KEMET CORP
Form 10-Q
August 08, 2006

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 June 30, 2006.

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)	(IRS 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer 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

Common Stock Outstanding at: June 30, 2006

Title of Each Class	**Number of Shares Outstanding**
Common Stock, $.01 Par Value	86,999,926

PART 1 - FINANCIAL INFORMATION
ITEM 1 - Financial Statements

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

	June 30, 2006	March 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 55,743	$ 163,778
Short-term investments		4,889
Accounts receivable, net	118,820	68,457
Inventories:		
Raw materials and supplies	46,673	45,681
Work in process	45,795	42,960
Finished goods	39,649	36,429
Total inventories	132,117	125,070
Prepaid expenses and other current assets	6,222	7,822
Deferred income taxes	5,342	4,647
Total current assets	318,244	374,663
Noncurrent assets:		
Property and equipment, net of accumulated depreciation of $650.3 million and $641.0 million as of June 30, 2006 and March 31, 2006, respectively	337,055	253,303
Property held for sale	4,769	4,502
Investments in U.S. government marketable securities	66,558	67,195
Investments in affiliates	1,003	972
Goodwill	43,155	30,471
Intangible assets, net	15,145	12,506
Other assets	4,297	4,706
Total noncurrent assets	471,982	373,655
Total assets	$ 790,226	$ 748,318
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 20,276	$ 20,000
Accounts payable, trade	99,069	47,251
Accrued expenses	25,064	32,303
Income taxes payable	6,867	5,770
Total current liabilities	151,276	105,324
Noncurrent liabilitites:		
Long-term debt	64,371	80,000
Postretirement benefits and other non-current obligations	50,404	44,139
Deferred income taxes	6,667	6,152
Total noncurrent liabilities	121,442	130,291
Total liabilities	272,718	235,615
Stockholders equity:		
Common stock, par value $0.01, authorized 300,000,000 shares issued 88,127,861 and 88,102,919 shares at June 30, 2006 and March 31, 2006, respectively	881	881
Additional paid-in capital	318,669	315,500
Retained earnings	221,817	221,221
Accumulated other comprehensive income/(loss)	(3,065)	(2,343)
Treasury stock, at cost (1,227,935 and 1,223,635 shares at June 30, 2006 and March 31, 2006, respectively)	(20,794)	(22,556)
Total stockholders equity	517,508	512,703
Total liabilities and stockholders equity	$ 790,226	$ 748,318

See accompanying notes to consolidated financial statements.

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

	Three months ended June 30, 2006	2005
Net sales	$ 169,569	$ 114,104
Operating costs and expenses:		
Cost of goods sold	132,715	94,990
Selling, general and administrative	23,920	12,226
Research and development	7,792	6,217
Restructuring charges	4,675	8,173
Total operating costs and expenses	169,102	121,606
Operating income/(loss)	467	(7,502)
Other (income)/expense:		
Interest expense	1,448	1,668
Interest income	(861)	(1,325)
Other (income)/expense	(1,199)	1,064
Total other (income)/expense	(612)	1,407
Income/(loss) before income taxes	1,079	(8,909)
Income tax expense/(benefit)	483	(11,944)
Net income/(loss)	$ 596	$ 3,035
Net income/(loss) per share:		
Basic	$ 0.01	$ 0.04
Diluted	$ 0.01	$ 0.04
Weighted-average shares outstanding:		
Basic	86,995,839	86,612,454
Diluted	87,338,124	86,660,437

See accompanying notes to consolidated financial statements.

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

	Three months ended June 30, 2006	2005
Operating activities:		
Net income/(loss)	$ 596	$ 3,035
Adjustments to reconcile net income/(loss) to net cash (used in)/provided by operating activities:		
Depreciation and amortization	10,156	11,935
Stock based compensation	3,851	
Change in operating assets	(23,285)	3,464
Change in operating liabilities	4,870	(12,836)
Net cash (used in)/provided by operating activities	(3,812)	5,598
Investing activities:		
Proceeds from maturity of short-term investments		10,000
Proceeds from sale of short-term investments	4,901	
Additions to property and equipment	(3,730)	(6,424)
Tantalum business unit acquisition	(87,159)	
Cash acquired in purchase of the tantalum business unit	366	
Other	319	38
Net cash (used in)/provided by investing activities	(85,303)	3,614
Financing activities:		
Payment on long-term debt	(20,000)	
Proceeds from sale of common stock to Employee Savings Plan	253	366
Proceeds from exercise of stock options	827	26
Net cash (used in)/provided by financing activities	(18,920)	392
Net (decrease)/increase in cash and cash equivalents	(108,035)	9,604
Cash and cash equivalents at beginning of period	163,778	26,898
Cash and cash equivalents at end of period	55,743	36,502

See accompanying notes to consolidated financial statements.

Note 1. Basis of Financial Statement Preparation

The 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 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 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. Although the Company believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these 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, 2006, Form 10-K. Net sales and operating results for the three-month period ended June 30, 2006, are not necessarily indicative of the results to be expected for the full year.

The accompanying 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.

Impact of Recently Issued Accounting Standards

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, Inventory Costs . This statement amends Accounting Research Bulletin (ARB) No. 43, Chapter 4, Inventory Pricing, and removes the so abnormal criterion that under certain circumstances could have led to the capitalization of these items. SFAS No. 151 requires that idle facility expense, excess spoilage, double freight and rehandling costs be recognized as current period charges regardless of whether they meet the criterion of so abnormal as defined in ARB No. 43. SFAS No. 151 also requires that allocation of fixed production overhead expenses to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for all fiscal years beginning after June 15, 2005. The Company adopted the provisions of SFAS No. 151 on April 1, 2006. The adoption of SFAS No. 151 did not have a material impact on the Company s financial position, results of operations or liquidity.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections . This statement replaces Accounting Principles Board Opinion No. 20 and FASB Statement No. 3 and changes the requirements for the accounting for and reporting of a change in accounting principle. In addition, SFAS No. 154 requires retrospective application to prior periods financial statements of changes in accounting principle. SFAS No. 154 is effective for all fiscal years beginning after December 15, 2005. The Company adopted the provisions of SFAS No. 154 on April 1, 2006. The adoption of SFAS No. 154 did not impact the Company s financial position, results of operations or liquidity.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 . SFAS No. 155 permits an entity to measure at fair value any financial instrument that contains an embedded derivative that otherwise would be required to be bifurcated and accounted for separately under SFAS No. 133. SFAS No. 155 is effective for fiscal years beginning after September 15, 2006. The Company is currently evaluating the impact that the adoption of SFAS No. 155 will have on its consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes . FIN 48 supplements SFAS No. 109 by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. The interpretation requires that the tax effects of a position be recognized only if it is more-likely-than-not to be sustained based solely on its technical merits as of the reporting date. FIN 48 is effective as of the beginning of the first fiscal year beginning after December 15, 2006. At adoption, the necessary adjustment to remove tax effects of positions which are not more-likely-than-not to be sustained should be recorded directly to the beginning balance of retained earnings and reported as a change in accounting principle. Retroactive application is prohibited. The Company is currently evaluating the impact that the adoption of FIN 48 will have on its consolidated financial statements.

Revenue Recognition

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.

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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 price protection policy protects the value of the distributors inventory in the event the Company reduces its published selling price to distributors. This program allows the distributor to debit the Company for the difference between KEMET s list price and the lower authorized price for specific parts. The Company establishes price protection reserves on specific parts residing in distributors inventories in the period that the price protection is formally authorized by management. The distributors also have the right to return to KEMET a certain portion of the purchased inventory, which, in general, will not exceed 5% of their rolling twelve month purchases. KEMET estimates future returns based on historical patterns of the distributors and records an allowance on the Consolidated Balance Sheets.

The SFSD program provides a mechanism for the distributor to meet a competitive price after obtaining authorization from the local Company 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. The Company establishes reserves for its SFSD program based primarily on actual inventory levels of certain distributor customers. The actual inventory levels at these distributors comprise 91% - 95% of the total global distributor inventory. The remaining 5% to 9% is estimated based on actual distributor inventory and current sales trends. Management analyzes historical SFSD activity to determine the SFSD exposure on the global distributor inventory at the balance sheet date. Should the distributors increase inventory levels, the estimate of the inventory at the distributors for the remaining 5% to 9% could be estimated at an incorrect amount. However, the Company believes that the difference between the estimate and the ultimate actual amount would be immaterial.

The establishment of these reserves is recognized as a component of the line item Net sales on the Consolidated Statements of Operations, while the associated reserves are included in the line item Accounts receivable on the Consolidated Balance Sheets.

The Company provides a limited warranty to its customers that the 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 less than 1% for the years ended March 31, 2006, and for the three months ended June 30, 2006 and 2005. The Company recognizes warranty costs when identified.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates, assumptions, and judgments. Estimates and assumptions are based on historical data and other assumptions that management believes are reasonable in the circumstances. 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 KEMET s unaudited 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.

Note 2. Reconciliation of basic income/(loss) per common share

In accordance with FASB Statement No. 128,   Earnings per Share , the Company has included the following table presenting a reconciliation of basic EPS to diluted EPS fully displaying the effect of dilutive securities.

Computation of Basic and Diluted Income/(Loss) Per Share
(Dollars in thousands except per share data)

	Three months ended June 30, 2006	2005
Numerator:		
Net income/(loss)	$ 596	$ 3,035
Denominator:		
Weighted-average shares outstanding:		
Basic	86,995,839	86,612,454
Assumed conversion of employee stock options	342,285	47,983
Diluted	87,338,124	86,660,437
Earnings per share:		
Basic	$ 0.01	$ 0.04
Diluted	$ 0.01	$ 0.04

The three months ended June 30, 2005, excluded potentially dilutive securities of approximately 4.7 million shares in the computations of diluted income/(loss) per share because the effect would have been anti-dilutive.

Note 3. Derivatives and Hedging

The Company uses certain derivative financial instruments to reduce exposures to volatility of foreign currencies and commodities impacting the costs of its products.

Hedging Foreign Currencies

Certain operating expenses at the Company s Mexican facilities are paid in Mexican pesos. In order to hedge these forecasted cash flows, management purchases forward contracts to buy Mexican pesos for periods and amounts consistent with the related underlying cash flow exposures. These contracts are designated as hedges at inception and monitored for effectiveness on a routine basis. There were no peso contracts outstanding at March 31, 2006. At June 30, 2006, the Company had outstanding forward exchange contracts that mature within approximately twelve months to purchase Mexican pesos with notional amounts of $83.4 million. The fair values of these contracts totaled $(0.6) million at June 30, 2006 and are recorded as a derivative liability on the Company s Consolidated Balance Sheets under Accrued expenses. During the next twelve months, it is estimated that approximately $0.6 million of the loss on these contracts will be recorded to cost of goods sold. The impact of the changes in fair values of these contracts resulted in Accumulated other comprehensive income/(loss) (AOCI/(L)), net of taxes, of $(0.6) million and $1.8 million for the three-month periods ended June 30, 2006 and 2005, respectively.

Changes in the derivatives   fair values are deferred and recorded as a component of AOCI/(L) until the underlying transaction is recorded. When the hedged item affects income, gains or losses are reclassified from AOCI/(L) to the Consolidated Statements of Operations as Cost of goods sold for forward contracts to purchase Mexican pesos. Any ineffectiveness, if material, in the Company s hedging relationships is recognized immediately in the Consolidated Statements of Operations.

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

Note 4. Restructuring charges

In July 2003, KEMET announced the manufacturing relocation plan which consisted of reorganizing its operations around the world, resulting in the location of virtually all of its production in low-cost regions to be completed in fiscal year 2007. This relocation allows KEMET access to key customers, access to key technical resources and knowledge, and access to available low-cost resources. As of June 30, 2006, cumulative restructuring costs incurred totaled approximately $46.5 million. Costs related to this movement of manufacturing operations are shown as manufacturing relocation costs in the table below.

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A reconciliation of the beginning and ending liability balances for restructuring charges included in the liabilities section of the Consolidated Balance Sheets for the three months ended June 30, 2006 and 2005 is shown below (dollars in thousands):

	Three months ended June 30, 2006		**Three months ended June 30, 2005**		
	Personnel Reductions	**Manufacturing Relocations**	**Personnel Reductions**	**Manufacturing Relocations**	**Termination of a Contract**
Beginning of period	$ 2,094	$	$ 6,794	$	$
Costs charged to expense	101	4,574	4,851	2,483	839
Costs paid or settled	(201)	(4,574)	(5,132)	(2,483)	
End of period	$ 1,994	$	$ 6,513	$	$ 839

Manufacturing relocation costs are expensed as actually incurred; therefore no liability is recorded in the Consolidated Balance Sheets for these costs. Costs charged to expense are aggregated in the Consolidated Statements of Operations line, Restructuring charges.

Personnel reductions During the three months ended June 30, 2006, the Company recognized a charge of $0.1 million for a reduction in force effecting two U.S. employees. During June 2005, the Company announced a reduction in force effecting 138 people in the U.S., Mexico and Europe. Accordingly, the Company recognized a charge of $5.2 million. In addition, the Company reversed $0.3 million related to unused restructuring accruals during the quarter ended June 30, 2005.

Manufacturing relocations During the three months ended June 30, 2006 and 2005, the Company incurred expenses of $4.6 million and $2.5 million, respectively. These costs are related to the plan. All costs are expensed as incurred.

Termination of a contract The Company recognized a charge of $0.8 million for the early termination of a contract during the first fiscal quarter 2006 related to a plant closure.

Note 5. Other Postretirement Benefit Plans

The Company provides health care and life insurance benefits for certain retired employees who reach retirement age while working for the Company. The components of the expense for postretirement medical and life insurance benefits are as follows (dollars in thousands):

	Three months ended June 30,	
	2006	**2005**
Service cost	$ 139	$ 152
Interest cost	407	460
Amortization of actuarial (gain)/loss	(396)	(404)
Total net periodic benefits costs	$ 150	$ 208

The Company expects to make no contributions to fund plan assets in fiscal year 2007 as the Company s policy is to pay benefits as costs are incurred. However, the Company estimates its benefits payments in fiscal year 2007 will be approximately $1.7 million. Management is responsible for determining the cost of benefits for this plan. Management considered a number of factors, and consulted with an actuarial firm, when determining this cost.

Note 6. Investments

Investments consist of debt securities as well as equity securities of public and privately-held companies. The debt securities, which consist of U.S. government marketable securities, are classified as available-for-sale securities, mature in two to four years, and are carried at fair market value with unrealized gains and losses recorded in Accumulated other comprehensive income/(loss) on the Consolidated Balance Sheets.

The Company s equity investments in public companies are classified as available-for-sale securities and are carried at fair value with adjustments recorded net of tax in stockholders equity. The available-for-sale securities are intended to be held for an indefinite period but may be sold in response to unexpected future events. The Company has an equity investment with less than 20% ownership interest in a privately-held company. The Company does not have the ability to exercise significant influence and the investment is accounted for under the cost method.

On a periodic basis, the Company reviews the market values of its equity investment classified as available-for-sale securities and the carrying value of its equity investment carried at cost for the purpose of identifying other-than-temporary declines in market value and carrying value, respectively, as defined in EITF 03-1, and in the FASB issued FSP FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments . The Company s

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management concluded this review and determined that an other-than-temporary decline in market value had occurred for the quarter ending June 30, 2005. The Company considered the impairment other-than-temporary based on the duration of this market value decline and the lack of evidence that the market value would increase. The Company recognized a $0.8 million loss equal to the difference between the investment s cost and its fair market value at June 30, 2005. This amount was included in Other (income)/expense on the Consolidated Statements of Operations. Based on the Company s review for the quarter ending June 30, 2006, the Company determined that a further other-than-temporary decline did not exist. The Company will continue to monitor the available-for-sale equity investment for potential future impairments.

Investments consist of debt securities as well as equity securities of public and privately-held companies. Prior to fiscal year 2006, the Company s debt securities, which consisted of United States government marketable securities, were classified as held-to-maturity securities, had maturities in excess of three months, and were carried at amortized cost. Due to the need for cash in connection with the April 2006 purchase of the Tantalum Business Unit of EPCOS AG (EPCOS), the Company liquidated certain long-term debt investments prior to the maturity date. These transactions required the Company to alter its treatment of accounting for the remaining short-term and long-term debt investments from held-to-maturity to available-for-sale . The difference in the classification is that available-for-sale investments must be recorded at their fair market value. At March 31, 2006, the Company, therefore adjusted the value of its short-term and long-term debt investments by $3.0 million with the offset to Accumulated other comprehensive income/(loss). The unrealized loss, which was recorded to Accumulated other comprehensive income/(loss), for the quarter ending June 30, 2006, was $0.4 million. Approximately $0.4 million of unrealized losses related to debt investments have been in a continuous loss position for more than 12 months.

At June 30, 2006 and March 31, 2006, the Company determined that the remaining investment balance in its equity investment in Lamina Ceramics, Inc., approximated fair value.

A summary of the components and carrying values of investments on the Consolidated Balance Sheets is as follows (dollars in thousands):

	June 30, 2006		**March 31, 2006**	
	Fair Value	**Unrealized Gain/(Loss)**	**Fair Value**	**Unrealized Gain/(Loss)**
U.S. government marketable securities:				
Short-term	$	$ 12	$ 4,889	$ (78)
Long-term	66,558	(451)	67,195	(2,883)
Equity investments:				
Available-for-sale	884		853	
Cost	119		119	
	$ 67,561	$ (439)	$ 73,056	$ (2,961)

Non-equity investments at June 30, 2006 of $66.6 million mature within two to four years. Non-equity investments at March 31, 2006 of $4.9 million and $67.2 million mature within three months to one year and one to four years, respectively. Short-term investments consisted of U.S. government securities. The recorded value approximates fair value at June 30, 2006 and March 31, 2006.

Note 7. Supply Contracts

The Company s previous tantalum supply agreement with Cabot Corporation expired in January 2006. The Company now has a new tantalum supply agreement with Cabot Corporation following the acquisition of the Tantalum Business Unit of EPCOS on April 13, 2006. This contract extends through September 2007. The Company recorded an unfavorable contract provision due the acquisition of the Tantalum Business Unit of EPCOS on the opening balance sheet. A reconciliation of the beginning and ending balance included in Post retirement benefits and other non-current obligations in the Consolidated Balance Sheets is as follows (dollars in thousands):

	Inventory Supply Agreement	
	Three months ended June 30, 2006	**Twelve months ended March 31, 2006**
Beginning of period	$	$ 5,483
Liability acquired	6,920	
Costs paid or settled	(1,201)	(5,483)
End of period	$ 5,719	$

As of June 30, 2006, the remaining purchase commitment under this contract was $7.6 million and $4.5 million for fiscal years 2007 and 2008, respectively.

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Note 8. Accumulated Other Comprehensive Income/(Loss)

Comprehensive income/(loss) for the three months ended June 30, 2006 and 2005 include the following components (dollars in thousands):

	Three months ended June 30, 2006	2005
Net income/(loss)	$ 596	$ 3,035
Other comprehensive income/(loss), net of tax:		
Currency forward contract income/(loss)	(600)	1,820
Currency translation income/(loss)	319	15
Unrealized securities income/(loss)	(2)	477
Unrealized investment income/(loss)	(439)	
Total net income/(loss) and other comprehensive income/(loss)	$ (126)	$ 5,347

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

	June 30, 2006	March 31, 2006
Currency forward contract income/(loss)	$ (600)	$
Currency translation income/(loss)	311	(8)
Unrealized securities income/(loss)	625	627
Unrealized investment income/(loss)	(3,401)	(2,962)
Total accumulated other comprehensive income/(loss)	$ (3,065)	$ (2,343)

Note 9. Goodwill and Intangible Assets

The Company applies Statement of Financial Accounting Standards No. 141, Business Combinations (SFAS No. 141), and Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet in order to be recognized and reported apart from goodwill. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment.

For purposes of determining the fair value of its trademarks, the Company utilizes a discounted cash flow model which considers the costs of royalties in the absence of trademarks owned by the Company. Based upon the Company s analysis of legal, regulatory, contractual, competitive and economic factors, the Company deemed that trademarks, which consist of the KEMET trade name and logo, have an indefinite useful life because they are expected to contribute to cash flows indefinitely.

The Company s goodwill is tested for impairment at least on an annual basis. The impairment test involves a comparison of the fair value of its reporting unit as defined under SFAS No. 142, with carrying amounts. If the reporting unit s aggregated carrying amount exceeds its fair value, then an indication exists that the reporting unit s goodwill may be impaired. The impairment to be recognized is measured by the amount by which the carrying value of the reporting unit being measured exceeds its fair value, up to the total amount of its assets. In the third fiscal quarter of 2006, the Company determined fair value based on the cash flow approach as discussed below.

KEMET performs its impairment test during the first quarter of each fiscal year and when otherwise warranted. KEMET performed this impairment test in the quarters ended June 30, 2006 and 2005 and concluded that no goodwill impairment existed.

Effective October 1, 2005, the Company organized into two distinct business units. Since these business units are considered reporting units, as defined by SFAS No. 142, the Company had to test for impairment based on the fair values of the business units. The Company estimated the fair value by calculating future discounted cash flows of each business unit and comparing those values to the underlying net assets as of December 31, 2005. At December 31, 2005, the Company s goodwill was not impaired. The Company will utilize cash flows to determine fair value in its annual impairment tests in the future.

On April 13, 2006, the Company acquired the Tantalum Business Unit of EPCOS, for a purchase price of approximately $107.6 million. The acquisition included the EPCOS tantalum capacitor manufacturing operation in Evora, Portugal as well as certain research and development, marketing, and sales functions in various locations, primarily within Europe. Approximately $12.7 million of goodwill and $0.8 million related to a noncompete agreement, which has an amortization period of three years, and $2.1 million of patents, trademarks and technology, which have an amortization period of two to ten years, were recorded as part of this transaction.

The following chart highlights the Company s goodwill and intangible assets (dollars in thousands):

	June 30, 2006 Carrying Amount	Accumulated Amortization	March 31, 2006 Carrying Amount	Accumulated Amortization
Unamortized Intangibles:				
Goodwill	$ 43,155		$ 30,471	
Trademarks	7,181		7,181	
Unamortized intangibles	50,336		37,652	
Amortized Intangibles:				
Patents, trademarks and technology - 2-25 years	16,734	9,676	14,655	9,452
Other -3-10 years	1,725	819	914	792
Amortized intangibles	18,459	10,495	15,569	10,244
Total intangibles				