696	$ 714,151

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

KEMET CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Amounts in thousands, except per share data)

(Unaudited)

	Quarters Ended December 31, 2009	Quarters Ended December 31, 2008 (As Adjusted- Note 2)	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008 (As Adjusted- Note 2)
Net sales	$ 199,923	$ 190,679	$ 523,355	$ 668,342
Operating costs and expenses:				
Cost of sales	163,629	166,507	441,626	598,918
Selling, general and administrative expenses	22,203	20,569	61,153	72,587
Research and development	5,637	6,168	15,985	23,312
Restructuring charges	1,322	4,572	2,589	29,579
Goodwill impairment				174,327
Write down of long-lived assets	656		656	65,155
Net (gain) loss on sales and disposals of assets	240	1,054	498	(27,236)
Total operating costs and expenses	193,687	198,870	522,507	936,642
Operating income (loss)	6,236	(8,191)	848	(268,300)
Other (income) expense:				
Interest income	(14)	(129)	(147)	(545)
Interest expense and amortization of debt discount	7,434	6,700	19,744	22,012
Increase in value of warrant			81,088	
(Gain) loss on early extinguishment of debt			(38,921)	2,212
Other (income) expense, net	688	(2,407)	6,199	(6,306)
Loss before income taxes	(1,872)	(12,355)	(67,115)	(285,673)
Income tax expense (benefit)	(93)	793	2,649	1,918
Net loss	$ (1,779)	$ (13,148)	$ (69,764)	$ (287,591)
Net loss per share:				
Basic and diluted	$ (0.02)	$ (0.16)	$ (0.86)	$ (3.57)

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

KEMET CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Amounts in thousands)

(Unaudited)

	Nine Months Ended December 31, 2009	2008 (As Adjusted- Note 2)
Sources (uses) of cash and cash equivalents		
Operating activities:		
Net loss	$ (69,764)	$ (287,591)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Gain on early extinguishment of debt	(38,921)	
Increase in warrant value	81,088	
Depreciation and amortization	39,191	42,613
Amortization of debt discount and debt issuance costs	9,586	7,494
Goodwill impairment		174,327
Write down of long-lived assets	656	65,155
Net (gains) losses on sales and disposals of assets	498	(27,236)
Stock-based compensation expense	1,788	1,115
Change in deferred income taxes	(751)	(1,650)
Change in operating assets	1,653	61,182
Change in operating liabilities	11,895	(46,352)
Other	(997)	187
Net cash provided by (used in) operating activities	35,922	(10,756)
Investing activities:		
Capital expenditures	(7,593)	(27,699)
Change in restricted cash	(1,495)	
Proceeds from sale of assets		34,870
Acquisitions, net of cash received		(1,000)
Net cash provided by (used in) investing activities	(9,088)	6,171
Financing activities:		
Proceeds from issuance of debt	60,873	20,944
Payments of long-term debt	(54,202)	(71,300)
Debt extinguishment and issuance costs	(7,811)	
Proceeds from sale of common stock to employee savings plan		244
Net cash used in financing activities	(1,140)	(50,112)
Net increase (decrease) in cash and cash equivalents	25,694	(54,697)
Effect of foreign currency fluctuations on cash	76	(1,299)
Cash and cash equivalents at beginning of fiscal period	39,204	81,383
Cash and cash equivalents at end of fiscal period	$ 64,974	$ 25,387

See accompanying notes to the unaudited condensed consolidated financial statements.

4

Table of Contents

Notes to Condensed Consolidated Financial Statements

Note 1. Basis of Financial Statement Presentation

The condensed consolidated financial statements contained herein are unaudited and have been prepared from the books and records of KEMET Corporation and its subsidiaries (KEMET or the Company). In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q, and therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles (U.S. GAAP). Although the Company believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the audited financial statements and notes thereto included in the Company s fiscal year ended March 31, 2009, Form 10-K (Company s 2009 Annual Report), as subsequently adjusted by the Company s Current Report on Form 8-K, filed with the Securities and Exchange Commission (SEC) on November 5, 2009, to reflect the retrospective application of a new accounting standard related to the accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) which required retrospective application.

Net sales and operating results for the quarter and nine month period ended December 31, 2009 are not necessarily indicative of the results to be expected for the full year. The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. In consolidation, all significant intercompany amounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to current year presentation. In addition, as noted in Note 2, Debt, Liquidity and Capital Resources , certain prior period amounts have been adjusted to conform to a new accounting standard related to the accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) which required retrospective application.

The significant accounting policies followed by the Company are presented in the Company s 2009 Annual Report.

Recently Issued Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued guidance which established the FASB Accounting Standards Codification (ASC) as the source of authoritative U.S. GAAP to be applied by nongovernmental entities, except for the rules and interpretive releases of the SEC under authority of federal securities laws, which are sources of authoritative U.S. GAAP for SEC registrants. All guidance contained in the codification carries an equal level of authority. The codification does not change U.S. GAAP. Instead, it takes the thousands of individual pronouncements that currently comprise U.S. GAAP and reorganizes them into approximately 90 accounting topics, and displays all topics using a consistent structure. Contents in each topic are further organized first by subtopic, then section and finally paragraph. The paragraph level is the only level that contains substantive content. Citing particular content in the codification involves specifying the unique numeric path to the content through the topic, subtopic, section, and paragraph structure. The ASC was effective for the Company in the second fiscal quarter of 2010 and superseded all existing non-SEC accounting and reporting standards. All non-grandfathered accounting not included in the ASC will be considered non-authoritative. There was no impact on the Company s consolidated financial statements upon adoption. However, this standard impacted the Company s financial reporting as it uses the new codification when referring to U.S. GAAP in its financial statements.

In May 2009, the FASB issued guidance which established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance sets forth the period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date, and the disclosures that should be made about such events or transactions. This guidance was effective for reporting periods ending after June 15, 2009, and did not result in significant changes in subsequent events that an entity reports, either through recognition or disclosure, in its financial statements. This guidance requires the disclosure of the date through which an entity has evaluated subsequent events.

In April 2009, the FASB issued guidance which increased the frequency of fair value disclosures to a quarterly instead of an annual basis. This accounting guidance was effective for interim and annual periods ending after June 15, 2009 or the first quarter of fiscal year 2010 for the Company. The adoption of this accounting guidance did not impact the Company s results of operations or financial position.

In May 2008, the FASB issued guidance which required issuers of convertible debt that may be settled wholly or partly in cash when converted to account for the debt and equity components separately. This guidance was effective for fiscal years beginning after December 15, 2008, or fiscal year 2010 for the Company, and must be applied retrospectively to all periods presented. See Note

Table of Contents

2, Debt, Liquidity and Capital Resources , for discussion of the impact of the Company s adoption of this guidance as of April 1, 2009 and the retrospective adjustment of previously reported amounts.

In September 2007, the FASB issued guidance which addresses the determination of whether an instrument (or an embedded feature) is indexed to an entity s own stock, which is the first part of the scope exception in ASC 815-10-15. If an instrument (or an embedded feature) that has the characteristics of a derivative instrument under ASC 815-10-15 is indexed to an entity s own stock, it is still necessary to evaluate whether it is classified in stockholders equity (or would be classified in stockholders equity if it were a freestanding instrument). See Note 1, Warrant Liability for discussion of the impact of the Company s adoption of this guidance as of April 1, 2009.

Restricted Cash

During the third quarter of fiscal year 2010, KEMET applied for and received a one time grant of 19.3 million pesos ($1.5 million) from the Ministry of Economy in Mexico to be utilized for salary or salary-related expenses for the Company s Mexican operations.

A guarantee was issued by a European bank on behalf of the Company in August 2006 in conjunction with the establishment of a Valued-Added Tax (VAT) registration in The Netherlands. The bank guarantee is in the amount of EUR 1.5 million ($2.2 million). An interest-bearing deposit was placed with a European bank for EUR 1.7 million ($2.4 million). The deposit is in KEMET s name, and KEMET receives all interest earned by this deposit. However, the deposit is pledged to the European bank, and the bank can use the money if a valid claim is made. The bank guarantee has no expiration date.

Restricted cash of $3.9 million is included in the line item Prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets.

Warrant Liability

Concurrent with the consummation of the tender offer as discussed in Note 2, Debt, Liquidity and Capital Resources , the Company issued K Financing, LLC (K Financing) a warrant (the Closing Warrant) to purchase up to 80,544,685 shares of the Company s common stock, subject to certain adjustments, representing approximately 49.9% of the Company s outstanding common stock on a post-Closing Warrant basis. The warrant was subsequently transferred to K Equity, LLC (K Equity). The Closing Warrant was exercisable at a purchase price of $0.50 per share, subject to an adjustment which reduces the exercise price to a floor of $0.35 per share based on a sliding scale once the aggregate borrowings under the Platinum Line of Credit Loan (as defined below) and the Platinum Working Capital Loan exceed $12.5 million, at any time prior to the tenth anniversary of the Closing Warrant s date of issuance. The floor exercise price was reached on September 29, 2009 when the aggregate borrowings under the Platinum Line of Credit Loan and the Platinum Working Capital Loan (as defined below) reached $20.0 million. The Closing Warrant may be exercised in exchange for cash, by means of net settlement of a corresponding portion of amounts owed by the Company under the Revised Amended and Restated Platinum Credit Facility with K Financing as amended on September 30, 2009 (the Revised Amended and Restated Platinum Credit Facility), by cashless exercise to the extent of appreciation in the value of the Company s common stock above the exercise price of the Closing Warrant, or by combination of the preceding alternatives.

Warrants may be classified as assets or liabilities (derivative accounting), temporary equity, or permanent equity, depending on the terms of the specific warrant agreement. The Closing Warrant issued to K Financing under the Platinum Credit Facility (as defined below) were reviewed as of June 30, 2009, the date of issuance, to determine whether they meet the definition of a derivative. The Company s evaluation of the Closing Warrant as of the date of issuance concluded that they were not indexed to the Company s stock since the strike price was not fixed and as such were treated as a freestanding derivative liability. On September 29, 2009, the

Company borrowed $10.0 million from the Platinum Working Capital Loan for general corporate purposes. As a result of this additional borrowing, the strike price of the Closing Warrant was fixed at $0.35 per share as of September 29, 2009 and the Company assessed whether the Closing Warrant still met the definition of a derivative. The Company s evaluation of the Closing Warrant as of September 29, 2009, concluded that the Closing Warrant is indexed to the Company s own stock and should be classified as a component of equity. The Company valued the Closing Warrant immediately prior to the strike price becoming fixed and recorded a mark-to-market adjustment of $81.1 million through earnings. Subsequent to the strike price becoming fixed, the Company reclassified the warrant liability of $112.5 million into the line item Additional paid-in capital on the Condensed Consolidated Balance Sheets and the Closing Warrant will no longer be marked-to-market on a quarterly basis. The Company estimated the fair value of these Closing Warrant using the Black-Scholes option pricing model using the following assumptions:

	September 30, 2009
Expected life	9.75 years
Expected volatility	66.0%
Risk-free interest rate	3.5%
Dividends	0%

Warrants may be classified as assets or liabilities (derivative accounting), temporary equity, or permanent equity, de

Table of Contents

Fair Value Measurement

The Company established a hierarchy, with respect to fair value measurements 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 fair value hierarchy is based on three levels of inputs that may be used to measure fair value. 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.

The adoption of this statement did not have a material impact on the Company s consolidated results of operations and financial condition.

Assets measured at fair value on a recurring basis as of December 31, 2009 are as follows (amounts in thousands):

	Fair Value Measurement Using			Fair Value
	Level 1	**Level 2**	**Level 3**	**December 31, 2009**
Assets:				
Money markets (1)	$ 30,267	$	$	$ 30,267

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

Revenue Recognition

Warrants may be classified as assets or liabilities (derivative accounting), temporary equity, or permanent equity, de

The Company recognizes revenue only when all of the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the seller s price to the buyer is fixed or determinable, and (4) collectibility is reasonably assured.

A portion of sales is related to products designed to meet customer specific requirements. These products typically have stricter tolerances making them useful to the specific customer requesting the product and to customers with similar or less stringent requirements. Products with customer specific requirements are tested and approved by the customer before the Company mass produces and ships the product. The Company recognizes revenue at shipment as the sales terms for products produced with customer specific requirements do not contain a final customer acceptance provision or other provisions that are unique and would otherwise allow the customer different acceptance rights.

A portion of sales is made to distributors under agreements allowing certain rights of return and price protection on unsold merchandise held by distributors. The Company s distributor policy includes inventory price protection and ship-from-stock and debit (SFSD) programs common in the industry.

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

The Company provides a limited warranty to customers that the Company s products meet certain specifications. The

Table of Contents

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 approximately 1% for the quarter and nine month periods ended December 31, 2009 and 2008. The Company recognizes warranty costs when they are both probable and reasonably estimable.

Use of Estimates and Assumptions

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

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

Inventories

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

	December 31, 2009	March 31, 2009
Inventories:		
Raw materials and supplies	$ 66,574	$ 59,687
Work in process	51,590	48,105
Finished goods	31,887	47,189
	$ 150,051	$ 154,981

Note 2. Debt, Liquidity and Capital Resources

The Company s 2009 Annual Report included disclosure and an audit opinion that expressed substantial doubt about the Company s ability to continue as a going concern. However, the consolidated financial statements were prepared assuming that the Company will continue as a going concern. Specifically, the consolidated financial statements did not include any adjustments relating to the recoverability or classification of recorded assets, or the amounts or classification of liabilities that might be necessary in the event the Company is unable to continue as a going concern.

As of December 31, 2009, the Company was in compliance with its financial covenants under the Revised Amended and Restated Platinum Credit Facility and the medium-term credit facility in the original principal amount of EUR 60 million ($86.4 million) (Facility A) with UniCredit Corporate Banking S.p.A. (UniCredit). In addition, based on the Company s performance for the nine month period ended December 31, 2009 (net sales for the first quarter of fiscal year 2010 improved by 10.4% compared to the fourth quarter of fiscal year 2009, for the second quarter of fiscal year 2010, net sales improved by 15.4% compared to the first quarter of fiscal year 2010 and for the third quarter of fiscal year 2010, net sales improved by 15.3% compared to the second quarter of fiscal year 2010) and future operating plans, the Company currently forecasts that the Company will be in compliance with the financial covenants required by the Revised Amended and Restated Platinum Credit Facility and Facility A at each of the measurement dates during fiscal year 2010. The Company continues to anticipate a steady recovery over the next several quarters of the principal markets and industries into which its products are sold. The Company s expectations in this regard are based on various information sources including industry surveys and input from various key customers. Notwithstanding the Company s performance during the nine month period ended December 31, 2009, there can be no assurance that the Company will achieve its forecasted operating profit, generate adequate liquidity, or meet the financial covenants required by the Revised Amended and Restated Platinum Credit Facility and the UniCredit facilities for the balance of the fiscal year.

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

Table of Contents

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

	December 31, 2009	March 31, 2009
Debt		
Convertible Debt, net of discount of $8,980 and $26,359 as of December 31, 2009 and March 31, 2009, respectively	$ 72,101	$ 148,641
UniCredit Agreement-A (53,201 and 60,000 as of December 31, 2009 and March 31, 2009, respectively)	76,642	79,848
UniCredit Agreement-B (35,000 as of December 31, 2009 and March 31, 2009)	50,421	46,578
Platinum Term Loan, net of discount of $23,551 as of December 31, 2009	14,281	
Platinum Line of Credit, net of discount of $4,618 as of December 31, 2009	5,382	
Platinum Working Capital Loan	10,000	
Vishay	15,000	15,000
Other	13,293	16,679
Total debt	257,120	306,746
Current maturities	(34,982)	(25,994)
Total long-term debt	$ 222,138	$ 280,752

The line item Interest expense and amortization of debt discount on the Condensed Consolidated Statements of Operations for the quarter and nine month periods ended December 31, 2009 and 2008, respectively, is as follows (amounts in thousands):

	Quarters Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
Contractual interest expense	$ 3,732	$ 4,100	$ 10,158	$ 14,518
Amortization of debt issuance costs	913	517	1,908	1,246
Amortization of debt discount	2,789	2,083	7,678	6,248
Total interest expense	$ 7,434	$ 6,700	$ 19,744	$ 22,012

Platinum Credit Facility

On May 5, 2009, the Company executed a credit facility with K Financing, an affiliate of Platinum Equity Capital Partners II, L.P. (the Platinum Credit Facility). The Platinum Credit Facility consists of a term loan of $37.8 million (Platinum Term Loan), a line of credit loan (Platinum Line of Credit Loan) that may be borrowed from time to time (but not reborrowed after being repaid) of up to $12.5 million, and a working capital loan (Platinum Working Capital Loan) of up to $12.5 million. Subject to the amount available to be borrowed, which is based on the Company s book-to-bill ratio, and certain terms and conditions, the Company may borrow, pay or repay and reborrow amounts under the Platinum Working Capital Loan. The Platinum Term Loan was used to purchase the Company s 2.25% Convertible Senior Notes (the Notes) that are more fully described below. Additionally, funds from the Platinum Line of Credit Loan and Platinum Working Capital Loan under the Platinum Credit Facility are available to the Company, for limited purposes, subject to the satisfaction or waiver of certain conditions.

On June 30, 2009, the Company drew $10.0 million from the Platinum Line of Credit Loan and used it primarily to pay the fees and expenses related to the execution of the tender offer (described below) and the execution of the Platinum Credit Facility. The Company currently has availability in the amount of $2.5 million under the Platinum Line of Credit Loan. The Company incurred $3.6 million in fees and expense reimbursements related to the execution of the tender offer, $4.2 million related to the execution of the Platinum Credit Facility, and $1.4 million related to the amendments of the UniCredit facilities. In addition, the Company will pay K Financing a success fee of $5.0 million, payable at the time of repayment in full of the Platinum Term Loan, whether at maturity or otherwise. This success fee has been included in Other non-current obligations on the Condensed Consolidated Balance Sheets as of December 31, 2009. On September 29, 2009, the Company borrowed $10.0 million on the Platinum Working Capital Loan for general corporate purposes. The Company currently has availability in the amount of $2.5 million under the Platinum Working Capital Loan based on the Company s book-to-bill ratio calculated on December 31, 2009. The amount available to be borrowed under the Platinum Working Capital Loan is based upon the Company s book-to-bill ratio in effect at the time of the borrowing. In the event the Company s book-to-bill ratio subsequently falls below the minimum level required for the amount of the then outstanding borrowing under the Platinum Working Capital Loan, the amount borrowed in excess of the amount available to be borrowed is subject to repayment.

9

Table of Contents

The Platinum Term Loan accrues interest at an annual rate of 9% for cash payment until June 30, 2010. At the Company s option, after June 30, 2010, the Platinum Term Loan will accrue interest at an annual rate of 9% for cash payment, or cash and payment in-kind (PIK) interest at the rate of 12% per annum, with the cash portion being 5% and the PIK portion being 7%. The Platinum Working Capital Loan and the Platinum Line of Credit Loan will accrue interest at a rate equal to the greater of (i) LIBOR plus 7%, or (ii) 10%, payable monthly in arrears. In the event more than $8.8 million in aggregate principal amount of the Notes remain outstanding as of March 1, 2011, then the maturity date of the Platinum Term Loan, the Platinum Line of Credit Loan, and the Platinum Working Capital Loan are accelerated to March 1, 2011. If the aggregate principal amount of the Notes outstanding at March 1, 2011 is less than or equal to $8.8 million, the maturity date of the Platinum Term Loan will be November 15, 2012, and the maturity date for the Platinum Line of Credit Loan and the Platinum Working Capital Loan will be July 15, 2011.

The Revised Amended and Restated Platinum Credit Facility contains certain financial maintenance covenants, including requirements that the Company maintain a minimum consolidated EBITDA, as defined in the agreement, and a minimum fixed charge coverage ratio. In addition to the financial covenants, the Revised Amended and Restated Platinum Credit Facility also contains limitations on capital expenditures, the incurrence of indebtedness, the granting of liens, the sale of assets, sale and leaseback transactions, fundamental corporate changes, entering into investments, the payment of dividends, voluntary or optional payment and prepayment of indebtedness (including the Notes) and other limitations customary to secured credit facilities. On September 30, 2009, the Company entered into an amendment to the Revised Amended and Restated Platinum Credit Facility. Under the terms of the Amendment, the definition of Test Period under the Revised Amended and Restated Platinum Credit Facility was amended to eliminate the inclusion of the Company s fiscal quarter ended June 30, 2009 in the calculation of the Consolidated Fixed Charge Coverage Ratio financial covenant. As of December 31, 2009, the Company was in compliance with all of the financial covenants required by the Revised Amended and Restated Platinum Credit Facility.

The Company s obligations to K Financing arising under the Revised Amended and Restated Platinum Credit Facility are secured by substantially all of the Company s assets located in the United States, Mexico, Indonesia and China (other than accounts receivable owing by account debtors located in the United States, Singapore and Hong Kong, which exclusively secure obligations to an affiliate of Vishay Intertechnology, Inc.). As further described in the Offer to Purchase, in connection with entering into the Revised Amended and Restated Platinum Credit Facility, K Financing and UniCredit entered into a letter of understanding with respect to their respective guarantor and collateral pools and the Company s assets in Europe that are not pledged to either lender. The letter of understanding also sets forth each lender s agreement not to interfere with the other s exercise of remedies pertaining to their respective collateral pools.

Concurrent with the consummation of the tender offer, the Company issued K Financing the Closing Warrant to purchase up to 80,544,685 shares of its common stock, subject to certain adjustments, representing at the time of issuance 49.9% of the Company s outstanding common stock on a post-Closing Warrant basis. The Closing Warrant was subsequently transferred to K Equity. See Note 1, Warrant Liability for a discussion of the accounting treatment of the Closing Warrant.

The Company also entered into an Investor Rights Agreement (the Investor Rights Agreement) with K Financing, which subsequently transferred its rights thereunder to K Equity. Pursuant to the terms of the Investor Rights Agreement, the Company has, subject to certain terms and conditions, granted Board of Directors (Board) observation rights to K Financing which would permit K Financing to designate up to three individuals to observe Board meetings and receive information provided to the Board. In addition, the Investor Rights Agreement provides K Financing with certain preemptive rights. Subject to the terms and limitations described in the Investor Rights Agreement, in connection with any proposed issuance of equity securities or securities convertible into equity, the Company would be required to offer to sell to K Financing a pro rata portion of such securities equal to the percentage determined by dividing the number of shares of common stock held by K Financing plus the number of shares of common stock issuable upon exercise of the Closing Warrant, by the total number of shares of common stock then outstanding on a fully diluted basis. The Investor Rights Agreement also provides K Financing with certain registration and information rights.

The Company also entered into a Corporate Advisory Services Agreement with Platinum Equity Advisors, LLC (Platinum Advisors) for a term of the later of (i) June 30, 2013 and (ii) the termination of the Credit Facility, pursuant to which the Company will pay an annual fee of $1.5 million to Platinum Advisors for certain advisory services. In addition, the Platinum Credit Facility includes various fees totaling $0.7 million per year for administration and collateral management and the Company incurs a fee of 1% per annum for unused capacity under the Platinum Line of Credit Loan and the Platinum Working Capital Loan.

At the date of issuance, the Company allocated $31.4 million of the proceeds from the issuance of the Platinum Term Loan and the draw-down on the Platinum Line of Credit Loan to warrant liability. The Company allocated the remainder of the issuance proceeds to the Platinum Term Loan and the Platinum Line of Credit Loan ($12.0 million and $4.4 million, respectively) based upon their relative fair values. The carrying amount of the Platinum Term Loan and the Platinum Line of Credit Loan will be increased by quarterly accretion to the line item Interest expense and amortization of debt discount on the Condensed Consolidated Statements of Operations under the effective interest method over their respective terms of approximately 3.4 years and 2.0 years.

Table of Contents

The fair values of the Platinum Term Loan, the Platinum Line of Credit, and the Platinum Working Capital Loan are $36 million, $10 million, and $10 million respectively at December 31, 2009, based upon a discount rate present value technique (an income approach). The Company recorded deferred financing costs of $9.2 million at the issuance date, and a long-term obligation has been recognized related to the unpaid success fee. These deferred financing costs will be allocated between the various loan components and amortized under the effective interest method over the respective term.

Convertible Debt

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

The Notes bear interest at a rate of 2.25% per annum, payable in cash semi-annually in arrears on each May 15 and November 15. The Notes are convertible into (i) cash in an amount equal to the lesser of the principal amount of the Notes and the conversion value of the Notes on the conversion date and (ii) cash or shares of the Company s common stock (Common Stock) or a combination of cash and shares of the Common Stock, at the Company s option, to the extent the conversion value at that time exceeds the principal amount of the Notes, at any time prior to the close of business on the business day immediately preceding the maturity date of the Notes, unless the Company has redeemed or purchased the Notes, subject to certain conditions. The initial conversion rate was 103.0928 shares of Common Stock per $1,000 principal amount of the Notes, which represents an initial conversion price of approximately $9.70 per share, subject to adjustments.

The holder may surrender the holder s Notes for conversion if any of the following conditions are satisfied:

- During any fiscal quarter, the closing sale price of the Common Stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter exceeds 130% of the conversion price per share on such last trading day;

- The Company has called the Notes for redemption;

- The average of the trading prices of the Notes for any five consecutive trading day period is less than 98% of the average of the conversion values of the Notes during that period;

- The Company makes certain significant distributions to the holders of the Common Stock; or

- In connection with a transaction or event constituting a fundamental change (as defined in the Indenture).

The Company received net proceeds from the sale of the Notes of approximately $170.2 million, after deducting discounts and estimated offering expenses of approximately $4.8 million. Net proceeds from the sale were used to repurchase approximately 3.3 million shares of Common Stock at a cost of approximately $24.9 million (concurrent with the initial closing of the Notes offering). Debt issuance costs are being amortized over a period of five years.

On April 1, 2009, the Company adopted new accounting guidance related to the accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) which required retrospective application. Under this guidance, the Company separated the Notes into a liability component and an equity component. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability (including any embedded features other than the conversion option) that does not have an associated equity component. The carrying amount of the equity component representing the embedded conversion option was determined by deducting the fair value of the liability component from the initial proceeds ascribed to the Notes as a whole. The excess of the principal amount of the liability component over its carrying amount is amortized to the line item Interest expense and amortization of debt discount over the expected life of a similar liability that does not have an associated equity component using the effective interest method. This change in methodology affects the calculations of net loss, but does not increase the Company s cash interest payments. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

Issuance and transaction costs incurred at the time of the issuance of the Notes with third parties are allocated to the liability and equity components and accounted for as debt issuance costs and equity issuance costs, respectively. Debt issuance costs related to the Notes, net of amortization, were $0.6 million as of December 31, 2009 and equity issuance costs were $1.3 million. The deferred tax liability and a corresponding valuation allowance adjustment in the same amount related to the Notes were $3.4 million as of December 31, 2009.

Table of Contents

The guidance was retroactively applied to all periods and resulted in adjustments to the Condensed Consolidated Statement of Operations for the quarter and nine month periods ended December 31, 2008 and its Consolidated Balance Sheet as of March 31, 2009 as follows (amounts in thousands, except per share amounts):

Condensed Consolidated Statement of Operations

	Quarter Ended December 31, 2008			Nine Months Ended December 31, 2008		
	As Reported	Adjustments	As Adjusted	As Reported	Adjustments	As Adjusted
Interest expense and amortization of debt discount	$ 4,617	$ 2,083	$ 6,700	$ 15,764	$ 6,248	$ 22,012
Net loss	(11,065)	(2,083)	(13,148)	(281,343)	(6,248)	(287,591)
Net loss per share:						
Basic and diluted	$ (0.14)	$ (0.02)	$ (0.16)	$ (3.50)	$ (0.08)	$ (3.57)

Condensed Consolidated Balance Sheet

	March 31, 2009		
	As Reported	Adjustments	As Adjusted
Assets			
Other assets	$ 7,010	$ (650)	$ 6,360
Total assets	714,801	(650)	714,151
Liabilities			
Long-term debt, less current portion	$ 307,111	$ (26,359)	$ 280,752
Stockholders equity			
Additional paid-in capital	$ 322,905	$ 44,352	$ 367,257
Retained deficit	(62,699)	(18,643)	(81,342)
Total stockholders equity	214,330	25,709	240,039

As of December 31, 2009, the remaining unamortized debt discount of the Notes will be amortized over a period of 23 months, the remaining expected term of the Notes. The effective interest rate on the liability component is 9.1% on an annual basis.

On June 26, 2009, $93.9 million in aggregate principal amount of the Notes were validly tendered (representing 53.7% of the outstanding Notes). As a result of the retrospective adoption effective April 1, 2009 of new guidance within ASC 470-20, Debt With Conversion and Other Options, the carrying value of the aggregate principal value of the tendered Notes was $81.0 million. Holders of the Notes received $400 for each $1,000 principal amount of Notes purchased in the tender offer, plus accrued and unpaid interest to, but not including, the date of payment for the Notes accepted for payment. As a result of the consummated tender offer, on June 30, 2009, the Company used the $37.8 million Platinum Term Loan under the Revised Amended and Restated Platinum Credit Facility to extinguish the tendered Notes. The extinguishment of these Notes resulted in a net gain of $38.9 million ($0.48 per share) included in the line item (Gain) loss on early extinguishment of debt on the Condensed Consolidated Statements of Operations for the nine month period ended December 31, 2009.

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

The Notes are convertible into Common Stock at a rate equal to 103.0928 shares per $1,000 principal amount of the Notes (equal to an initial conversion price of approximately $9.70 per share), subject to adjustment as described in the Indenture. Upon conversion, the Company will deliver for each $1,000 principal amount of Notes, an amount consisting of cash equal to the lesser of $1,000 and the conversion value (as defined in the Indenture) and, to the extent that the conversion value exceeds $1,000, at the Company s election, cash or shares of Common Stock with respect to any amounts exceeding $1,000. The contingent conversion feature was not required to be bifurcated and accounted for separately under ASC 815.

Table of Contents

If the Company undergoes a fundamental change, holders of the Notes will have the right, subject to certain conditions, to require the Company to repurchase for cash all or a portion of their Notes at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased plus accrued and unpaid interest, including contingent interest and additional amounts, if any. The Company would pay a make-whole premium on the Notes converted in connection with any fundamental change that occurs prior to November 20, 2011. The amount of the make-whole premium, if any, will be based on the Company s stock price and the effective date of the fundamental change. The maximum make-whole premium, expressed as a number of additional shares of the Common Stock to be received per $1,000 principal amount of the Notes, would be 30.95 upon the conversion of Notes in connection with the occurrence of a fundamental change prior to November 1, 2006, November 15 of each of 2007, 2008, 2009 or 2010, respectively, or November 20, 2011 if the stock price at that date is $7.46 per share of Common Stock. The Indenture contains a detailed description of how the make-whole premium will be determined and a table showing the make-whole premium that would apply at various stock prices and fundamental change effective dates. No make-whole premium will be paid if the price of the common stock on the effective date of the fundamental change is less than $7.46 per share. Any make-whole premium will be payable in shares of common stock (or the consideration into which the Company s common stock has been exchanged in the fundamental change) on the conversion date for the Notes converted in connection with the fundamental change. The approximate fair value of the outstanding Notes, based on quoted market prices close to December 31, 2009, was $67 million. The Company had interest payable related to the Notes included in Accrued expenses on the Condensed Consolidated Balance Sheets of approximately $0.2 million and $1.5 million at December 31, 2009 and March 31, 2009, respectively.

UniCredit Credit Facility

In October 2007, in connection with the completion of the acquisition of Arcotronics Italia S.p.A. (Arcotronics), the Company entered into a Senior Facility Agreement (Facility B) with UniCredit whereby UniCredit agreed to lend to the Company up to EUR 47 million ($68.8 million). The Company s initial drawdown of EUR 45.8 million ($67.1 million) was used to repay certain outstanding indebtedness of Arcotronics and for general corporate purposes. On December 20, 2007, the Company borrowed an additional EUR 1.0 million ($1.5 million) in connection with the refinancing of certain third party indebtedness.

In December 2007, in connection with the refinancing of certain third party indebtedness acquired as part of the acquisition of Arcotronics, the Company entered into a credit facility with UniCredit whereby UniCredit agreed to lend to the Company EUR 50 million ($73.2 million). The Company used the proceeds from this borrowing, together with cash on hand and the drawdown of EUR 1.0 million ($1.5 million) under a separate credit facility with UniCredit, to refinance third party indebtedness of Arcotronics.

In October 2008, the Company entered into Facility A with UniCredit. Facility A is effective for a four and one-half year term that terminates on April 1, 2013. Proceeds from Facility A in the amount of EUR 50 million ($73.2 million) were used to pay off the above mentioned separate credit facility with UniCredit with a scheduled maturity date of December 2008. Additional proceeds from Facility A in the amount of EUR 10.0 million ($14.6 million) were applied to reduce the outstanding principal of Facility B with UniCredit with a scheduled maturity date of April 2009.

On April 3, 2009, the Company entered into an agreement to extend and restructure Facility B. Facility B remained unsecured and does not contain any covenants, however it contains cross acceleration provisions linked to Facility A and bears interest at a rate of six-month EURIBOR plus 2.5 percent. Like Facility A, Facility B includes a subjective acceleration clause.

In April 2009, the Company also entered into amendments to Facility A and Facility B with UniCredit which, among other things, modified the financial covenants under Facility A and modified the amortization schedules under Facility A and Facility B. These amendments to the

UniCredit facilities became effective June 30, 2009 upon the consummation of the tender offer.

Material terms and conditions of Facility A are as follows:

(i)Maturity:	April 1, 2013
(ii)Interest Rate:	Floating at six-month EURIBOR plus 2.5%
(iii)Structure:	Secured with Italian real property, certain European accounts receivable and shares of two of the Company s Italian subsidiaries

Material terms and conditions of Facility B are as follows:

(i)Maturity:	April 1, 2013
(ii)Interest Rate:	Floating at six-month EURIBOR plus 2.5%
(iii)Structure:	Unsecured

Table of Contents

The amortization schedules for Facility A and Facility B are as follows (amounts in thousands):

	Annual Maturities of Long-Term Debt Fiscal Years Ending March 31,				
	2010 (1)	2011	2012	2013	2014
UniCredit Facility A	1,000	17,624	8,511	4,461	22,605
UniCredit Facility B	2,000	4,000	10,000	10,000	9,000

(1) Only includes scheduled payments for the remainder of the fiscal year.

The Company is subject to covenants under Facility A which, among other things, restrict its ability to make capital expenditures above certain thresholds and require it to meet financial tests related principally to a fixed charge coverage ratio and profitability. Effective as of September 30, 2009, the Company entered into an amendment to Facility A. Under the terms of the amendment, the amortization schedule of Facility A was modified, including the addition of an October 1, 2009 principal installment, and the definition of Test Period was amended to eliminate the inclusion of the Company s fiscal quarter ended June 30, 2009 in the calculation of the Consolidated Fixed Charge Coverage Ratio financial covenant. Additionally, under the amendment, the Company is prohibited from amending or entering into certain third-party loan agreements without, respectively, securing the prior written consent of, or providing prior written notice to, UniCredit. In connection with the amendment, the Company simultaneously executed a fee letter in which it agreed to pay to UniCredit an amendment fee and reimburse it for certain legal expenses incurred in relation to the amendment. These fees were $1.5 million and will be amortized as an adjustment of interest expense over the remaining term of the Facility. As of December 31, 2009, the Company was in compliance with all of the financial covenants required by Facility A.

The occurrence of events that significantly compromise the Company s financial, economic, asset, or operating situation and significantly compromise the Company s ability to ensure prompt and regular repayment of Facility A allow UniCredit to accelerate repayment of Facility A. The Company deems the foregoing provision of Facility A to be a subjective acceleration clause and has assessed the likelihood of whether or not it will be exercised. While the Company does not presently expect UniCredit to exercise its rights under this clause within the next twelve months, there can be no assurance that UniCredit will not exercise its acceleration rights. There are also provisions under Facility A which require the Company s continued listing on a stock exchange or regulated stock market existing in the United States The Company s listing on the OTC Bulletin Board complies with the covenants under Facility A.

The approximate combined fair value of Facility A and Facility B, based upon a discount rate present value technique (an income approach), as of December 31, 2009, is $111 million.

Vishay Loan

In the second quarter of fiscal year 2009, the Company sold assets related to the production and sale of wet tantalum capacitors to a subsidiary of Vishay Intertechnology, Inc. (Vishay). The Company received $33.7 million in cash proceeds, net of amounts held in escrow, from the sale of these assets. At the same time, the Company entered into a three-year term loan agreement for $15.0 million and a security agreement with Vishay. The loan carries an interest rate of LIBOR plus 4% which is payable monthly. The entire principal amount of $15.0 million matures on September 15, 2011 and can be prepaid without penalty. Pursuant to the security agreement, the loan is secured by certain accounts receivable of the Company. The approximate fair value of this loan, based on a discount rate present value technique (an income approach), as of December 31, 2009 is $14 million.

Note 3. Segment and Geographic Information

The Company is organized into three distinct business groups: the Tantalum Business Group (Tantalum), the Ceramic Business Group (Ceramic), and the Film and Electrolytic Business Group (Film and Electrolytic). Each business group is responsible for the operations of certain manufacturing sites as well as all related research and development efforts. The sales and marketing functions are shared by the business groups and are allocated to each business group based on the business group s respective budgeted net sales. In addition, all corporate costs are allocated to the business groups based on the business group s respective budgeted net sales.

Tantalum

Tantalum operates in five manufacturing sites in the United States, Mexico, China, and Portugal. This business group produces tantalum and aluminum polymer capacitors. The business group also maintains a product innovation center in the United States. Tantalum products are sold in all regions of the world.

Ceramic

Ceramic operates in two manufacturing locations in Mexico. This business group produces ceramic capacitors. In addition,

Table of Contents

the business group has a product innovation center in the United States. Ceramic products are sold in all regions of the world.

Film and Electrolytic

Film and Electrolytic operates in thirteen manufacturing sites in Europe and Asia. This business group produces film, paper, and electrolytic capacitors. In addition, the business group has a product innovation center in Sweden. Film and Electrolytic products are sold in all regions in the world.

The following table reflects each business group s net sales, operating income (loss), depreciation and amortization expenses and total assets as well as sales by region for the quarter and nine month periods ended December 31, 2009 and 2008 and total assets as of December 31, 2009 and March 31, 2009 (amounts in thousands):

	Quarters Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
Net sales:				
Tantalum	$ 93,833	$ 91,685	$ 248,188	$ 306,904
Ceramic	45,837	39,646	119,783	145,364
Film and Electrolytic	60,253	59,348	155,384	216,074
	$ 199,923	$ 190,679	$ 523,355	$ 668,342
Operating income (loss) (1)(2)(3):				
Tantalum	$ 9,598	$ 4,189	$ 17,730	$ (969)
Ceramic	7,584	(1,459)	14,493	(94,906)
Film and Electrolytic	(10,946)	(10,921)	(31,375)	(172,425)
	$ 6,236	$ (8,191)	$ 848	$ (268,300)
Depreciation and amortization expenses:				
Tantalum	$ 7,848	$ 7,351	$ 22,411	$ 23,300
Ceramic	2,173	1,880	6,790	8,594
Film and Electrolytic	3,680	3,022	9,990	10,719
	$ 13,701	$ 12,253	$ 39,191	$ 42,613
Sales by region:				
North and South America (Americas)	$ 49,567	$ 48,588	$ 129,064	$ 160,589
Europe, Middle East, Africa (EMEA)	74,241	72,222	189,315	267,874
Asia and Pacific Rim (APAC)	76,115	69,869	204,976	239,879
	$ 199,923	$ 190,679	$ 523,355	$ 668,342

	December 31, 2009	March 31, 2009
Total assets:		

Tantalum	$	389,318	$	357,075
Ceramic		166,877		155,558
Film and Electrolytic		187,501		201,518
	$	743,696	$	714,151

(1) Restructuring charges included in Operating income (loss) were as follows:

Table of Contents

	Quarters Ended December 31, 2009	Quarters Ended December 31, 2008	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008
Total restructuring:				
Tantalum	$ 1,128	$ 1,254	$ 1,236	$ 10,965
Ceramic	169	714	220	7,027
Film and Electrolytic	25	2,604	1,133	11,587
	$ 1,322	$ 4,572	$ 2,589	$ 29,579

(2) Impairment charges and write downs included in Operating income (loss) were as follows:

	Quarters Ended December 31, 2009	Quarters Ended December 31, 2008	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008
Impairment charges and write downs:				
Tantalum	$ 656	$	$ 656	$ 25,605
Ceramic				76,346
Film and Electrolytic				137,531
	$ 656	$	$ 656	$ 239,482

(3) Net (gain) loss on sales and disposals of assets included in Operating income (loss) was:

	Quarters Ended December 31, 2009	Quarters Ended December 31, 2008	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008
Net (gain) loss on sales and disposal of assets:				
Tantalum	$ 120	$ 1,336	$ 275	$ (27,098)
Ceramic	80	652	183	780
Film and Electrolytic	40	(934)	40	(918)
	$ 240	$ 1,054	$ 498	$ (27,236)

Note 4. Restructuring Charges

In fiscal year 2010, the Company initiated the first phase of a restructuring plan to reduce costs in Film and Electrolytic and to reduce overhead within the Company as a whole. Restructuring expense in the third fiscal quarter ended December 31, 2009 relates to this new plan and relate to a headcount reduction of 32 employees in Portugal. In addition to the headcount reduction in Portugal, management incurred charges related to the relocation of equipment from Portugal to Mexico. Machinery not used for production in Portugal and not relocated to Mexico will be disposed of and as such the Company recorded an impairment charge of $0.7 million to write down the equipment to scrap value. Overall, the Company incurred charges of $0.4 million related to the relocation of equipment to Mexico from Portugal and various other locations. The restructuring plan includes implementing programs to make the Company more competitive, removing excess capacity, moving production to lower cost locations, and eliminating unnecessary costs throughout the Company. The remaining phases of the plan have not been finalized; accordingly, management cannot estimate the full cost of the restructuring plan.

Restructuring charges of $1.3 million were incurred in the second quarter of fiscal year 2010 which were primarily comprised of a headcount reduction of 57 employees in Finland. The Company expects the Film and Electrolytic restructuring plan to take approximately two years to complete.

Restructuring payments in the nine months ended December 31, 2009 primarily relate to a plan that was initiated in the second quarter of fiscal year 2009 to reduce the workforce in the Film and Electrolytic operations in the United Kingdom and France and to agreements with the labor unions representing employees at the Company s facilities in Italy. Restructuring expenses related to this plan were incurred in fiscal year 2009. The labor unions agreements allowed the Company to place up to 260 workers, on a rotation basis, on the Cassia Integrazione Guadagni Straordinaria (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 a portion of their wages for a certain period of time, for a maximum of 36 months. 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. Total expenses incurred related to this plan were $5.2 million; restructuring charges of $3.2 million remain as a liability on the Condensed Consolidated Balance Sheets at December 31, 2009.

Table of Contents

In addition to these two plans, the Company has initiated several restructuring programs over the past several fiscal years in order to reduce costs, remove excess capacity, and make the Company more competitive on a worldwide basis. Since the goals of each of these restructuring programs fall into one of the rationales listed above, the Company has elected to disclose the quarterly impact of total restructuring rather than by each restructuring program.

A reconciliation of the beginning and ending liability balances for restructuring for the quarter and nine month periods ended December 31, 2009 and 2008 are shown below (amounts in thousands):

	Quarter Ended December 31, 2009		Quarter Ended December 31, 2008	
	Personnel Reductions	Manufacturing Relocations	Personnel Reductions	Manufacturing Relocations
Beginning of period	$ 6,063	$	$ 17,432	$
Costs charged to expense	949	373	3,493	1,079
Costs paid or settled	(2,760)	(373)	(8,137)	(1,079)
Change in foreign exchange	(41)		(84)	
End of period	$ 4,211	$	$ 12,704	$

	Nine Months Ended December 31, 2009		Nine Months Ended December 31, 2008	
	Personnel Reductions	Manufacturing Relocations	Personnel Reductions	Manufacturing Relocations
Beginning of period	$ 7,893	$	$ 1,835	$
Costs charged to expense	2,216	373	24,579	4,999
Costs paid or settled.	(6,356)	(373)	(13,502)	(4,999)
Change in foreign exchange	458		(208)	
End of period	$ 4,211	$	$ 12,704	$

Note 5. Accumulated Other Comprehensive Income (Loss)

Comprehensive income (loss) for the quarter and nine month periods ended December 31, 2009 and 2008 includes the following components (amounts in thousands):

	Quarter Ended December 31,		Nine Months Ended December 31,	
	2009	2008 (As Adjusted)	2009	2008 (As Adjusted)
Net loss	$ (1,779)	$ (13,148)	$ (69,764)	$ (287,591)
Defined benefit postretirement plan adjustments (1)	(103)	(610)	(63)	(1,813)
Currency forward contract gain (1)		(139)		(763)
Currency translation gain (loss) (1)	(1,257)	(8,723)	7,898	(21,263)
Defined benefit pension plans			(722)	
Total other comprehensive loss	$ (3,139)	$ (22,620)	$ (62,651)	$ (311,430)

Warrants may be classified as assets or liabilities (derivative accounting), temporary equity, or permanent equity, de

(1) There was no significant deferred tax effect associated with comprehensive income (loss) movement due primarily to established valuation allowances.

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

	December 31, 2009	March 31, 2009
Foreign currency translation gain	$ 20,113	$ 12,215
Defined benefit postretirement plan adjustments	2,908	2,971
Defined benefit pension plans	(3,245)	(2,523)
Total Accumulated other comprehensive income	$ 19,776	$ 12,663

Table of Contents

Note 6. Intangible Assets

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

	December 31, 2009		March 31, 2009	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Trademarks	$ 7,617	$	$ 7,617	$
Amortized intangibles (2-25 years)	21,287	5,520	21,447	4,970
	$ 28,904	$ 5,520	$ 29,064	$ 4,970

Note 7. Income Taxes

During the third quarter of fiscal year 2010, the net income tax benefit of $0.1 million is comprised of a $0.5 million income tax benefit related to foreign operations and $0.4 million of state income tax expense.

During the nine months ended December 31, 2009, the net income tax expense of $2.6 million is comprised of a $2.0 million income tax expense related to foreign operations and $0.6 million of state income tax expense. The book expense for the warrants is nondeductible for U.S. income tax purposes. The income related to the United States gain from the early extinguishment of debt did not result in any Federal regular current or deferred income tax expense due to the utilization of net operating loss carryforwards which have valuation allowances. Additionally, we recorded valuation allowances to partially offset the income tax benefit related to net operating losses in some of our foreign subsidiaries because it is considered more likely than not that these future benefits will not be realized.

During the third quarter of fiscal year 2009, the net income tax expense of $0.8 million is related primarily to income tax expense from foreign operations.

During the nine months ended December 31, 2008, the net income tax expense of $1.9 million is comprised of a $1.6 million income tax expense related to foreign operations and $0.3 million of federal and state income tax expense. The Company s $174.3 million goodwill impairment charge is nondeductible for income tax purposes.

Note 8. Concentrations of Risks

Sales and Credit Risk

The Company sells to customers globally. Credit evaluations of the Company s customers financial condition are performed periodically, and the Company generally does not require collateral from the Company s customers. One customer, TTI, Inc. accounted for over 10% of the Company s net sales in the nine month periods ended December 31, 2009 and 2008. There were no customers accounts receivable balances exceeding 10% of gross accounts receivable at December 31, 2009 or at March 31, 2009.

Electronics distributors are an important distribution channel in the electronics industry and accounted for 49% of the Company s net sales in the nine month periods ended December 31, 2009 and 2008. As a result of the Company s concentration of sales to electronics distributors, the Company may experience fluctuations in the Company s operating results as electronics distributors experience fluctuations in end-market demand or adjust their inventory stocking levels.

Employee Risks

KEMET has 10,000 employees, of whom 600 are located in the United States, 5,000 are located in Mexico, 2,300 in Asia and 2,100 in Europe. We have 4,200 hourly employees in Mexico who are represented by labor unions as required by Mexican law. In addition, we have 300 employees represented by labor unions in China, 600 employees represented by labor unions in Indonesia, 200 employees represented by labor unions in Finland, 300 employees represented by labor unions in Portugal, 100 employees represented by labor unions in Sweden, 900 employees represented by labor unions in Italy, and 300 employees represented by labor unions in Bulgaria. For the current fiscal year to date, we have not experienced any major work stoppages. Our labor costs in Mexico, China, Indonesia, and various locations in Europe are denominated in the local currencies, and a significant depreciation or appreciation of the United States dollar against the local currencies would increase or decrease our labor costs.

Table of Contents

Note 9. Stock-based Compensation

2010/2011 LTIP

Warrants may be classified as assets or liabilities (derivative accounting), temporary equity, or permanent equity, de

During the second quarter of fiscal year 2010, the Board of Directors of the Company approved a new long-term incentive plan (2010/2011 LTIP) based upon the achievement of an EBITDA target for the two year period comprised of fiscal years ending in March 2010 and 2011. As of December 31, 2009, the Company assessed the likelihood of meeting the EBITDA financial metric and recorded an expense of $0.6 million in the third quarter of the fiscal year, based on this assessment. The Company will continue to monitor the likelihood of whether the EBITDA financial metric will be realized and will adjust compensation expense to match expectations.

2009/2010 LTIP

During the first quarter of fiscal year 2009, the Board of Directors of the Company approved a long-term incentive plan (2009/2010 LTIP) based upon the achievement of an earnings per share target for the two year period comprised of fiscal years ending in March 2009 and 2010. The Company assessed the likelihood of meeting the target financial metric and concluded that as of the third quarter of fiscal year 2010, the target would not be achieved. Accordingly, no compensation expense was recorded during fiscal years 2010 and 2009. The Company will continue to monitor the likelihood of whether the target financial metric will be realized and will adjust compensation expense to match expectations. Any awards issued would vest on the measurement date of May 15, 2010.

Restricted Stock

On April 6, 2009, the Company s Chief Executive Officer was granted 50 thousand restricted shares of the Company s common stock. The shares vested immediately upon grant and had a weighted-average issuance price of $0.29 per share. Compensation expense associated with the grants was $15 thousand and is included in the line item Selling, general and administrative expenses on the Condensed Consolidated Statements of Operations.

Stock Options

At December 31, 2009, the Company had three stock option plans that reserved shares of common stock for issuance to executives and key employees: the 1992 Key Employee Stock Option Plan, the 1995 Executive Stock Option Plan, and the 2004 Long-Term Equity Incentive Plan. All of these plans were approved by the Company s stockholders. Collectively, these plans authorized the grant of up to 12.1 million shares of the Company s common stock. Options issued under these plans usually vest in one or two years and expire ten years from the grant date.

On October 26, 2009 and November 16, 2009, the Company granted a total of 560,750 stock options pursuant to the 1992 Key Employee Stock Option Plan and 1995 Executive Stock Option Plan to certain key members of the management group. These options vest on October 26, 2011 and November 16, 2011, respectively, and expire on October 26, 2019 and November 16, 2019, respectively. The exercise prices of the stock options were not less than 100% of the value of the Company s common shares on the date of grant. The exercise price ranged from $1.32 to $1.49 and the grant date fair value per share ranged from $0.61 to $0.71.

On July 28, 2009, the Company granted 820,000 stock options pursuant to the 1995 Executive Stock Option Plan to the officers which comprise the Leadership Team. These options vest on July 28, 2011 and expire on July 28, 2019. The exercise prices of the stock options were not less than 100% of the value of the Company s common shares on the date of grant. The exercise price and grant date fair value per share were $0.57 and $0.26, respectively.

The Company measured the fair value of these employee stock option grants at the grant dates using the Black-Scholes pricing model with the following assumptions:

	Quarter Ended December 31, 2009	**Quarter Ended September 30, 2009**
Assumptions:		
Expected option lives	3.2 years	3.2 years
Expected volatility	66.3%	62.5%
Risk-free interest rate	3.2%	3.3%
Dividend yield	0%	0%

The compensation expense associated with stock-based compensation was $0.2 million and $0.2 million for the quarters

Table of Contents

ended December 31, 2009 and 2008, respectively and $1.8 million and $1.1 million for the nine month periods ended December 31, 2009 and 2008, respectively. These costs were recorded as Selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

In the Operating activities section of the Condensed Consolidated Statements of Cash Flows, stock-based compensation expense was treated as an adjustment to net loss for the nine month periods ended December 31, 2009 and 2008. No tax benefit was realized from stock options exercised during the nine month periods ended December 31, 2009 and 2008.

Note 10. Reconciliation of Basic and Diluted Income (Loss) Per Common Share

The following table presents a reconciliation of basic EPS to diluted EPS.

Computation of Basic and Diluted Income (Loss) Per Share

(Amounts in thousands, except per share data)

	Quarters Ended December 31,		Nine Months Ended December 31,	
	2009	2008 (As Adjusted)	2009	2008 (As Adjusted)
Numerator:				
Net loss	$ (1,779)	$ (13,148)	$ (69,764)	$ (287,591)
Denominator:				
Weighted-average shares outstanding:				
Basic	80,868	80,606	80,866	80,489
Assumed conversion of Closing Warrants				
Assumed conversion of employee stock options				
Diluted	80,868	80,606	80,866	80,489
Net loss per share:				
Basic and Diluted	$ (0.02)	$ (0.16)	$ (0.86)	$ (3.57)

Common stock equivalents, not included in the computation of diluted earnings per share because the impact would have been antidilutive, were 82.2 million shares and 82.1 million shares for the quarter and nine month periods ended December 31, 2009, respectively, and 0.5 million shares and zero shares for the quarter and nine month periods ended December 31, 2008, respectively.

Note 11. Pension and Other Postretirement Benefit Plans

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

The components of net periodic benefit costs relating to the Company s pension and other postretirement benefit plans are as follows for the quarters ended December 31, 2009 and 2008 (amounts in thousands):

	Pension Quarters Ended December 31, 2009	Pension Quarters Ended December 31, 2008	Other Benefits Quarters Ended December 31, 2009	Other Benefits Quarters Ended December 31, 2008
Net service cost	$ 226	$ 183	$	$ 32
Interest cost	405	407	19	224
Expected return on net assets	(134)	(192)		
Amortization:				
Actuarial (gain) loss	42	(1)	(97)	(12)
Prior service (credit) cost	5	7		(594)
Total net periodic benefit (income) costs	$ 544	$ 404	$ (78)	$ (350)

Table of Contents

The components of net periodic benefit costs relating to the Company s pension and other postretirement benefit plans are as follows for the nine month periods ended December 31, 2009 and 2008 (amounts in thousands):

	Pension Nine Months Ended December 31,		Other Benefits Nine Months Ended December 31,	
	2009	**2008**	**2009**	**2008**
Net service cost	$ 677	$ 550	$	$ 97
Interest cost	1,216	1,221	58	672
Expected return on net assets	(402)	(575)		
Amortization:				
Actuarial (gain) loss	126	(3)	(291)	(35)
Prior service (credit) cost	15	20		(1,782)
Total net periodic benefit (income) costs	$ 1,632	$ 1,213	$ (233)	$ (1,048)

In fiscal year 2010, the Company expects to contribute $2.5 million to the pension plans of which the Company has contributed $2.4 million as of December 31, 2009. The Company expects to make no contributions to fund the Company s other benefits in fiscal year 2010 as the Company s policy is to pay benefits as costs are incurred.

Note 12. Subsequent Events

The Company has evaluated events and material transactions for potential recognition or disclosure occurring between the end of the Company s most recent quarterly period and the time on February 3, 2010 that this Form 10-Q was filed with the SEC.

As previously announced on February 3, 2010, the Company intends to offer $275 million aggregate principal amount of its senior notes due 2018 in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act). The Company intends to use the net cash proceeds from the offering to repay substantially all of its indebtedness outstanding under its existing credit facilities and to fund a tender offer (the 2010 Tender Offer) for a portion of its outstanding Notes and to pay fees and expenses in connection with the offering and the 2010 Tender Offer.

No assurance can be given that the offering will be completed or, if completed, as to the terms on which it is completed. The offering is subject to market conditions and other customary conditions. The notes offered by the Company will not be registered under the Securities Act or any state securities laws, and may not be offered or sold in the United States without registration or an applicable exemption from the registration requirements.

Also, as previously announced on February 3, 2010, the Company has commenced the 2010 Tender Offer for up to $56.1 million principal amount of its Notes. The 2010 Tender Offer will expire at 11:59 p.m., New York City time, on March 3, 2010, unless extended or earlier terminated. The 2010 Tender Offer is subject to customary terms and conditions, including, among other things, a financing condition.

21

Table of Contents

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, the Company s forward-looking statements. Words such as expects, anticipates, believes, estimates and other similar expressions or future or conditional verbs such as will, should, would 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 2009 Annual Report. The statements are representative only as of the date they are made, and the Company undertakes no obligation to update any forward-looking statement.

All forward-looking statements, by their nature, are subject to risks and uncertainties. The Company s actual future results may differ materially from those set forth in the Company s forward-looking statements. The Company faces risks that are inherent in the businesses and the market places in which the Company operates. 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 could cause the Company s actual results to differ materially from those anticipated in the forward-looking statements in this report include the following: (i) generally adverse economic and industry conditions, including a decline in demand for our products; (ii) the ability to maintain sufficient liquidity to realize current operating plans; (iii) the effect of receiving a going concern statement in our auditor s report on our 2009 audited financial statements; (iv) adverse economic conditions could cause further reevaluation of the fair value of our reporting segments and the write down of long-lived assets; (v) the cost and availability of raw materials; (vi) changes in our competitive environment; (vii) economic, political, or regulatory changes in the countries in which we operate; (viii) the ability to successfully integrate the operations of acquired businesses; (ix) the ability to attract, train and retain effective employees and management; (x) the ability to develop innovative products to maintain customer relationships; (xi) the impact of environmental issues, laws, and regulations; (xii) our ability to finance and achieve the expected benefits of our manufacturing relocation plan or other restructuring plans; (xiii) volatility of financial and credit markets which would affect our access to capital; (xiv) increased difficulty or expense in accessing capital because of our delisting of our common stock from the New York Stock Exchange; (xv) exposure to foreign exchange gains and losses; (xvi) need to reduce costs to offset downward price trends; (xvii) potential limitation on use of net operating losses to offset possible future taxable income; (xviii) dilution as a result of a warrant held by K Equity, LLC (K Equity); and (xix) exercise of the warrant by K Equity may result in the existence of a controlling stockholder.

Additional risks and uncertainties not presently known to the Company or that the Company currently deem immaterial also may impair the Company s business operations and also 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. The Company s significant accounting policies are described in Note 1 to the consolidated financial statements in the Company s 2009 Annual Report. The Company s critical accounting policies are described under the caption Critical Accounting Policies in Item 7 of the Company s 2009 Annual Report.

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

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

Overview

KEMET is a leading manufacturer of the majority of capacitor types, including tantalum, multilayer ceramic, solid aluminum, plastic film, paper and electrolytic capacitors. Capacitors are electronic components that store, filter and regulate electrical

Table of Contents

energy and current flow and are one of the essential passive components used in circuit boards. Virtually all electronic applications and products contain capacitors, including communication systems, data processing equipment, personal computers, cellular phones, automotive electronic systems, military and aerospace systems, and consumer electronics.

KEMET s business strategy is to generate revenues by being the preferred capacitor supplier to the world s most successful electronics original equipment manufacturers, electronics manufacturing service providers, and electronics distributors. We reach our customers through a direct sales force, as well as a limited number of manufacturing representatives, that call on customer locations around the world.

KEMET manufactures capacitors in Bulgaria, China, Finland, Germany, Indonesia, Italy, Mexico, Portugal, Sweden, the United Kingdom, and the United States. Substantially all of the manufacturing previously located in the United States has been relocated to our lower-cost manufacturing facilities in Mexico and China. Production that remains in the U.S. focuses primarily on early-stage manufacturing of new products and other specialty products for which customers are predominantly located in North America.

The market for all of our capacitors is highly competitive. The capacitor industry is characterized by, among other factors, a long-term trend toward lower prices for capacitors, low transportation costs, and fewer import barriers. Competitive factors that influence the market for our products include: product quality, customer service, technical innovation, pricing and timely delivery. It is our belief that we compete favorably on the basis of each of these factors.

KEMET is organized into three distinct business groups: Tantalum, Ceramic, and Film and Electrolytic. Each business group is responsible for the operations of certain manufacturing sites as well as all related research and development efforts. The sales and marketing functions are shared by each of the business groups and are allocated to the business groups. In addition, all corporate costs are allocated to the business groups. See Note 3, Segment and Geographic Information to our condensed consolidated financial statements.

We believe our operations in Mexico are among the most cost efficient in the world, and they continue to be our primary production facilities supporting North America and, to a large extent, European customers. We also believe that our manufacturing facilities in China enjoy low production costs and proximity to large and growing markets, which have caused some of our key customers to relocate production facilities to Asia, particularly China. As a result, one of our strategies is to continue to shift production to low-cost locations which provide us the best opportunity to be a low-cost producer of capacitors.

The global economic downturn had an adverse impact on our results of operations and liquidity in the last several quarters of fiscal year 2009. Throughout fiscal year 2009, we took aggressive steps to offset the adverse impact of the economic downturn on our operations. These steps included cost reduction programs, working capital initiatives and selling non-core assets. During the first nine months of fiscal year 2010, we continued to improve our liquidity situation by executing a credit facility with K Financing, an affiliate of Platinum Equity Capital Partners II, L.P. (the Platinum Credit Facility), consummating a tender offer for 53.7% of our 2.25% Convertible Senior Notes (the Notes), and amending our credit facilities with UniCredit Corporate Banking S.p.A. (UniCredit).

Platinum Credit Facility, Tender Offer and UniCredit Amendments

On May 5, 2009, we executed the Platinum Credit Facility which consists of a term loan of $37.8 million (Platinum Term Loan), line of credit loan (Platinum Line of Credit Loan) that may be borrowed from time to time (but not reborrowed after being repaid) of up to $12.5 million, and a working capital loan (Platinum Working Capital Loan) of up to $12.5 million. Subject to the amount available to be borrowed, which is based on our book-to-bill ratio and certain terms and conditions, we may borrow, pay or repay and reborrow amounts under the Platinum Working Capital Loan. The Platinum Term Loan could only be used to purchase Notes validly tendered pursuant to the tender offer (described below). Additionally, funds from the Platinum Line of Credit Loan and Platinum Working Capital Loan under the Platinum Credit Facility are available to us, for limited purposes, subject to the satisfaction or waiver of certain conditions.

On June 30, 2009, we consummated a tender offer for $93.9 million in aggregate principal amount of the Notes. As a result of the retrospective adoption effective April 1, 2009 of new guidance within ASC 470-20, Debt With Conversion and Other Options, the carrying value of the aggregate principal value of the tendered Notes was $81.0 million. Holders of the Notes who validly tendered their Notes received $400 for each $1,000 principal amount of Notes purchased in the tender offer, plus accrued and unpaid interest to, but not including, the date of payment for the Notes accepted for payment. As a result of the consummated tender offer, on June 30, 2009, we used $37.8 million of the Platinum Term Loan under the Revised Amended and Restated Platinum Credit Facility with K Financing as amended on September 30, 2009 (the Revised Amended and Restated Platinum Credit Facility) to extinguish the tendered Notes. We incurred $3.6 million in fees and expense reimbursements related to the execution of the tender offer, $4.2 million related to the execution of the Platinum Credit Facility, and $1.4 million related to the amendments to the UniCredit facilities. We drew $10.0 million from the Platinum Line of Credit Loan on June 30, 2009. Proceeds were used to pay the fees related to the tender offer, the fees related to the execution of the Platinum Credit Facility, and certain

Table of Contents

restructuring related expenses. In addition, we will pay K Financing a success fee of $5.0 million, payable at the time of repayment in full of the Platinum Term Loan, whether at maturity or otherwise. This success fee has been included in Other non-current obligations on our Condensed Consolidated Balance Sheets as of December 31, 2009. On September 29, 2009, we borrowed $10.0 million on the Platinum Working Capital Loan for general corporate purposes. We currently have $2.5 million remaining availability under the Platinum Working Capital Loan based on our book-to-bill ratio calculated on December 31, 2009. The amount available to be borrowed under the Platinum Working Capital Loan is based upon the Company s book-to-bill ratio in effect at the time of the borrowing. In the event the Company s book-to-bill ratio subsequently falls below the minimum level required for the amount of the then outstanding borrowing under the Platinum Working Capital Loan, the amount borrowed in excess of the amount available to be borrowed is subject to repayment. The extinguishment of these Notes resulted in a net gain of $38.9 million included in the line item (Gain) loss on early extinguishment of debt on the Condensed Consolidated Statements of Operations for the nine month period ended December 31, 2009.

The Platinum Term Loan accrues interest at an annual rate of 9% for cash payment until June 30, 2010. At our option, after June 30, 2010, the Platinum Term Loan will accrue interest at an annual rate of 9% for cash payment, or cash and payment in-kind (PIK) interest at the rate of 12% per annum, with the cash portion being 5% and the PIK portion being 7%. The Platinum Working Capital Loan and the Platinum Line of Credit Loan will accrue interest at a rate equal to the greater of (i) LIBOR plus 7%, or (ii) 10%, payable monthly in arrears. In the event more than $8.8 million in aggregate principal amount of the Notes remain outstanding as of March 1, 2011, then the maturity date of the Platinum Term Loan, the Platinum Line of Credit Loan, and the Platinum Working Capital Loan will be accelerated to March 1, 2011. If the aggregate principal amount of the Notes outstanding at March 1, 2011 is less than or equal to $8.8 million, the maturity date of the Platinum Term Loan will be November 15, 2012 and the maturity date for the Platinum Line of Credit Loan and the Platinum Working Capital Loan will be July 15, 2011.

The Revised Amended and Restated Platinum Credit Facility contains certain financial maintenance covenants, including requirements that we maintain a minimum consolidated EBITDA, as defined in the agreement, and a minimum fixed charge coverage ratio. In addition to the financial covenants, the Revised Amended and Restated Platinum Credit Facility also contains limitations on capital expenditures, the incurrence of indebtedness, the granting of liens, the sale of assets, sale and leaseback transactions, fundamental corporate changes, entering into investments, the payment of dividends, voluntary or optional payment and prepayment of indebtedness (including the Notes) and other limitations customary to secured credit facilities. On September 30, 2009, we entered into Amendment No. 2 to the Revised Amended and Restated Platinum Credit Facility (the Amendment). Under the terms of the Amendment, the definition of Test Period under the Revised Amended and Restated Credit Facility was amended to eliminate the inclusion of our fiscal quarter ended June 30, 2009 in the calculation of the Consolidated Fixed Charge Coverage Ratio financial covenant. As of December 31, 2009, we were in compliance with all of the financial covenants required by the Revised Amended and Restated Platinum Credit Facility and the medium-term credit facility in the original principal amount of EUR 60 million ($86.4 million) (Facility A) with UniCredit. Based on our operating plans, we currently forecast that we will be in compliance with the financial covenants required by the Revised Amended and Restated Platinum Credit Facility and Facility A at March 31, 2010. Our forecast continues to anticipate a steady recovery over the next several quarters, of the principal markets and industries into which our products are sold. Our expectations in this regard are based on various information sources including industry surveys and input from various key customers. Notwithstanding our performance during the nine month period ended December 31, 2009, there can be no assurance that we will achieve our forecasted operating profit, generate adequate liquidity, or meet the financial covenants required by the Revised Amended and Restated Platinum Credit Facility and the UniCredit facilities for the balance of the fiscal year.

In April 2009, we also entered into amendments to our existing credit agreements with UniCredit which, among other things, modified the financial covenants under Facility A (our EUR 35 million credit facility with UniCredit (Facility B) does not contain any covenants, however it contains cross acceleration provisions linked to Facility A) and modified the amortization schedules under Facility A and Facility B. These amendments to the UniCredit facilities became effective June 30, 2009 upon the consummation of the tender offer. Effective as of September 30, 2009, we entered into another amendment to Facility A. Under the terms of the amendment, the amortization schedule of Facility A was modified, including the addition of an October 1, 2009 principal installment; the definition of Test Period was amended to eliminate the inclusion of our fiscal quarter ended June 30, 2009 in the calculation of the Consolidated Fixed Charge Coverage Ratio financial covenant. Additionally, under the amendment, we are prohibited from amending or entering into certain third-party loan agreements without, respectively, securing the prior written consent of, or providing prior written notice to, UniCredit. In connection with the amendment, we simultaneously executed a fee letter in which we agreed to pay to UniCredit an amendment fee and reimburse it for certain legal expenses incurred in relation to the amendment. These fees were $1.5 million and will be amortized as an adjustment of interest expense over the remaining term of Facility A.

As of December 31, 2009, we were in compliance with all of the financial covenants required by Facility A.

Our obligations to K Financing arising under the Revised Amended and Restated Platinum Credit Facility are secured by substantially all of our assets located in the United States, Mexico, Indonesia and China (other than accounts receivable owing by account debtors located in the United States, Singapore and Hong Kong, which exclusively secure obligations to a subsidiary of Vishay Intertechnology, Inc.). As further described in the Offer to Purchase, in connection with entering into the Revised Amended and Restated Platinum Credit Facility, K Financing and UniCredit entered into a letter of understanding with respect to their respective guarantor and collateral pools and our assets in Europe that are not pledged to either lender. The letter of understanding also sets forth each lender s agreement not to interfere with the other s exercise of remedies pertaining to their respective collateral pools.

Table of Contents

Concurrent with the consummation of the tender offer, we issued K Financing a warrant (the Closing Warrant) to purchase up to 80,544,685 shares of our common stock, subject to certain adjustments, representing at the time of issuance 49.9% of our outstanding common stock on a post-Closing Warrant basis. The Closing Warrant was subsequently transferred to K Equity. The Closing Warrant was exercisable at a purchase price of $0.50 per share, subject to an adjustment which reduces the exercise price to a floor of $0.35 per share based on a sliding scale once the aggregate borrowings under the Platinum Line of Credit Loan and the Platinum Working Capital Loan exceed $12.5 million, at any time prior to the tenth anniversary of the Closing Warrant s date of issuance.The floor exercise price was reached on September 29, 2009 since the aggregate borrowings under the Platinum Line of Credit Loan and the Platinum Working Capital Loan reached $20.0 million. The Closing Warrant may be exercised in exchange for cash, by means of net settlement of a corresponding portion of amounts owed by us under the Revised Amended and Restated Platinum Credit Facility, by cashless exercise to the extent of appreciation in the value of our common stock above the exercise price of the Closing Warrant, or by combination of the preceding alternatives. Our evaluation of the Closing Warrant as of the date of issuance concluded that they were not indexed to our stock since the strike price was not fixed and as such were treated as a freestanding derivative liability. On September 29, 2009, the strike price of the Closing Warrant became fixed at $0.35 per share due to the aggregate borrowings reaching $20.0 million and we assessed whether the Closing Warrant still met the definition of a derivative. Our evaluation of the Closing Warrants as of September 29, 2009 concluded that the Closing Warrant is indexed to our stock and should be classified as a component of equity. We valued the Closing Warrant immediately prior to the strike price becoming fixed and recorded a mark-to-market adjustment of $81.1 million through earnings. Subsequent to the strike price becoming fixed, we reclassified the warrant liability of $112.5 million into the line item Additional paid-in capital on the Condensed Consolidated Balance Sheets and the Closing Warrant will no longer be marked-to-market on a quarterly basis. We believe it is more likely than not that the issuance of the Closing Warrant will not be deemed an ownership change for purposes of Section 382 of the Internal Revenue Code (the Code) although the matter is not free from doubt. In addition, the exercise part or all of the Closing Warrant may give rise to an ownership change for purposes of Section 382 of the Code. If such an ownership change is deemed to occur, the amount of our taxable income that can be offset by our net operating loss carryovers in taxable years after the ownership change will be limited.

We entered into an Investor Rights Agreement (the Investor Rights Agreement) with K Financing, which subsequently transferred its rights thereunder to K Equity. Pursuant to the terms of the Investor Rights Agreement, we have, subject to certain terms and conditions, granted Board observation rights to K Financing which would permit K Financing to designate up to three individuals to observe Board meetings and receive information provided to the Board. In addition, the Investor Rights Agreement provides K Financing with certain preemptive rights. Subject to the terms and limitations described in the Investor Rights Agreement, in connection with any proposed issuance of equity securities or securities convertible into equity, we would be required to offer to sell to K Financing a pro rata portion of such securities equal to the percentage determined by dividing the number of shares of common stock held by K Financing plus the number of shares of common stock issuable upon exercise of the Closing Warrant, by the total number of shares of common stock then outstanding on a fully diluted basis. The Investor Rights Agreement also provides K Financing with certain registration and information rights.

We also entered into a Corporate Advisory Services Agreement with Platinum Equity Advisors, LLC (Platinum Advisors) for a term of the later of (i) June 30, 2013 and (ii) termination of the Platinum Credit Facility, pursuant to which we will pay an annual fee of $1.5 million to Platinum Advisors for certain advisory services. In addition, the Platinum Credit Facility includes various fees totaling $0.7 million per year for administration and collateral management and we incur a fee of 1% per annum for unused capacity under the Platinum Line of Credit Loan and the Platinum Working Capital Loan.

Our 2009 annual report included disclosure and an audit opinion that expressed substantial doubt about our ability to continue as a going concern. However, the condensed consolidated financial statements were prepared assuming that we will continue as a going concern. Specifically, the condensed consolidated financial statements did not include any adjustments relating to the recoverability or classification of recorded assets, or the amounts or classification of liabilities that might be necessary in the event we are unable to continue as a going concern.

As of December 31, 2009, we were in compliance with our financial covenants under the Revised Amended and Restated Platinum Credit Facility and Facility A. Based on our performance for nine month period ended December 31, 2009 and future operating plans, we currently forecast that we will be in compliance the financial covenants required by the Revised Amended and Restated Platinum Credit Facility and Facility A at March 31, 2010. Our net sales for the first quarter of fiscal year 2010 improved by 10.4% compared to the fourth quarter of fiscal year 2009, and our net sales for the second quarter of fiscal year 2010,improved by 15.4% compared to the first quarter of fiscal year 2010. Similarly, our net sales improved by 15.3% compared to the second quarter of fiscal year 2010. In addition, our current financial model for fiscal year 2011 indicates that we be in compliance with the financial covenants required by the Revised Amended and Restated Platinum Credit Facility and Facility A at each of the measurement dates during fiscal year 2011. We continue to anticipate a steady recovery, over the next several quarters, of the principal markets and industries into which our products are sold. Our expectations in this regard are based on various information sources including industry surveys and input from various key customers. Notwithstanding our performance during the nine month period ended December 31, 2009, there can be no assurance that we will achieve our forecasted operating profit, generate adequate liquidity, or meet the financial covenants required by the Revised Amended and Restated Platinum Credit Facility and the UniCredit facilities for the balance of the fiscal year.

Table of Contents

We believe that the consummation of the tender offer and execution of the Revised Amended and Restated Platinum Credit Facility and amendments to the UniCredit facilities have improved our liquidity situation. Given our cost reduction and working capital initiatives, funds from the Platinum Working Capital Loan, and the UniCredit Amendments, we estimate that our current operating plans will provide for sufficient cash to cover our liquidity requirements. Furthermore, the generation of adequate liquidity will largely depend upon our ability to execute our current operating plans and to manage costs. In light of the improvement we experienced in sales volume in the nine month period ended December 31, 2009, the improvement we experienced in our operating results as we began to fully benefit from our cost reduction initiatives, and the continued control we exhibit over our working capital levels, we believe we will be successful in generating adequate liquidity.

The Company intends to offer $275 million aggregate principal amount of its senior notes due 2018 in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act). The Company intends to use the net cash proceeds from the offering to repay substantially all of its indebtedness outstanding under its existing credit facilities and to fund a tender offer (the 2010 Tender Offer) for a portion of its outstanding Notes and to pay fees and expenses in connection with the offering and the 2010 Tender Offer.

No assurance can be given that the offering will be completed or, if completed, as to the terms on which it is completed. The offering is subject to market conditions and other customary conditions. The notes offered by the Company will not be registered under the Securities Act or any state securities laws, and may not be offered or sold in the United States without registration or an applicable exemption from the registration requirements.

Also, as previously announced on February 3, 2010, the Company has commenced the 2010 Tender Offer for up to $56.1 million principal amount of its Notes. The 2010 Tender Offer will expire at 11:59 p.m., New York City time, on March 3, 2010, unless extended or earlier terminated. The 2010 Tender Offer is subject to customary terms and conditions, including, among other things, a financing condition.

CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

Comparison of the Third Quarter of Fiscal Year 2010 with the Third Quarter of Fiscal Year 2009

The following table sets forth the operating income (loss) and certain components thereof for each of our business segments for the quarters ended December 31, 2009 and 2008, as well as the relative percentages that these amounts represent to total net sales. The table also sets forth certain other consolidated income statement data, as well as the relative percentages that these amounts represent to total net sales (amounts in thousands except percentages):

Table of Contents

	Quarters Ended			
	December 31, 2009		December 31, 2008 (As Adjusted)	
	Amount	% to Total Net Sales	Amount	% to Total Net Sales
Net sales				
Tantalum	$ 93,833	46.9%	$ 91,685	48.1%
Ceramic	45,837	22.9%	39,646	20.8%
Film and Electrolytic	60,253	30.1%	59,348	31.1%
Total	$ 199,923	100.0%	$ 190,679	100.0%
Gross margin				
Tantalum	$ 23,701	11.9%	$ 18,359	9.6%
Ceramic	14,349	7.2%	6,289	3.3%
Film and Electrolytic	(1,756)	-0.9%	(476)	-0.2%
Total	36,294	18.2%	24,172	12.7%
SG&A expenses				
Tantalum	9,397	4.7%	8,480	4.4%
Ceramic	4,929	2.5%	4,961	2.6%
Film and Electrolytic	7,877	3.9%	7,128	3.7%
Total	22,203	11.1%	20,569	10.8%
R&D expenses				
Tantalum	2,802	1.4%	3,100	1.6%
Ceramic	1,587	0.8%	1,421	0.7%
Film and Electrolytic	1,248	0.6%	1,647	

