KEMET CORP
Form 10-Q
October 31, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-15491

KEMET CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ý 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 ý 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.

Large accelerated filer o	Accelerated filer x

Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o YES ý NO

The number of shares outstanding of the registrant’s common stock, par value $0.01 per share, as of October 29, 2014 was 45,404,915.

Table of Contents

KEMET CORPORATION AND SUBSIDIARIES
Form 10-Q for the Quarter ended September 30, 2014

INDEX

Exhibit 32.2
Exhibit 101

Table of Contents

PART I - FINANCIAL INFORMATION
Item 1 - Financial Statements

3

Table of Contents

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

	September 30, 2014	March 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$51,576	$57,929
Accounts receivable, net	95,581	98,947
Inventories, net	188,833	187,974
Prepaid expenses and other	40,229	36,871
Deferred income taxes	6,569	6,695
Current assets of discontinued operations	—	12,160
Total current assets	382,788	400,576
Property, plant and equipment, net of accumulated depreciation of $811,576 and $805,687 as of September 30, 2014 and March 31, 2014, respectively	275,498	292,648
Goodwill	35,584	35,584
Intangible assets, net	35,377	37,184
Investment in NEC TOKIN	48,449	46,419
Restricted cash	12,955	13,512
Deferred income taxes	6,423	6,778
Other assets	20,153	10,130
Non-current assets of discontinued operations	—	836
Total assets	$817,227	$843,667
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$25,826	$7,297
Accounts payable	72,629	74,818
Accrued expenses	66,400	76,468
Income taxes payable and deferred income taxes	345	980
Current liabilities of discontinued operations	—	7,269
Total current liabilities	165,200	166,832
Long-term debt, less current portion	376,256	391,292
Other non-current obligations	52,246	55,864
Deferred income taxes	8,687	5,203
Non-current liabilities of discontinued operations	—	2,592
Stockholders' equity:		
Preferred stock, par value $0.01, authorized 10,000 shares, none issued	—	—
Common stock, par value $0.01, authorized 175,000 shares, issued 46,508 shares at September 30, 2014 and March 31, 2014	465	465
Additional paid-in capital	461,478	465,027
Retained deficit	(228,948)	(231,738)
Accumulated other comprehensive income	6,935	18,184
Treasury stock, at cost (1,103 and 1,301 shares at September 30, 2014 and March 31, 2014, respectively)	(25,092)	(30,054)
Total stockholders' equity	214,838	221,884
Total liabilities and stockholders' equity	$817,227	$843,667

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 September 30,		Six Month Periods Ended September 30,	
	2014	2013	2014	2013
Net sales	$215,293	$208,449	$428,174	$410,506
Operating costs and expenses:				
Cost of sales	169,538	177,532	349,462	361,045
Selling, general and administrative expenses	25,510	22,315	50,289	48,395
Research and development	6,338	5,611	12,927	11,677
Restructuring charges	1,687	1,364	3,517	5,974
Net (gain) loss on sales and disposals of assets	(550)	42	(185)	42
Total operating costs and expenses	202,523	206,864	416,010	427,133
Operating income (loss)	12,770	1,585	12,164	(16,627)
Non-operating (income) expense:				
Interest income	(3)	(11)	(6)	(175)
Interest expense	10,287	9,908	20,743	19,942
Other (income) expense, net	(7,595)	946	(11,128)	1,301
Income (loss) from continuing operations before income taxes and equity income (loss) from NEC TOKIN	10,081	(9,258)	2,555	(37,695)
Income tax expense	2,583	1,444	3,865	3,260
Income (loss) from continuing operations before equity income (loss) from NEC TOKIN	7,498	(10,702)	(1,310)	(40,955)
Equity income (loss) from NEC TOKIN	232	(1,243)	(1,443)	(4,620)
Income (loss) from continuing operations	7,730	(11,945)	(2,753)	(45,575)
Income (loss) from discontinued operations, net of income tax expense (benefit) of $1,017, $(124), $1,935 and $(360), respectively	(1,400)	(1,151)	5,543	(2,661)
Net income (loss)	$6,330	$(13,096)	$2,790	$(48,236)
Net income (loss) per basic share:				
Net income (loss) from continuing operations	$0.17	$(0.26)	$(0.06)	$(1.01)
Net income (loss) from discontinued operations	$(0.03)	$(0.03)	$0.12	$(0.06)
Net income (loss)	$0.14	$(0.29)	$0.06	$(1.07)
Net income (loss) per diluted share:				
Net income (loss) from continuing operations	$0.15	$(0.26)	$(0.05)	$(1.01)
Net income (loss) from discontinued operations	$(0.03)	$(0.03)	$0.11	$(0.06)

Net income (loss)	$0.12	$(0.29)	$0.06	$(1.07)
Weighted-average shares outstanding:				
Basic	45,400	45,092	45,337	45,057
Diluted	52,521	45,092	52,562	45,057

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Quarters Ended September 30,		Six Month Periods Ended September 30,	
	2014	2013	2014	2013
Net income (loss)	$6,330	$(13,096)	$2,790	$(48,236)
Other comprehensive income (loss):				
Foreign currency translation gains (losses)	(13,659)	6,359	(14,759)	8,631
Defined benefit pension plans, net of tax impact	81	121	141	296
Post-retirement plan adjustments	(52)	(61)	(104)	(131)
Equity interest in NEC TOKIN's other comprehensive income (loss)	2,982	(524)	3,473	(1,175)
Other comprehensive income (loss)	(10,648)	5,895	(11,249)	7,621
Total comprehensive income (loss)	$(4,318)	$(7,201)	$(8,459)	$(40,615)

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)

	Six Month Periods Ended September 30,	
	2014	2013
Net income (loss)	$2,790	$(48,236)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Gain on sale of discontinued operations	(5,809)	—
Net cash provided by (used in) operating activities of discontinued operations	(1,357)	933
Depreciation and amortization	20,974	25,590
Equity (income) loss from NEC TOKIN	1,443	4,620
Amortization of debt and financing costs	1,332	1,959
Stock-based compensation expense	1,952	1,628
Long-term receivable write down	59	1,444
Change in value of NEC TOKIN options	(10,700)	382
Net (gain) loss on sales and disposals of assets	(185)	42
Pension and other post-retirement benefits	37	27
Change in deferred income taxes	2,142	(957)
Change in operating assets	(4,268)	(8,261)
Change in operating liabilities	(6,341)	(10,932)
Other	(475)	155
Net cash provided by (used in) operating activities	1,594	(31,606)
Investing activities:		
Capital expenditures	(11,975)	(18,337)
Proceeds from sale of assets	2,451	—
Change in restricted cash	558	2,874
Proceeds from sale of discontinued operations	10,125	—
Net cash provided by (used in) investing activities	1,159	(15,463)
Financing activities:		
Proceeds from revolving line of credit	14,300	21,000
Payments of revolving line of credit	(7,500)	—
Deferred acquisition payments	(11,597)	(11,452)
Payments of long-term debt	(3,135)	(1,422)
Proceeds from exercise of stock options	25	57
Net cash provided by (used in) financing activities	(7,907)	8,183
Net increase (decrease) in cash and cash equivalents	(5,154)	(38,886)
Effect of foreign currency fluctuations on cash	(1,199)	608
Cash and cash equivalents at beginning of fiscal period	57,929	95,978
Cash and cash equivalents at end of fiscal period	$51,576	$57,700

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Basis of Financial Statement Presentation

The condensed consolidated financial statements contained herein are unaudited and have been prepared from the books and records of KEMET Corporation and its subsidiaries (“KEMET” or the “Company”). In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q, and therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”). Although the Company believes the disclosures are adequate to make the information presented not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the audited financial statements and notes thereto included in the Company’s Form 10-K for the fiscal year ended March 31, 2014 (the “Company’s 2014 Annual Report”).

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. In consolidation, all significant intercompany amounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to current year presentation. Net sales and operating results for the quarter and six month periods ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year.

The Company’s significant accounting policies are presented in the Company’s 2014 Annual Report.

Use of Estimates and Assumptions

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

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

Recently Issued Accounting Pronouncements

New accounting standards adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, which supersedes existing accounting standards for revenue recognition and creates a single framework. The new guidance is effective for the Company's fiscal year that begins on April 1, 2017 and interim periods within that fiscal year and requires either a retrospective or a modified retrospective approach to adoption. The Company is currently evaluating the potential impact on its Consolidated Financial Statements and related disclosures, as well as the available transition methods. Early adoption is prohibited.

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

Restricted Cash

As discussed in Note 3, Debt, the Company received a $24.0 million prepayment from an original equipment manufacturer (“OEM”) and, through September 30, 2014, utilized $13.1 million for the purchase of manufacturing equipment. The remaining proceeds of $10.9 million are classified as restricted cash at September 30, 2014.

A bank guarantee in the amount of €1.5 million ($1.9 million) was issued by a European bank on behalf of the Company in August 2006 in conjunction with the establishment of a Value-Added Tax (“VAT”) registration in The Netherlands.

Table of Contents

Accordingly, a deposit was placed with the European bank for €1.7 million ($2.1 million). While the deposit is in KEMET's name, and KEMET receives all interest earned by this deposit, the deposit is pledged to the European bank, and the bank can use the funds if a valid claim against the bank guarantee is made. The bank guarantee will remain valid until it is discharged by the beneficiary.

Fair Value Measurement

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

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

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

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2014 and March 31, 2014 are as follows (amounts in thousands):

	Carrying Value September 30, 2014	Fair Value September 30, 2014	Fair Value Measurement Using			Carrying Value March 31, 2014	Fair Value March 31, 2014	Fair Value Measurement Using		
			Level 1	Level 2 (2)	Level 3			Level 1	Level 2 (2)	Level 3
Assets:										
Money markets (1)	$ 739	$ 739	$ 739	$ —	$ —	$ 714	$ 714	$ 714	$ —	$ —
Total debt	402,082	414,406	372,750	41,656	—	398,589	409,284	371,863	37,421	—
NEC TOKIN options, net (3)	14,300	14,300	—	—	14,300	3,600	3,600	—	—	3,600

(1) Included in the line item "Cash and cash equivalents" on the Condensed Consolidated Balance Sheets.
(2) The valuation approach used to calculate fair value was a discounted cash flow based on the borrowing rate for each respective debt facility.
(3) See Note 6, Investment in NEC TOKIN, for a description of the NEC TOKIN options. The value of the options is interrelated and depends on the enterprise value of NEC TOKIN Corporation and its forecasted EBITDA over the duration of the instruments. The options have been valued using option pricing methods in a Monte Carlo simulation.

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

March 31, 2014	$3,600
Change in value of NEC TOKIN options	10,700
September 30, 2014	$14,300

9

Table of Contents

Inventories

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

	September 30, 2014	March 31, 2014
Raw materials and supplies	$89,416	$90,968
Work in process	58,363	61,310
Finished goods	62,358	62,522
	210,137	214,800
Inventory reserves (1)	(21,304)	(26,826)
	$188,833	$187,974

(1) During the quarter ended June 30, 2013, the Company recorded a $3.9 million reserve for inventory held by a third party. In the quarter ended June 30, 2014, this $3.9 million of inventory and the related reserve was written off.

Warrant

As of September 30, 2014 and March 31, 2014, 8.4 million shares were subject to the warrant held by K Equity, LLC.

Revenue Recognition

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

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

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

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

Most of the Company's distributors have the right to return to KEMET a certain portion of the purchased inventory, which, in general, does not exceed 6% of their purchases from the previous fiscal quarter. KEMET estimates future returns based on historical return patterns and records a corresponding allowance on the Condensed Consolidated Balance Sheets. The Company also offers volume based rebates on a case -by-case basis to certain customers in each of the Company's sales' channels.

The establishment of sales allowances is recognized as a component of the line item "Net sales" on the Condensed Consolidated Statements of Operations, while the associated reserves are included in the line item "Accounts receivable, net" on the Condensed Consolidated Balance Sheets. Estimates used in determining sales allowances are subject to various factors. This includes, but is not limited to, changes in economic conditions, pricing changes, product demand, inventory levels in the supply chain, the effects of technological change, and other variables that might result in changes to the Company's estimates.

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

Table of Contents

approximately 1.0% for the quarters and six month periods ended September 30, 2014 and 2013. The Company recognizes warranty costs when they are both probable and reasonably estimable.

Note 2. Discontinued Operations

The Film and Electrolytic business group completed the sale of its machinery division in April, 2014, which, subject to closing adjustments, resulted in a gain of $5.8 million on the sale of the business (after income tax expense) offset by a loss from machinery operations of $0.3 million during the six month period ended September 30, 2014 resulting in net income from discontinued operations of $5.5 million.

Net sales and operating income (loss) from the Company's discontinued operation for the quarters and six month periods ended September 30, 2014 and 2013 were (amounts in thousands):

	Quarters Ended September 30,		Six Month Periods Ended September 30,	
	2014	2013	2014	2013
Net sales	$—	$4,291	$104	$4,957
Operating income (loss)	165	(1,275)	(266)	(3,021)

Note 3. Debt

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

	September 30, 2014	March 31, 2014
10.5% Senior Notes, net of premium of $2,807 and $3,144 as of September 30, 2014 and March 31, 2014, respectively	$357,807	$358,144
Advanced payment from OEM, net of discount of $111 and $323 as of September 30, 2014 and March 31, 2014, respectively	18,486	20,095
Revolving line of credit	25,249	18,449
Other	540	1,901
Total debt	402,082	398,589
Current maturities	(25,826)	(7,297)
Total long-term debt	$376,256	$391,292

The line item "Interest expense" on the Condensed Consolidated Statements of Operations for the quarters and six month periods ended September 30, 2014 and 2013, consists of the following (amounts in thousands):

	Quarters Ended September 30,		Six Month Periods Ended September 30,	
	2014	2013	2014	2013
Contractual interest expense	$9,659	$8,963	$19,411	$17,983
Amortization of debt issuance costs	426	426	852	852
Amortization of debt (premium) discount	(78)	42	(126)	104
Imputed interest on acquisition related obligations	235	477	522	1,003
Interest expense on capital lease	45	—	84	—
Total interest expense	$10,287	$9,908	$20,743	$19,942

Revolving Line of Credit

KEMET Electronics Corporation ("KEC") and KEMET Electronics Marketing (S) Pte Ltd. ("KEMET Singapore") (each a "Borrower" and, collectively, the "Borrowers") entered into a Loan and Security Agreement (the "Loan and Security Agreement") which provides a $50.0 million revolving line of credit. A portion of the U.S. and Singapore facilities can be used to issue letters of credit ("Letters of Credit"). Pursuant to an amendment to the Loan and Security Agreement entered into on April 30, 2014, the facilities expire on December 31, 2015.

Table of Contents

As of September 30, 2014 the Company had outstanding borrowings of $25.2 million under the revolving line of credit, of which $13.2 million was borrowed under the U.S. facility at a rate of 5.25% (Base Rate, as defined in the Loan and Security Agreement, plus 2.25%) with no specific repayment date (Base Rate borrowing can be repaid at any time prior to the expiration of the facility), and $12.0 million borrowed under the Singapore facility at a rate of 3.50% (London Interbank Offer Rate ("LIBOR") plus 3.25% based upon the fixed charge coverage ratio of KEMET Corporation and its subsidiaries on a consolidated basis). The term of this borrowing was originally 31 days with total interest and principal payable at maturity, on October 28, 2013, however, it has been extended periodically and is currently due on November 23, 2014. For the six month period ended September 30, 2014, the Company borrowed an additional $14.3 million, of which $7.5 million was repaid during the period. These were the only borrowings under the revolving line of credit, and as of September 30, 2014, the Company's available borrowing capacity under the Loan and Security Agreement was $0.3 million (after the $16.0 million used for letters of credit as described below).

As described below in the section titled "Advanced Payment from OEM", a standby letter of credit for $16.0 million was delivered to the OEM on October 8, 2012. In fiscal year 2014, the Company issued two letters of credit for €1.1 million ($1.4 million) and €0.7 million ($0.9 million) related to the construction of the new manufacturing location in Italy which were canceled during February 2014 and April 2014, respectively. Outstanding letters of credit reduce the Company's availability under the Loan and Security Agreement.

Advanced Payment from OEM

On August 28, 2012, the Company entered into and amended an agreement (the "Agreement") with an OEM, pursuant to which the OEM agreed to advance the Company $24.0 million (the "Advance Payment"). As of September 30, 2014 and March 31, 2014, the Company had $18.6 million and $20.4 million, respectively, outstanding under this agreement. On a monthly basis starting in June 2013, the Company began repaying the OEM an amount equal to a percentage of the aggregate purchase price of the capacitors sold to the OEM the preceding month, not to exceed $1.0 million per month. Pursuant to the terms of the Agreement, the percentage of the aggregate purchase price of capacitors sold to the OEM used to repay the Advance Payment will double, not to exceed $2.0 million per month, in the event that (1) the OEM provides evidence that the price charged by KEMET for a particular capacitor during any prior quarter was equal to or greater than 110% of the price paid by the OEM or its affiliates for a third-party part qualified for the same product, and shipping in volume during such period; and, (2) agreement cannot be reached between the OEM and the Company for a price adjustment during the current quarter which would bring KEMET's price within 110% of the third-party price. In June 2015, the outstanding balance, if any, is due in full. Pursuant to the terms of the Agreement, the Company delivered to the OEM an irrevocable standby Letter of Credit in the amount of $16.0 million on October 8, 2012; and, on October 22, 2012, the Company received the Advance Payment from the OEM.

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

10.5% Senior Notes

As of September 30, 2014 and March 31, 2014, the Company had outstanding $355.0 million in aggregate principal amount of the Company's 10.5% Senior Notes due May 1, 2018 (the "10.5% Senior Notes"). The Company had interest payable related to the 10.5% Senior Notes included in the line item "Accrued expenses" on its Condensed Consolidated balance sheets of $15.5 million as of September 30, 2014 and March 31, 2014.

Table of Contents

Note 4. Restructuring Charges

The Company is in the process of various restructuring plans to make the Company more competitive by removing excess capacity, relocating production to lower cost locations, and eliminating unnecessary costs throughout the Company.

A summary of the expenses aggregated in the Condensed Consolidated Statements of Operations line item “Restructuring charges” in the quarters and six month periods ended September 30, 2014 and 2013, is as follows (amounts in thousands):

	Quarters Ended September 30,		Six Month Periods Ended September 30,	
	2014	2013	2014	2013
Manufacturing relocation costs	$539	$548	$2,223	$1,023
Personnel reduction costs	1,148	816	1,294	4,951
Total restructuring charges	$1,687	$1,364	$3,517	$5,974

Quarter Ended September 30, 2014

The Company incurred $1.7 million in restructuring charges in the quarter ended September 30, 2014 including $1.1 million of personnel reduction costs due to planned headcount reductions in Europe (primarily Landsberg, Germany) as we move production to lower cost regions and $0.5 million of manufacturing relocation costs primarily due to the relocation of equipment from Landsberg, Germany to Suzhou, China and Pontecchio, Italy along with costs associated with the shut-down of the Tantalum production line in Evora, Portugal.

Six month period ended September 30, 2014

The Company incurred $3.5 million in restructuring charges in the six month period ended September 30, 2014 including $1.3 million of personnel reduction costs. The personnel reductions were caused by planned headcount reductions in Europe (primarily Landsberg, Germany) ($1.0 million) and a global reduction of overhead ($0.3 million). The remaining $2.2 million included $0.7 million for manufacturing relocation costs primarily due to the relocation of equipment from Landsberg, Germany to Suzhou, China and Pontecchio, Italy and consolidation of manufacturing facilities within Italy and $1.3 million due to the shut-down of the Tantalum production line in Evora, Portugal.

Quarter Ended September 30, 2013

The Company incurred $1.4 million in restructuring charges in the quarter ended September 30, 2013 including $0.8 million of personnel reduction costs which is comprised of $0.3 million in termination benefits associated with converting the Weymouth, United Kingdom manufacturing facility into a technology center and $0.5 million related to the Company’s initiative to reduce overhead. The Company also incurred manufacturing relocation costs of $0.5 million for the consolidation of manufacturing operations within Italy and relocation of equipment to Evora, Portugal and Skopje, Macedonia.

Six month period ended September 30, 2013

The Company incurred $6.0 million in restructuring charges in the six month period ended September 30, 2013 including $5.0 million related to personnel reduction costs which is primarily comprised of the following: $1.9 million related to the closure of a portion of our innovation center in the U.S., $1.2 million related to the reduction of the solid capacitor production workforce in Mexico, $1.1 million related to the Company's initiative to reduce overhead, $0.4 million in termination benefits associated with converting the Weymouth, United Kingdom manufacturing facility into a technology center and $0.4 million related to Cassia Integrazione Guadagni Straordinaria ("CIGS") plan in Italy. The expense related to CIGS is as a result of an agreement with the labor union which allowed the Company to place up to 170 employees, on a rotation basis, on the CIGS plan to save labor costs. CIGS is a temporary plan to save labor costs whereby a company may temporarily "lay off" employees while the government continues to pay their wages for a maximum of 12 months during the program. The employees who are in CIGS are not working, but are still employed by the Company. Only employees that are not classified as management or executive level personnel can participate in the CIGS program and upon termination of the plan, the affected employees return to work.

13

Table of Contents

In addition to these personnel reduction costs, the Company incurred manufacturing relocation costs of $1.0 million due to the consolidation of manufacturing facilities within Italy and relocation of manufacturing equipment to Evora, Portugal and Skopje, Macedonia.

Reconciliation of restructuring liability

A reconciliation of the beginning and ending liability balances for restructuring charges included in the line items “Accrued expenses” and “Other non-current obligations” on the Condensed Consolidated Balance Sheets for the quarters and six month periods ended September 30, 2014 and 2013 are as follows (amounts in thousands):

	Quarter Ended September 30, 2014		Quarter Ended September 30, 2013	
	Personnel Reductions	Manufacturing Relocations	Personnel Reductions	Manufacturing Relocations
Beginning of period	$3,384	$—	$8,947	$—
Costs charged to expense	1,148	539	816	548
Costs paid or settled	(1,264)	(539)	(4,648)	(548)
Change in foreign exchange	(241)	—	155	—
End of period	$3,027	$—	$5,270	$—

	Six Month Period Ended September 30, 2014		Six Month Period Ended September 30, 2013	
	Personnel Reductions	Manufacturing Relocations	Personnel Reductions	Manufacturing Relocations
Beginning of period	$6,217	$—	$13,509	$567
Costs charged to expense	$1,294	$2,223	$4,951	$1,023
Costs paid or settled	$(4,187)	$(2,223)	$(13,517)	$(1,590)
Change in foreign exchange	$(297)	$—	$327	$—
End of period	$3,027	$—	$5,270	$—

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

Changes in Accumulated Other Comprehensive Income (Loss) ("AOCI") for the quarters ended September 30, 2014 and 2013 include the following components (amounts in thousands):

	Foreign Currency Translation (1)	Defined Benefit Pension Plans, Net of Tax (2)	Post-Retirement Benefit Plans	Ownership Share of Equity Method Investees’ Other Comprehensive Income (Loss)	Net Accumulated Other Comprehensive Income
Balance at June 30, 2014	$ 22,235	$(7,326)	$ 1,412	$ 1,262	$17,583
Other comprehensive income (loss) before reclassifications	(13,659)	—	—	2,982	(10,677)
Amounts reclassified out of AOCI	—	81	(52)	—	29
Other comprehensive income (loss)	(13,659)	81	(52)	2,982	(10,648)
Balance at September 30, 2014	$ 8,576	$(7,245)	$ 1,360	$ 4,244	$6,935

14

Table of Contents