KEMET CORP
Form 10-Q
February 03, 2012
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, 2011

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

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 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 x 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 (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 January 30, 2012 was 44,658,542.

Table of Contents

KEMET CORPORATION AND SUBSIDIARIES

Form 10-Q for the Quarter Ended December 31, 2011

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)

	December 31, 2011 (Unaudited)	March 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 136,049	$ 152,051
Accounts receivable, net	102,432	150,370
Inventories, net	212,118	206,440
Prepaid expenses and other	23,536	28,097
Deferred income taxes	4,027	5,301
Total current assets	478,162	542,259
Property and equipment, net of accumulated depreciation of $770,259 and $740,773 as of December 31, 2011 and March 31, 2011, respectively	290,045	310,412
Goodwill and intangible assets, net	20,479	20,092
Other assets	12,993	11,546
Total assets	$ 801,679	$ 884,309
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 1,219	$ 42,101
Accounts payable	71,072	90,997
Accrued expenses	65,073	88,291
Income taxes payable	4,239	4,265
Total current liabilities	141,603	225,654
Long-term debt, less current portion	229,847	231,215
Other non-current obligations	58,113	59,727
Deferred income taxes	6,894	7,960
Stockholders equity:		
Preferred stock, par value $0.01, authorized 10,000 shares, none issued		
Common stock, par value $0.01, authorized 175,000 and 300,000 shares, issued 46,508 and 39,508 shares, at December 31, 2011 and March 31, 2011, respectively	465	395
Additional paid-in capital	468,646	479,322
Retained deficit	(69,349)	(87,745)
Accumulated other comprehensive income	8,305	22,555
Treasury stock, at cost (1,854 and 2,370 shares at December 31, 2011 and March 31, 2011, respectively)	(42,845)	(54,774)
Total stockholders equity	365,222	359,753
Total liabilities and stockholders equity	$ 801,679	$ 884,309

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, 2011	Quarters Ended December 31, 2010	Nine Months Ended December 31, 2011	Nine Months Ended December 31, 2010
Net sales	$ 218,795	$ 264,654	$ 774,165	$ 757,036
Operating costs and expenses:				
Cost of sales	178,305	192,132	592,128	553,888
Selling, general and administrative expenses	24,737	27,453	83,368	76,667
Research and development	7,172	6,947	21,620	19,202
Restructuring charges	10,748	1,102	13,378	5,197
Write down of long-lived assets	15,786		15,786	
Net (gain) loss on sales and disposals of assets	9	29	92	(1,406)
Total operating costs and expenses	236,757	227,663	726,372	653,548
Operating income (loss)	(17,962)	36,991	47,793	103,488
Other (income) expense:				
Interest income	(62)	(28)	(136)	(133)
Interest expense	7,036	7,756	21,718	22,548
Other (income) expense, net	716	1,471	1,918	(1,647)
Loss on early extinguishment of debt				38,248
Income (loss) before income taxes	(25,652)	27,792	24,293	44,472
Income tax expense	2,119	625	5,897	2,493
Net income (loss)	$ (27,771)	$ 27,167	$ 18,396	$ 41,979
Net income (loss) per share:				
Basic	$ (0.62)	$ 0.96	$ 0.43	$ 1.53
Diluted	$ (0.62)	$ 0.52	$ 0.35	$ 0.82
Weighted-average shares outstanding:				
Basic	44,644	28,295	42,834	27,464
Diluted	44,644	51,960	52,302	51,124

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, 2011	Nine Months Ended December 31, 2010
Sources (uses) of cash and cash equivalents		
Operating activities:		
Net income	$ 18,396	$ 41,979
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33,384	41,303
Write down of long-lived assets	15,786	
Amortization of debt discount and debt issuance costs	2,903	3,964
Net (gain) loss on sales and disposals of assets	92	(1,406)
Stock-based compensation expense	1,378	911
Change in deferred income taxes	909	(1,186)
Change in operating assets	46,330	(64,485)
Change in operating liabilities	(48,116)	17,658
Other	841	(1,885)
Loss on early extinguishment of debt		38,248
Net cash provided by operating activities	71,903	75,101
Investing activities:		
Capital expenditures	(31,793)	(19,559)
Acquisition, net of cash received	(11,584)	
Proceeds from sales of assets		5,425
Net cash used in investing activities	(43,377)	(14,134)
Financing activities:		
Proceeds from issuance of debt		227,525
Payments of long-term debt	(40,581)	(230,300)
Net payments under other credit facilities	(3,153)	(2,626)
Proceeds from exercise of stock options	225	21
Debt issuance costs	(36)	(7,750)
Debt extinguishment costs		(207)
Net cash used in financing activities	(43,545)	(13,337)
Net increase (decrease) in cash and cash equivalents	(15,019)	47,630
Effect of foreign currency fluctuations on cash	(983)	943
Cash and cash equivalents at beginning of fiscal period	152,051	79,199
Cash and cash equivalents at end of fiscal period	$ 136,049	$ 127,772

See accompanying notes to the unaudited condensed consolidated financial statements.

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, 2011, Form 10-K (the Company s 2011 Annual Report).

Net sales and operating results for the three and nine months ended December 31, 2011 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.

The significant accounting policies followed by the Company are presented in the Company s 2011 Annual Report.

Recently Issued Accounting Pronouncements

New accounting standards adopted

There were no accounting standards adopted in the nine month period ended December 31, 2011.

New accounting standards issued but not yet adopted

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, Presentation of Comprehensive Income. ASU 2011-05 revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in Accounting Standards Codification (ASC) 220, Comprehensive Income, and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The ASU does not change the items that must be reported in other comprehensive income. In December 2011, the

FASB issued ASU 2011-12, Comprehensive Income. ASU 2011-12 defers the requirement in ASU 2011-05 that companies present reclassification adjustments for each component of AOCI in both OCI and net income on the face of the financial statements. ASU 2011-12 requires companies to continue to present amounts reclassified out of AOCI on the face of the financial statements or disclosed in the notes to the financial statements. ASU 2011-12 also defers the requirement to report reclassification adjustments in interim periods and requires companies to present only total comprehensive income in either a single continuous statement or two consecutive statements in interim periods. ASU 2011-05 and ASU 2011-12 will be effective for fiscal years and interim reporting periods within those years beginning after December 15, 2011.

In September 2011, the FASB issued ASU 2011-08, Guidance on Testing Goodwill for Impairment. ASU 2011-08 gives entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit in Step 1 of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be needed. ASU 2011-08 will be effective for fiscal and interim reporting periods within those years beginning after December 15, 2011.

The adoption of these accounting standards will not have a material effect on the Company s consolidated financial statements. 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

A guarantee 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. The bank guarantee is in the amount of EUR 1.5 million ($1.9 million). A deposit was placed with a European bank for EUR 1.7 million ($2.1 million). The deposit is in KEMET s name, and KEMET receives any interest earned by this deposit. However, the deposit is pledged to the European bank, and the bank can use the

Table of Contents

money if a valid claim against the bank guarantee is made. The bank guarantee will remain valid until it is discharged by the beneficiary. Restricted cash of $2.1 million and $2.3 million is included in the line item Other assets on the Condensed Consolidated Balance Sheets as of December 31, 2011 and March 31, 2011, respectively.

Warrant Liability

Concurrent with the consummation of the tender offer as discussed in Note 2, Debt , the Company issued K Financing, LLC (K Financing) a warrant (the Platinum Warrant) to purchase up to 26.8 million shares of the Company s common stock, subject to certain adjustments, representing, at the time of issuance, approximately 49.9% of the Company s outstanding common stock on a post-Platinum Warrant basis. The Platinum Warrant was subsequently transferred to K Equity, LLC (K Equity). The Platinum Warrant was exercisable at a purchase price of $1.05 per share.

On December 20, 2010, in connection with a secondary offering in which K Equity was the selling security holder, K Equity exercised a portion of the Platinum Warrant representing the right to purchase 10.9 million shares of the Company s common stock to the underwriters of the secondary offering, who exercised their full portion of the warrant at a price of $12.80 per share in a cashless exercise and received a net settlement of 10.0 million shares of the Company s common stock. These shares were sold as part of the secondary offering and KEMET did not receive any of the proceeds from the transaction. K Equity retained the remaining portion of the warrant.

On May 31, 2011, K Equity sold a portion of the Platinum Warrant to Deutsche Bank Securities Inc., in connection with the offering of 7.0 million shares of the Company s common stock, at a public offering price of $14.60 per share. This transaction resulted in a 7.5 million share reduction to the outstanding warrants due to K Equity s cashless exercise. K Equity retains the remaining portion of the warrant, representing the right to purchase 8.4 million shares of the Company s common stock.

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 measured at fair value on a recurring basis as of December 31, 2011 and March 31, 2011 are as follows (amounts in thousands):

	Fair Value December 31, 2011	Fair Value Measurement Using			Fair Value March 31, 2011	Fair Value Measurement Using		
		Level 1	Level 2 (2)	Level 3		Level 1	Level 2 (2)	Level 3
Assets:								
Money markets (1)	$ 26,203	$ 26,203	$	$	$ 51,157	$ 51,157	$	$
Debt	252,025	248,860	3,165		307,543	301,379	6,164	

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

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

Table of Contents

Revenue Recognition

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 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.

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 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 quarters and nine month periods ended December 31, 2011 and 2010. 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, 2011	March 31, 2011
Raw materials and supplies	$ 80,346	$ 78,913
Work in process	73,912	78,681
Finished goods	75,052	64,310
	229,310	221,904
Inventory reserves	(17,192)	(15,464)
Total inventory	$ 212,118	$ 206,440

Table of Contents

Note 2. Debt

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

	December 31, 2011	March 31, 2011
10.5% Senior Notes, net of discount of $2,584 and $2,792 as of December 31, 2011 and March 31, 2011, respectively	$ 227,416	$ 227,208
Convertible Notes, net of discount of $1,569 as of March 31, 2011		39,012
Other	3,650	7,096
Total debt	231,066	273,316
Current maturities	(1,219)	(42,101)
Total long-term debt	$ 229,847	$ 231,215

The line item Interest expense on the Condensed Consolidated Statements of Operations for the quarters and nine months ended December 31, 2011 and 2010, is as follows (amounts in thousands):

	Quarters Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
Contractual interest expense	$ 6,189	$ 6,546	$ 18,815	$ 18,584
Amortization of debt issuance costs	274	262	829	867
Amortization of debt discount	573	948	2,074	3,097
Total interest expense	$ 7,036	$ 7,756	$ 21,718	$ 22,548

10.5% Senior Notes

On May 5, 2010, the Company completed a private placement of $230.0 million in aggregate principal amount of the Company s 10.5% Senior Notes due 2018 (the 10.5% Senior Notes). The private placement of the 10.5% Senior Notes resulted in proceeds to the Company of $222.2 million. The Company used a portion of the proceeds of the private placement to repay all of the outstanding indebtedness under a credit facility with K Financing, a EUR 60 million credit facility and a EUR 35 million credit facility with UniCredit Corporate Banking S.pA. (UniCredit) and a term loan with a subsidiary of Vishay Intertechnology, Inc. The Company used a portion of the remaining proceeds to fund a previously announced tender offer to purchase $40.5 million in aggregate principal amount of the 2.25% Convertible Senior Notes and to pay costs incurred in connection with the private placement, the tender offer and the foregoing repayments. Debt issuance costs related to the 10.5% Senior Notes, net of amortization, were $5.6 million as of December 31, 2011; these costs are being amortized over the term of the 10.5% Senior Notes.

On October 26, 2010, the Company filed a Form S-4 to offer, in exchange for the outstanding 10.5% Senior Notes due 2018 (Old Notes), up to $230.0 million in aggregate principal amount of 10.5% Senior Notes due 2018 and the guarantees thereof which had been registered under the Securities Act of 1933, as amended. The Form S-4 was declared effective on December 14, 2010 and on January 13, 2011 the Company completed the exchange for all of the Old 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 $4.0 million and $10.1 million at December 31, 2011 and March 31, 2011, respectively.

Revolving Line of Credit

On September 30, 2010, KEMET Electronics Corporation (KEC) and KEMET Electronics Marketing (S) Pte Ltd. (KEMET Singapore) (each a Borrower and, collectively, the Borrowers) entered into a Loan and Security Agreement (the Loan and Security Agreement), with Bank of America, N.A, as the administrative agent and the initial lender. The Loan and Security Agreement provides a $50 million revolving line of credit, which is bifurcated into a U.S. facility (for which KEC is the Borrower) and a Singapore facility (for which KEMET Singapore is the Borrower). The size of the U.S. facility and Singapore facility can fluctuate as long as the Singapore facility does not exceed $30 million and the total facility does not exceed $50 million. A portion of the U.S. facility and of the Singapore facility can be used to issue letters of credit. The facilities expire on September 30, 2014.

Debt issuance costs related to the Loan and Security Agreement, net of amortization, were $1.0 million and $1.3 million as of December 31, 2011 and March 31, 2011, respectively. These costs are being amortized over the term of the Loan and Security Agreement. There were no borrowings against the Loan and Security Agreement as of December 31, 2011 or March 31, 2011.

Table of Contents

Convertible Notes

In November 2006, the Company sold and issued its 2.25% Convertible Senior Notes due 2026 (the Convertible 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 Convertible Notes, the Company entered into an indenture (the Convertible Notes Indenture) dated as of November 1, 2006, with Wilmington Trust Company, as trustee.

The Convertible Notes bore interest at a rate of 2.25% per annum, payable in cash semi-annually in arrears on each May 15 and November 15. The Convertible Notes were convertible into (i) cash in an amount equal to the lesser of the principal amount of the Convertible Notes and the conversion value of the Convertible 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 exceeded the principal amount of the Convertible Notes, at any time prior to the close of business on the business day immediately preceding the maturity date of the Convertible Notes, unless the Company had redeemed or purchased the Convertible Notes, subject to certain conditions. The conversion rate was 34.364 shares of common stock per $1,000 principal amount of the Convertible Notes, which represented a conversion price of approximately $29.10 per share, subject to adjustments.

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

On November 15, 2011, holders of the Convertible Notes exercised their right to require the Company to repurchase their Convertible Notes, as such, $36.5 million of Convertible Notes were extinguished at 100% of the principal amount of the Convertible Notes plus accrued and unpaid interest.

On May 17, 2010, $40.5 million in aggregate principal amount of the Convertible Notes was extinguished. The extinguishment resulted in $1.6 million loss on early extinguishment of debt. The calculation of the loss is as follows (amounts in thousands):

Reacquisition price:		
Cash paid	$	37,867
Tender offer fees		207
		38,074
Extinguished debt:		
Carrying amount of debt		36,770
Unamortized debt cost		(248)
		36,522
Net loss	$	(1,552)

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 consisted of a term loan of $37.8 million (Platinum Term Loan), a line of credit loan (Platinum Line of Credit Loan) that could 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. On May 5, 2010, the Company applied a portion of the proceeds of the 10.5% Senior Notes to extinguish the Platinum Term Loan, the Platinum Line of Credit Loan, and the Platinum Working Capital Loan. The extinguishment of the Platinum Credit Facility resulted in a $33.3 million loss on early extinguishment of debt due to the significant debt discount allocated to the Platinum Credit Facility upon issuance.

Table of Contents

The calculation of the loss is as follows (amounts in thousands):

Reacquisition price:		
Cash paid	$	57,861
Success fee		5,000
		62,861
Extinguished debt:		
Carrying amount of debt		32,135
Carrying amount of success fee		2,001
Unamortized debt cost		(4,619)
		29,517
Net loss	$	(33,344)

UniCredit Credit Facility

As of March 31, 2010, the Company had two Senior Facility Agreements outstanding with UniCredit. As of March 31, 2010, Facility A had EUR 53.2 million ($71.7 million) outstanding and Facility B had EUR 33.0 million ($44.5 million) outstanding.

On May 5, 2010, the Company applied a portion of the proceeds of the 10.5% Senior Notes to extinguish Facility A and Facility B. The extinguishment resulted in a $3.4 million loss on early extinguishment of debt. The calculation of the loss is as follows (amounts in thousands):

Reacquisition price:		
Cash paid	$	104,683
Extinguished debt:		
Carrying amount of debt		104,674
Unamortized debt cost		(3,343)
		101,331
Net loss	$	(3,352)

Note 3. Impairment Charges

During the third quarter of fiscal year 2012, the Company incurred impairment charges totaling $15.8 million related to its Tantalum Business Group (Tantalum). Due to customer demands for lower Equivalent Series Resistance (ESR) capacitors the Company evaluated the costs it would need to incur in order to modify the product line in Evora, Portugal to enable it to produce lower ESR capacitors. Based on this evaluation, the Company has idled equipment with a net carrying value of $15.8 million and plans to dispose of the equipment. The impairment amount of $15.8 million was the carrying amount of the equipment less the scrap value net of disposal costs. The impairment charge is recorded on the Condensed Consolidated Statements of Operations line item Write down of long-lived assets in the three and nine months ended December 31, 2011.

Note 4. Restructuring Charges

A summary of the expenses aggregated on the Condensed Consolidated Statements of Operations line item Restructuring charges in the quarters and nine months ended December 31, 2011 and 2010, is as follows (amounts in thousands):

	Quarter Ended December 31,		Nine Months Ended December 31,	
	2011	**2010**	**2011**	**2010**
Manufacturing relocation costs	$ 261	$ 1,176	$ 1,646	$ 4,256
Personnel reduction costs	10,487	(74)	11,732	941
Restructuring charges	$ 10,748	$ 1,102	$ 13,378	$ 5,197

Nine months Ended December 31, 2011

In the second quarter of fiscal year 2010, the Company initiated the first phase of a plan to restructure the Film and Electrolytic Business Group (Film and Electrolytic) and to reduce overhead within the Company as a whole. The restructuring plan

Table of Contents

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. Restructuring charges in the nine months ended December 31, 2011 relate to this plan and are primarily comprised of termination benefits of $6.1 million related to facility closures in Italy that will commence during fiscal year 2013 and the Company incurred charges of $4.5 million to participate in a plan to save labor costs whereby a company may temporarily lay off employees while the government continues to pay their wages for a certain period of time. These charges are a continuation of the Company s efforts to restructure its manufacturing operations within Europe, primarily within Film and Electrolytic. Construction has commenced on a new manufacturing facility in Pontecchio, Italy, that will allow the closure and consolidation of multiple manufacturing operations located in Italy. In addition, the Company incurred $1.2 million in personnel reduction costs primarily due to headcount reductions in the Mexican operations of Tantalum. In addition to these personnel reduction costs, the Company incurred manufacturing relocation costs of $1.6 million for relocation of equipment to China and Mexico.

Nine months Ended December 31, 2010

Restructuring expenses in the nine months ended December 31, 2010 are primarily comprised of manufacturing relocation costs of $4.3 million for relocation of equipment from various plants to Mexico and China as well as a distribution center relocation project. In addition, the Company incurred $0.9 million in personnel reduction costs due primarily to headcount reductions for twelve individuals at the upper management or executive level related to the Company s initiative to reduce overhead within the Company as a whole.

Reconciliation of restructuring liability

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

	Quarter Ended December 31, 2011		Nine Months Ended December 31, 2011	
	Personnel Reductions	**Manufacturing Relocations**	**Personnel Reductions**	**Manufacturing Relocations**
Beginning of period	$ 1,121	$	$ 1,825	$
Costs charged to expense	10,487	261	11,732	1,646
Costs paid or settled	(617)	(261)	(2,521)	(1,646)
Change in foreign exchange	(390)		(435)	
End of period	$ 10,601	$	$ 10,601	$

	Quarter Ended December 31, 2010		Nine Months Ended December 31, 2010	
	Personnel Reductions	**Manufacturing Relocations**	**Personnel Reductions**	**Manufacturing Relocations**
Beginning of period	$ 6,739	$	$ 8,398	$
Costs charged to expense	(74)	1,176	941	4,256
Costs paid or settled	(1,418)	(1,176)	(4,188)	(4,256)
Change in foreign exchange	(161)		(65)	
End of period	$ 5,086	$	$ 5,086	$

Table of Contents

Note 5. Accumulated Other Comprehensive Income

Comprehensive income for the quarters and nine months ended December 31, 2011 and 2010 includes the following components (amounts in thousands):

	Quarters Ended December 31, 2011	Quarters Ended December 31, 2010	Nine Months Ended December 31, 2011	Nine Months Ended December 31, 2010
Net income (loss)	$ (27,771)	$ 27,167	$ 18,396	$ 41,979
Amortization of postretirement benefit plan	(82)	(80)	(243)	(230)
Amortization of defined benefit pension plans	118	59	334	171
Currency translation gain (1)	(5,854)	(2,432)	(14,341)	2,736
Net comprehensive income (loss)	$ (33,589)	$ 24,714	$ 4,146	$ 44,656

(1) Due primarily to the Company s permanent re-investment assertion relating to foreign earnings, there was no significant deferred tax effect associated with the cumulative currency translation gains and losses during the quarters and nine month periods ended December 31, 2011 and December 31, 2010.

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

	December 31, 2011	March 31, 2011
Foreign currency translation gain	$ 12,735	$ 27,076
Defined benefit postretirement plan adjustments	1,868	2,111
Defined benefit pension plans	(6,298)	(6,632)
Accumulated other comprehensive income	$ 8,305	$ 22,555

Note 6. Goodwill and Intangible Assets

On June 13, 2011, the Company completed its acquisition of Cornell Dubilier Foil, LLC (whose name was subsequently changed to KEMET Foil Manufacturing, LLC), a Tennessee based manufacturer of etched foils utilized as a core component in the manufacture of aluminum electrolytic capacitors. The purchase price was $15 million plus or minus an adjustment amount, of which $11.6 million (net of cash received) was paid at closing and $1.0 million is to be paid on each of the first, second and third anniversaries of the closing date. The Company recorded goodwill of $1.1 million and amortizable intangibles of $1.7 million. The allocation of the purchase price to specific assets and liabilities was based on the relative fair value of all assets and liabilities. Factors contributing to the purchase price which resulted in the goodwill (which is tax deductible) include the trained workforce. Pro forma results are not presented because the acquisition was not material.

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

	December 31, 2011		March 31, 2011	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Indefinite Lived Intangibles:				
Goodwill	$ 1,092	$	$	$
Trademarks	7,644		7,644	
Unamortized intangibles	8,736		7,644	
Amortized Intangibles:				
Customer relationships, patents and other (3-18 years)	20,875	9,132	20,910	8,462
	$ 29,611	$ 9,132	$ 28,554	$ 8,462

The Company completed its annual impairment test on the indefinite lived intangible assets in the first quarter of fiscal year 2012 and concluded no impairment existed.

Table of Contents

Note 7. Segment and Geographic Information

The Company is organized into three business groups: Tantalum, the Ceramic Business Group (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 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. Tantalum shares with Ceramic the Company s product innovation center in the United States. Tantalum products are sold in all regions of the world.

Ceramic

Ceramic operates in two manufacturing sites in Mexico and a manufacturing site in China. The business group shares with Tantalum the Company s product innovation center in the United States. In addition, Ceramic maintains a design and manufacturing plant for electrical transformers, inductors, chokes, coils and filters in the United States. This business group produces ceramic capacitors. Ceramic products are sold in all regions of the world.

Film and Electrolytic

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

The following table reflects each business group s net sales, operating income (loss), depreciation and amortization expenses and sales by region for the quarters and nine months ended December 31, 2011 and 2010 (amounts in thousands):

	Quarters Ended December 31,		Nine Months Ended December 31,	
	2011	**2010**	**2011**	**2010**
Net sales:				
Tantalum	$ 92,091	$ 125,325	$ 326,824	$ 362,766

Ceramic	47,510	50,060	163,001	161,114
Film and Electrolytic	79,194	89,269	284,340	233,156
	$ 218,795	$ 264,654	$ 774,165	$ 757,036
Operating income (loss)(1):				
Tantalum (2)	$ (14,501)	$ 23,894	$ 13,515	$ 68,866
Ceramic	9,340	8,246	30,752	32,600
Film and Electrolytic	(12,801)	4,851	3,526	2,022
	$ (17,962)	$ 36,991	$ 47,793	$ 103,488
Depreciation and amortization expenses:				
Tantalum	$ 5,351	$ 7,442	$ 18,264	$ 24,548
Ceramic	1,586	2,043	5,391	6,657
Film and Electrolytic	3,436	3,176	9,729	10,098
	$ 10,373	$ 12,661	$ 33,384	$ 41,303
Sales by region:				
North and South America (Americas)	$ 64,256	$ 70,245	$ 218,678	$ 197,946
Europe, Middle East, Africa (EMEA)	84,676	101,303	294,285	273,326
Asia and Pacific Rim (APAC)	69,863	93,106	261,202	285,764
	$ 218,795	$ 264,654	$ 774,165	$ 757,036

Table of Contents

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

	Quarters Ended December 31, 2011	Quarters Ended December 31, 2010	Nine Months Ended December 31, 2011	Nine Months Ended December 31, 2010
Total restructuring:				
Tantalum	$ 6	$ (22)	$ 905	$ 757
Ceramic	1	89	89	276
Film and Electrolytic	10,741	1,035	12,384	4,164
	$ 10,748	$ 1,102	$ 13,378	$ 5,197

(2) Write down of long lived assets of $15.8 million is included within Operating income (loss) for the three and nine months ended December 31, 2011.

The following table reflects each business group s total assets as of December 31, 2011 and March 31, 2011 (amounts in thousands):

	December 31, 2011	March 31, 2011
Total assets:		
Tantalum	$ 384,873	$ 435,311
Ceramic	174,745	179,639
Film and Electrolytic	242,061	269,359
	$ 801,679	$ 884,309

Note 8. Defined Benefit Pension and Other Postretirement Benefit Plans

The Company sponsors defined benefit pension plans which include seven plans in Europe, one plan in Singapore and two plans 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, 2011 and 2010 (amounts in thousands):

	Pension Quarters Ended December 31, 2011	Pension Quarters Ended December 31, 2010	Postretirement Benefit Plans Quarters Ended December 31, 2011	Postretirement Benefit Plans Quarters Ended December 31, 2010
Net service cost	$ 331	$ 266	$	$
Interest cost	533	457	11	16
Expected return on net assets	(175)	(164)		
Amortization:				
Actuarial (gain) loss	96	31	(81)	(72)
Prior service cost	6	5		

Total net periodic benefit (income) costs	$ 791	$ 595	$ (70)	$ (56)

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, 2011 and 2010 (amounts in thousands):

	Pension Nine Months Ended December 31, 2011	Pension Nine Months Ended December 31, 2010	Postretirement Benefit Plans Nine Months Ended December 31, 2011	Postretirement Benefit Plans Nine Months Ended December 31, 2010
Net service cost	$ 994	$ 798	$	$
Interest cost	1,600	1,371	33	47
Expected return on net assets	(525)	(492)		
Amortization:				
Actuarial (gain) loss	287	93	(243)	(230)
Prior service cost	18	15		
Total net periodic benefit (income) costs	$ 2,374	$ 1,785	$ (210)	$ (183)

In fiscal year 2012, the Company expects to contribute up to $1.9 million to the pension plans of which the Company has contributed $0.8 million as of December 31, 2011. The Company s policy is to pay benefits as costs are incurred for the postretirement benefit plans.

Note 9. Stock-based Compensation

Stock Options

At December 31, 2011, the Company had four 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, the 2004 Long-Term Equity Incentive Plan (collectively, the Prior Plans) and the 2011 Omnibus Equity Incentive Plan (the 2011 Incentive Plan). All of these plans were approved by the Company s stockholders. The 2011 Incentive Plan has authorized the grant of up to 4.8 million shares of the Company s common stock, which is comprised of 4.0 million shares under the new plan and 0.8 million shares which remained under the Prior Plans. The 2011 Incentive Plan authorizes the Company to provide equity-based compensation in the form of (1) stock options, including incentive stock options, entitling the optionee to favorable tax treatment under Section 422 of the Code; (2) stock appreciation rights; (3) restricted stock and restricted stock units; (4) other share-based awards; and (5) performance awards. Options issued under these plans vest within one to three years and expire ten years from the grant date. Stock options granted to the Company s Chief Executive Officer on January 27, 2010 vest 50% on June 30, 2014 and 50% on June 30, 2015.. If available, the Company issues shares of Common Stock from treasury stock upon exercise of stock options and vesting of restricted stock units.

On October 31, 2011, the Company granted a total of 376,000 options pursuant to the 2011 Incentive Plan to certain non-executive key members of the management group. These options vest on a pro-rata basis over a three year period and expire on October 31, 2021. The exercise price of the options was $9.22 per share (not less than 100% of the value of the Company s common shares on the date of grant). The grant date fair value per share was $4.95, $5.94 and $5.98 for the tranches that vest on October 31, 2012, 2013 and 2014, respectively.

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

	Quarter Ended December 31, 2011
Assumptions:	
Expected option lives	4.1 years
Expected volatility	84.7%
Risk-free interest rate	0.7%
Dividend yield	0%

Table of Contents

The compensation expense (recovery) associated with stock-based compensation for the quarters and nine month periods ended December 31, 2011 and 2010 were recorded on the Condensed Consolidated Statements of Operations as follows (amounts in thousands):

	Quarters Ended December 31, 2011	Quarters Ended December 31, 2010	Nine Months Ended December 31, 2011	Nine Months Ended December 31, 2010
Cost of sales	$ (114)	$ 56	$ 341	$ 126
Selling, general and administrative expenses	(683)	373	1,037	785
Total stock-based compensation expense (recovery)	$ (797)	$ 429	$ 1,378	$ 911

In the Operating activities section of the Condensed Consolidated Statements of Cash Flows, stock-based compensation expense was treated as an adjustment to Net income for the nine month periods ended December 31, 2011 and 2010. Approximately 66 thousand and 118 thousand stock options were exercised in the quarter and nine month periods ended December 31, 2011, respectively. Approximately 11 thousand stock options were exercised during the quarter and nine month period ended December 31, 2010.

Restricted Stock

The Company grants shares of its common stock as restricted stock to members of the Board of Directors and the Chief Executive Officer. Restricted stock and restricted stock units granted to the Board of Directors vest within one year while restricted stock granted to the Chief Executive Officer on January 27, 2010 vests 50% on June 30, 2014 and 50% on June 30, 2015. Once vested, restricted shares cannot be sold until 90 days after the Chief Executive Officer or the member of the Board of Directors resigns from his position. The contractual term on restricted stock is indefinite. In the third quarter of fiscal year 2012, 50 thousand shares of restricted stock units were granted to the non-management members of the Board of Directors. In the second quarter of fiscal year 2011, 47 thousand shares of restricted stock were granted to the non-management members of the Board of Directors. As of December 31, 2011, there was $0.6 million in unrecognized compensation costs related to the unvested restricted stock based compensation arrangements granted.

2012/2013 LTIP

During the first quarter of fiscal year 2012, the Board of Directors of the Company approved the 2012/2013 LTIP, a new long-term incentive plan based upon the achievement of an Adjusted EBITDA target for the two-year period comprised of fiscal years ending in March 2012 and 2013. At the time of the award, participants will receive restricted shares of the Company s common stock of up to 100% of the award earned. The Company assesses the likelihood of meeting the Adjusted EBITDA financial metric on a quarterly basis and recorded a recovery of $1.3 million in the quarter ended December 31, 2011 and no expense for the nine month period ended December 31, 2011. The Company will continue to monitor the likelihood of whether the Adjusted EBITDA financial metric will be realized and will adjust compensation expense to match expectations.

2011/2012 LTIP

During the first quarter of fiscal year 2011, the Board of Directors of the Company approved the 2011/2012 LTIP, a long-term incentive plan based upon the achievement of an Adjusted EBITDA target for the two-year period comprised of fiscal years ending in March 2011 and 2012. At the time of the award, participants will receive at least 10% of the earned award in restricted shares of the Company s common stock; and the remainder of the award earned will be realized in cash. The Company assesses the likelihood of meeting the Adjusted EBITDA financial metric on a quarterly basis and recorded expense of $1.3 million in the nine month period ended December 31, 2011, based on this assessment. The Company recorded no expense for the quarter ended December 31, 2011. As of December 31, 2011, the Company had accrued $5.6 million and the related liability is reflected in the line item Accrued expenses on the Condensed Consolidated Balance Sheets and $0.6 million in the line item Additional paid-in capital on the Condensed Consolidated Balance Sheets. The Company will continue to monitor the likelihood of whether the Adjusted EBITDA financial metric will be realized and will adjust compensation expense to match expectations.

2010/2011 LTIP

During the second quarter of fiscal year 2010, the Board of Directors of the Company approved the 2010/2011 LTIP, a long-term incentive plan based upon the achievement of an Adjusted EBITDA target for the two-year period comprised of fiscal years ending in March 2010 and 2011. At the time of the award and at the sole discretion of the Compensation Committee, participants may receive up to 15% of the award in restricted shares of the Company s common stock, and the remainder of the award will be realized in cash. During the second quarter of fiscal year 2012, the Company paid the cash component of the award and issued 15% of the total award in restricted shares.

Table of Contents

Note 10. Income Taxes

During the third quarter of fiscal year 2012, the Company incurred $2.1 million income tax expense which is comprised of $1.4 million related to two foreign tax jurisdictions that imposed new tax laws which limited the utilization of net operating losses and $0.7 million primarily related to income taxes for foreign operations.

During the third quarter of fiscal year 2011, the Company incurred $0.6 million of income tax expense which primarily relates to foreign operations. There was no U.S. federal or state income tax expense due to the utilization of net operating loss carryforward deductions and a valuation allowance on net deferred tax assets.

Income tax expense for the nine month period ended December 31, 2011 was $5.9 million, comprised of a $6.9 million income tax expense related to foreign operations, a $0.9 million U.S. federal income tax benefit related to a prior year settlement, and $0.1 million of state income tax benefit.

Income tax expense for the nine month period ended December 31, 2010 was $2.5 million, comprised of $2.4 million related to foreign operations and $0.1 million of state income tax expense.

The effective income tax rate was 24.3% and 5.6% for the nine month periods ended December 31, 2011 and 2010, respectively.

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

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

	Quarters Ended December 31,		Nine Months Ended December 31,	
	2011	**2010**	**2011**	**2010**
Numerator:				
Net income (loss)	$ (27,771)	$ 27,167	$ 18,396	$ 41,979
Denominator:				
Weighted-average shares outstanding:				
Basic	44,644	28,295	42,834	27,464
Assumed conversion of employee stock options		338	294	296
Assumed conversion of Platinum Warrant		23,327	9,174	23,364
Diluted	44,644	51,960	52,302	51,124
Net income (loss) per share:				
Basic	$ (0.62)	$ 0.96	$ 0.43	$ 1.53

Diluted	$ (0.62)	$ 0.52	$ 0.35	$ 0.82

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

	Quarters Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
Assumed conversion of employee stock options	1,402	848	795	799
Assumed conversion of Platinum Warrant	7,336			

Note 12. Stockholders Equity

On May 31, 2011, K Equity sold a portion of the Platinum Warrant to Deutsche Bank Securities Inc., in connection with an offering of 7.0 million shares of the Company s common stock, at a public offering price of $14.60 per share. K Equity retained the remaining portion of the warrant, representing the right to purchase 8.4 million shares of the Company s common stock.

At the July 27, 2011 annual meeting of stockholders, an amendment to the Company s Restated Certificate of Incorporation to reduce the number of authorized shares of common stock from 300,000,000 to 175,000,000 was approved. The amendment became effective August 1, 2011 pursuant to a Certificate of Amendment to the Company s Restated Certificate of Incorporation filed with the Delaware Secretary of State.

Table of Contents

Note 13. Concentrations of Risks

Sales and Credit Risks

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 its customers. One customer, TTI, Inc., accounted for over 10% of the Company s net sales in the quarters and nine month periods ended December 31, 2011 and 2010. There were no customers accounts receivable balances exceeding 10% of gross accounts receivable at December 31, 2011 or March 31, 2011.

Electronics distributors are an important distribution channel in the electronics industry and accounted for 43% and 51% of the Company s net sales in the nine month periods ended December 31, 2011 and 2010, respectively. As a result of the Company s concentration of sales to electronics distributors, the Company may experience fluctuations in the Company s operating results as electronics distributors experience fluctuations in end-market demand or adjust their inventory stocking levels.

Employee Risks

As of December 31, 2011, KEMET had approximately 10,000 employees, of which 600 are located in the United States, 5,000 in Mexico, 2,500 in Asia and 1,900 in Europe. The number of employees represented by labor organizations at KEMET locations in each of the following countries is: 3,300 hourly employees in Mexico (as required by Mexican law), 700 employees in Italy, 600 employees in Indonesia, 100 employees in Portugal, 200 employees in China, 250 employees in Bulgaria, 200 employees in Finland and 100 employees in Sweden. For fiscal year 2011 and the current fiscal year to date, the Company has not experienced any major work stoppages. The Company s labor costs in Mexico, Asia and various locations in Europe are denominated in local currencies, and a significant depreciation or appreciation of the United States dollar against the local currencies would increase or decrease labor costs.

Note 14. Condensed Consolidating Financial Statements

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

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

Table of Contents

Condensed Consolidating Balance Sheet

December 31, 2011

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 6,803	$ 99,567	$ 29,679	$	$ 136,049
Accounts receivable, net		41,621	60,811		102,432
Intercompany receivable	131,265	141,989	159,727	(432,981)	
Inventories, net		111,800	100,318		212,118
Restricted cash					
Prepaid expenses and other	208	8,377	14,951		23,536
Deferred income taxes		(205)	4,232		4,027
Total current assets	138,276	403,149	369,718	(432,981)	478,162
Property and equipment, net	36	98,779	191,230		290,045
Investments in subsidiaries	376,050	346,498	(5,686)	(716,862)	
Goodwill and intangible assets, net		10,680	9,799		20,479
Other assets	5,612	6,193	1,188		12,993
Long-term intercompany receivable	76,713	93,192		(169,905)	
Total assets	$ 596,687	$ 958,491	$ 566,249	$ (1,319,748)	$ 801,679
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Current portion of long-term debt	$ 1	$	$ 1,218	$	$ 1,219
Accounts payable		31,643	39,429		71,072
Intercompany payable	2,586	331,594	98,800	(432,980)	
Accrued expenses	4,247	22,816	38,010		65,073
Income taxes payable	(2,785)	2,779	4,245		4,239
Total current liabilities	4,049	388,832	181,702	(432,980)	141,603
Long-term debt, less current portion	227,416		2,431		229,847
Other non-current obligations		5,504	52,609		58,113
Deferred income taxes		672	6,222		6,894
Long-term intercompany payable		76,713	93,193	(169,906)	
Stockholders equity	365,222	486,770	230,092	(716,862)	365,222
Total liabilities and stockholders equity	$ 596,687	$ 958,491	$ 566,249	$ (1,319,748)	$ 801,679

Table of Contents

Condensed Consolidating Balance Sheet

March 31, 2011

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 6,417	$ 119,326	$ 26,308	$	$ 152,051
Accounts receivable, net		64,380	85,990		150,370
Intercompany receivable	190,973	176,233	197,329	(564,535)	
Inventories, net		113,908	92,830	(298)	206,440
Prepaid expenses and other	302	11,034	16,761		28,097
Deferred income taxes	(596)	1,373	4,524		5,301
Total current assets	197,096	486,254	423,742	(564,833)	542,259
Property and equipment, net	122	82,962	227,328		310,412
Investments in subsidiaries	347,997	333,801	(5,686)	(676,112)	
Intangible assets, net		8,666	11,426		20,092
Other assets	6,160	4,356	1,030		11,546
Long-term intercompany receivable	84,231	102,324		(186,555)	
Total assets	$ 635,606	$ 1,018,363	$ 657,840	$ (1,427,500)	$ 884,309
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Current portion of long-term debt	$ 39,012	$	$ 3,089	$	$ 42,101
Accounts payable	40	32,762	58,195		90,997
Intercompany payable	732	419,043	145,058	(564,833)	
Accrued expenses	10,837	31,330	46,124		88,291
Income taxes payable	(1,380)	1,434	4,211		4,265
Total current liabilities	49,241	484,569	256,677	(564,833)	225,654
Long-term debt, less current portion	227,208		4,007		231,215
Other non-current obligations		7,989	51,738		59,727
Deferred income taxes	(596)	2,169	6,387		7,960
Long-term intercompany payable		84,231	102,324	(186,555)	
Stockholders equity	359,753	439,405	236,707	(676,112)	359,753
Total liabilities and stockholders equity	$ 635,606	$ 1,018,363	$ 657,840	$ (1,427,500)	$ 884,309

Table of Contents

Condensed Consolidating Statement of Operations

For the Quarter Ended December 31, 2011

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
Net sales	$	$ 218,614	$ 200,560	$ (200,379)	$ 218,795
Operating costs and expenses:					
Cost of sales	265	184,345	193,591	(199,896)	178,305
Selling, general and administrative expenses	6,269	8,038	10,913	(483)	24,737
Research and development		4,809	2,363		7,172
Restructuring charges		(19)	10,767		10,748
Write down of long-lived assets			15,786		15,786
Net (gain) loss on sales and disposals of assets		78	(69)		9
Total operating costs and expenses	6,534	197,251	233,351	(200,379)	236,757
Operating income (loss)	(6,534)	21,363	(32,791)		(17,962)
Other (income) expense:					
Interest income	(3)	(19)	(40)		(62)
Interest expense	6,734	107	195		7,036
Other (income) expense, net	(6,039)	7,749	(696)	(298)	716
Equity in earnings of subsidiaries	20,545			(20,545)	
Income (loss) before income taxes	(27,771)	13,526	(32,250)	20,843	(25,652)
Income tax expense		49	2,070		2,119
Net income (loss)	$ (27,771)	$ 13,477	$ (34,320)	$ 20,843	$ (27,771)

Table of Contents

Condensed Consolidating Statement of Operations

For the Quarter Ended December 31, 2010

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
Net sales	$	$ 241,995	$ 242,693	$ (220,034)	$ 264,654
Operating costs and expenses:					
Cost of sales	97	182,653	222,229	(212,847)	192,132
Selling, general and administrative expenses	4,651	19,719	10,291	(7,208)	27,453
Research and development		5,038	1,909		6,947
Restructuring charges		654	448		1,102
Net loss on sales and disposals of assets		6	23		29
Total operating costs and expenses	4,748	208,070	234,900	(220,055)	227,663
Operating income (loss)	(4,748)	33,925	7,793	21	36,991
Other (income) expenses:					
Interest income	(4)	48	(12)	(60)	(28)
Interest expense	7,081	47	568	60	7,756
Other (income) expense, net	(4,369)	6,365	(525)		1,471
Equity in earnings of subsidiaries	(34,623)			34,623	
Income before income taxes	27,167	27,465	7,762	(34,602)	27,792
Income tax expense		39	586		625
Net income	$ 27,167	$ 27,426	$ 7,176	$ (34,602)	$ 27,167

Table of Contents

Condensed Consolidating Statement of Operations

For the Nine Months Ended December 31, 2011

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
Net sales	$	$ 738,052	$ 725,897	$ (689,784)	$ 774,165
Operating costs and expenses:					
Cost of sales	551	610,850	653,281	(672,554)	592,128
Selling, general and administrative expenses	23,335	41,249	36,628	(17,844)	83,368
Research and development		15,112	6,508		21,620
Restructuring charges		1,819	11,559		13,378
Write down of long-lived assets			15,786		15,786
Net (gain) loss on sales and disposals of assets	3	107	(18)		92
Total operating costs and expenses	23,889	669,137	723,744	(690,398)	726,372
Operating income (loss)	(23,889)	68,915	2,153	614	47,793
Other (income) expenses:					
Interest income	(9)	(46)	(81)		(136)
Interest expense	20,868	265	585		21,718
Other (income) expense, net	(27,833)	31,569	(1,589)	(229)	1,918
Equity in earnings of subsidiaries	(34,119)			34,119	
Income before income taxes	17,204	37,127	3,238	(33,276)	24,293
Income tax expense (benefit)	(1,192)	146	6,943		5,897
Net income	$ 18,396	$ 36,981	$ (3,705)	$ (33,276)	$ 18,396

Table of Contents

Condensed Consolidating Statement of Operations

For the Nine Months Ended December 31, 2010

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
Net sales	$	$ 714,040	$ 727,531	$ (684,535)	$ 757,036
Operating costs and expenses:					
Cost of sales	97	547,261	663,229	(656,699)	553,888
Selling, general and administrative expenses	25,265	48,018	29,649	(26,265)	76,667
Research and development		14,200	5,002		19,202
Restructuring charges		3,726	1,471		5,197
Net (gain) loss on sales and disposals of assets		(1,777)	371		(1,406)
Total operating costs and expenses	25,362	611,428	699,722	(682,964)	653,548
Operating income (loss)	(25,362)	102,612	27,809	(1,571)	103,488
Interest income	(17)	(89)	(27)		(133)
Interest expense	21,293	141	1,114		22,548
Loss on early extinguishment of debt	38,248				38,248
Other (income) expense, net	(19,049)	18,625	(1,320)	97	(1,647)
Equity in earnings of subsidiaries	(107,816)			107,816	
Income before income taxes	41,979	83,935	28,042	(109,484)	44,472
Income tax expense		146	2,347		2,493