

KEMET CORP  
Form 10-Q  
November 03, 2011  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2011

**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**

(State or other jurisdiction of incorporation or organization)

**57-0923789**

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

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**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

Smaller reporting company o

(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant's common stock, par value \$0.01 per share, as of October 31, 2011 was 44,630,742.

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**KEMET CORPORATION AND SUBSIDIARIES**

**Form 10-Q for the Quarter Ended September 30, 2011**

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(Amounts in thousands, except per share data)

	September 30, 2011 (Unaudited)	March 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 127,163	\$ 152,051
Accounts receivable, net	114,499	150,370
Inventories, net	224,573	206,440
Restricted cash	36,497	
Prepaid expenses and other	31,477	28,097
Deferred income taxes	5,351	5,301
Total current assets	539,560	542,259
Property and equipment, net of accumulated depreciation of \$762,380 and \$740,773 as of September 30, 2011 and March 31, 2011, respectively	310,032	310,412
Goodwill and intangible assets, net	21,329	20,092
Other assets	10,765	11,546
Total assets	\$ 881,686	\$ 884,309
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 37,695	\$ 42,101
Accounts payable, trade	74,424	90,997
Accrued expenses	77,036	88,291
Income taxes payable	3,044	4,265
Total current liabilities	192,199	225,654
Long-term debt, less current portion	229,611	231,215
Other non-current obligations	51,780	59,727
Deferred income taxes	8,559	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 September 30, 2011 and March 31, 2011, respectively	465	395
Additional paid-in capital	469,969	479,322
Retained deficit	(41,578)	(87,745)
Accumulated other comprehensive income	14,122	22,555
Treasury stock, at cost (1,880 and 2,370 shares at September 30, 2011 and March 31, 2011, respectively)	(43,441)	(54,774)
Total stockholders' equity	399,537	359,753
Total liabilities and stockholders' equity	\$ 881,686	\$ 884,309

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See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Quarters Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Net sales	\$ 265,514	\$ 248,588	\$ 555,370	\$ 492,382
Operating costs and expenses:				
Cost of sales	203,319	178,870	413,823	361,756
Selling, general and administrative expenses	28,355	24,999	58,631	49,214
Research and development	7,362	6,224	14,448	12,255
Restructuring charges	1,605	2,303	2,630	4,095
Net (gain) loss on sales and disposals of assets	(40)	(1,770)	83	(1,435)
Total operating costs and expenses	240,601	210,626	489,615	425,885
Operating income	24,913	37,962	65,755	66,497
Other (income) expense:				
Interest income	(31)	(84)	(74)	(105)
Interest expense	7,282	7,334	14,682	14,792
Other (income) expense, net	1,297	(4,792)	1,202	(3,118)
Loss on early extinguishment of debt				38,248
Income before income taxes	16,365	35,504	49,945	16,680
Income tax expense	2,047	593	3,778	1,868
Net income	\$ 14,318	\$ 34,911	\$ 46,167	\$ 14,812
Net income per share:				
Basic	\$ 0.32	\$ 1.29	\$ 1.10	\$ 0.55
Diluted	\$ 0.27	\$ 0.68	\$ 0.88	\$ 0.29
Weighted-average shares outstanding:				
Basic	44,370	27,092	41,924	27,092
Diluted	52,230	51,194	52,307	50,529

See accompanying notes to the unaudited condensed consolidated financial statements.

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(Amounts in thousands)

(Unaudited)

	<b>Six Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Sources (uses) of cash and cash equivalents Operating activities:</b>		
Net income	\$ 46,167	\$ 14,812
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	23,011	28,642
Amortization of debt discount and debt issuance costs	2,056	2,754
Net (gain) loss on sales and disposals of assets	83	(1,435)
Stock-based compensation expense	2,175	482
Change in deferred income taxes	379	(418)
Change in operating assets	18,438	(39,109)
Change in operating liabilities	(42,517)	14,376
Other	1,197	(1,907)
Loss on early extinguishment of debt		38,248
Net cash provided by operating activities	50,989	56,445
<b>Investing activities:</b>		
Capital expenditures	(20,105)	(13,821)
Acquisition, net of cash received	(11,584)	
Proceeds from sales of assets		5,425
Net cash used in investing activities	(31,689)	(8,396)
<b>Financing activities:</b>		
Change in restricted cash	(36,497)	
Proceeds from issuance of debt		227,434
Payments of long-term debt	(4,084)	(228,543)
Net payments under other credit facilities	(3,153)	(1,779)
Proceeds from exercise of stock options	159	
Debt issuance costs	(29)	(7,461)
Debt extinguishment costs		(207)
Net cash used in financing activities	(43,604)	(10,556)
Net increase (decrease) in cash and cash equivalents	(24,304)	37,493
Effect of foreign currency fluctuations on cash	(584)	762
Cash and cash equivalents at beginning of fiscal period	152,051	79,199
Cash and cash equivalents at end of fiscal period	\$ 127,163	\$ 117,454

See accompanying notes to the unaudited condensed consolidated financial statements.

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**Notes to Condensed Consolidated Financial Statements**

**Note 1. Basis of Financial Statement Presentation**

The condensed consolidated financial statements contained herein are unaudited and have been prepared from the books and records of KEMET Corporation and its subsidiaries ( KEMET or the Company ). In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q, and therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles ( U.S. GAAP ). Although the Company believes 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 six months ended September 30, 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 six month period ended September 30, 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. ASU 2011-05 will be



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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***

On August 15, 2011, the Company elected to have a restriction placed on a portion of the Company's cash balance as set forth in the Loan and Security Agreement (hereinafter defined). The restriction arose due to the Company's next potential principal payment on November 15, 2011 when the holders of the Convertible Notes (hereinafter defined) have the right to require the Company to repurchase for cash all or a portion of the Convertible Notes outstanding of \$36.5 million. The \$36.5 million is included in the line item "Restricted cash" on the Condensed Consolidated Balance Sheet as of September 30, 2011.

A guarantee was issued by a European bank on behalf of the Company in August 2006 in conjunction with the establishment of a Valued-Added Tax ( VAT ) registration in The Netherlands. The bank guarantee is in the amount of EUR 1.5 million (\$2.0 million). An interest-bearing deposit was placed with a European bank for EUR 1.7 million (\$2.2 million). The deposit is in KEMET's name, and KEMET receives all interest earned by this deposit. However, the deposit is pledged to the European bank, and the bank

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can use the 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 \$2.2 million and \$2.3 million is included in the line item Other assets on the Condensed Consolidated Balance Sheets as of September 30, 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.

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- 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 September 30, 2011 and March 31, 2011 are as follows (amounts in thousands):

	Fair Value September 30, 2011			Fair Value March 31, 2011		
	Fair Value Measurement Using Level 1	Fair Value Measurement Using Level 2 (2)	Fair Value Measurement Using Level 3	Fair Value Measurement Using Level 1	Fair Value Measurement Using Level 2 (2)	Fair Value Measurement Using Level 3
<b>Assets:</b>						
Money markets (1)	\$ 31,192	\$ 31,192	\$	\$ 51,157	\$ 51,157	\$
Debt	283,635	280,274	3,361	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.

### ***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) collectability is reasonably assured.

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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 respective 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 approximately 1% for the quarters and six month periods ended September 30, 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):

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	September 30, 2011		March 31, 2011	
Raw materials and supplies	\$	96,059	\$	78,913
Work in process		69,532		78,681
Finished goods		76,240		64,310
		241,831		221,904
Inventory reserves		(17,258)		(15,464)
Total inventory	\$	224,573	\$	206,440

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

	September 30, 2011	March 31, 2011
10.5% Senior Notes, net of discount of \$2,655 and \$2,792 as of September 30, 2011 and March 31, 2011, respectively	\$ 227,345	\$ 227,208
Convertible Notes, net of discount of \$344 and \$1,569 as of September 30, 2011 and March 31, 2011, respectively	36,153	39,012
Other	3,808	7,096
Total debt	267,306	273,316
Current maturities	(37,695)	(42,101)
Total long-term debt	\$ 229,611	\$ 231,215

The line item Interest expense on the Condensed Consolidated Statements of Operations for the quarters and six months ended September 30, 2011 and 2010, is as follows (amounts in thousands):

	Quarters Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Contractual interest expense	\$ 6,270	\$ 6,504	\$ 12,626	\$ 12,038
Amortization of debt issuance costs	280	177	555	606
Amortization of debt discount	732	653	1,501	2,148
Total interest expense	\$ 7,282	\$ 7,334	\$ 14,682	\$ 14,792

**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.p.A. (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 \$5.8 million as of September 30, 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 \$10.1 million at September 30, 2011 and March 31, 2011.

***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.

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Debt issuance costs related to the Loan and Security Agreement, net of amortization, were \$1.1 million and \$1.3 million as of September 30, 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 September 30, 2011 or March 31, 2011.

**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 bear interest at a rate of 2.25% per annum, payable in cash semi-annually in arrears on each May 15 and November 15. The Convertible Notes are 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 exceeds 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 has 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 represents a conversion price of approximately \$29.10 per share, subject to adjustments. The Convertible Notes are currently not convertible.

The terms of the Convertible Notes are governed by the Convertible Notes Indenture. The Convertible Notes mature on November 15, 2026 unless earlier redeemed, repurchased or converted. The Company may 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 will have 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. Currently there is \$36.5 million of Convertible Notes outstanding.

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

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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. Restructuring Charges**

A summary of the expenses aggregated on the Condensed Consolidated Statements of Operations line item Restructuring charges in the quarters and six months ended September 30, 2011 and 2010, is as follows (amounts in thousands):

	Quarters Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Manufacturing relocation costs	\$ 637	\$ 1,642	\$ 1,385	\$ 3,080
Personnel reduction costs	968	661	1,245	1,015
Restructuring charges	\$ 1,605	\$ 2,303	\$ 2,630	\$ 4,095

*Six Months Ended September 30, 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 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 six months ended September 30, 2011 relate to this plan and are primarily comprised of manufacturing relocation costs of \$1.4 million for relocation of equipment to China and Mexico. In addition, the Company incurred \$1.2 million in personnel reduction costs primarily due to headcount reductions in the Mexican operations of the Tantalum Business Group ( Tantalum ).

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Six Months Ended September 30, 2010

Restructuring expenses in the six month period ended September 30, 2010 are primarily comprised of manufacturing relocation costs of \$3.1 million for relocation of equipment from various plants to Mexico or China as well as relocation of the European distribution center. In addition, the Company incurred \$1.0 million in personnel reduction costs due primarily to headcount reductions within Film and Electrolytic.

*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 September 30, 2011		Quarter Ended September 30, 2010	
	Personnel Reductions	Manufacturing Relocations	Personnel Reductions	Manufacturing Relocations
Beginning of period	\$ 1,751	\$	\$ 6,696	\$
Costs charged to expense	967	638	661	1,642
Costs paid or settled	(1,529)	(638)	(1,280)	(1,642)
Change in foreign exchange	(68)		662	
End of period	\$ 1,121	\$	\$ 6,739	\$

	Six Months Ended September 30, 2011		Six Months Ended September 30, 2010	
	Personnel Reductions	Manufacturing Relocations	Personnel Reductions	Manufacturing Relocations
Beginning of period	\$ 1,825	\$	\$ 8,398	\$
Costs charged to expense	1,245	1,385	1,015	3,080
Costs paid or settled	(1,904)	(1,385)	(2,770)	(3,080)
Change in foreign exchange	(45)		96	
End of period	\$ 1,121	\$	\$ 6,739	\$

**Note 4. Accumulated Other Comprehensive Income**

Comprehensive income for the quarters and six months ended September 30, 2011 and 2010 includes the following components (amounts in thousands):

	Quarters Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Net income	\$ 14,318	\$ 34,911	\$ 46,167	\$ 14,812
Amortization of postretirement benefit plan	(91)	(75)	(161)	(150)
	100	37	216	112

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Amortization of defined benefit pension plans

Currency translation gain (loss) (1)	(11,592)	15,942	(8,487)	5,168
Net income and other comprehensive income	\$ 2,735	\$ 50,815	\$ 37,735	\$ 19,942

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(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 six month periods ended September 30, 2011 and September 30, 2010.

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

	September 30, 2011		March 31, 2011	
Foreign currency translation gain	\$	18,589	\$	27,076
Defined benefit postretirement plan adjustments		1,949		2,111
Defined benefit pension plans		(6,416)		(6,632)
Accumulated other comprehensive income	\$	14,122	\$	22,555

**Note 5. 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 intangible assets (amounts in thousands):

	September 30, 2011		March 31, 2011	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
<b><u>Indefinite Lived Intangibles:</u></b>				
Goodwill	\$	1,092	\$	\$
Trademarks		7,644		7,644
Unamortized Intangibles		8,736		7,644
<b><u>Amortized Intangibles:</u></b>				
Customer relationships, patents and other (3-18 years)		21,577		8,984
	\$	30,313	\$	8,984
			\$	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.

**Note 6. Segment and Geographic Information**

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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.

Table of Contents*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. In addition, the business group has a product innovation center in Sweden. Film and Electrolytic products are sold in all regions in the world.

The following table reflects each business group's net sales, operating income (loss), depreciation and amortization expenses and sales by region for the quarters and six months ended September 30, 2011 and 2010 (amounts in thousands):

	Quarters Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
<b>Net sales:</b>				
Tantalum	\$ 112,290	\$ 123,873	\$ 234,733	\$ 237,441
Ceramic	56,112	56,730	115,491	111,054
Film and Electrolytic	97,112	67,985	205,146	143,887
	\$ 265,514	\$ 248,588	\$ 555,370	\$ 492,382
<b>Operating income (1):</b>				
Tantalum	\$ 10,601	\$ 27,466	\$ 28,013	\$ 44,972
Ceramic	10,553	13,324	21,409	24,354
Film and Electrolytic	3,759	(2,828)	16,333	(2,829)
	\$ 24,913	\$ 37,962	\$ 65,755	\$ 66,497
<b>Depreciation and amortization expenses:</b>				
Tantalum	\$ 6,705	\$ 8,788	\$ 12,913	\$ 17,106
Ceramic	2,002	4,653	3,805	6,922
Film and Electrolytic	3,145	691	6,293	4,614
	\$ 11,852	\$ 14,132	\$ 23,011	\$ 28,642
<b>Sales by region:</b>				
North and South America (Americas)	\$ 81,662	\$ 70,915	\$ 154,422	\$ 127,701
Europe, Middle East, Africa (EMEA)	106,897	85,651	209,609	172,023
Asia and Pacific Rim (APAC)	76,954	92,022	191,339	192,658
	\$ 265,513	\$ 248,588	\$ 555,370	\$ 492,382

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

	Quarters Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
<b>Total restructuring:</b>				
Tantalum	\$ 864	\$ 322	\$ 899	\$ 779
Ceramic	49	93	88	187
Film and Electrolytic	692	1,888	1,643	3,129
	\$ 1,605	\$ 2,303	\$ 2,630	\$ 4,095



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The following table reflects each business group's total assets as of September 30, 2011 and March 31, 2011 (amounts in thousands):

	September 30, 2011		March 31, 2011	
<b>Total assets:</b>				
Tantalum	\$	369,352	\$	435,311
Ceramic		160,111		179,639
Film and Electrolytic		352,223		269,359
	\$	881,686	\$	884,309

Table of Contents**Note 7. Defined Benefit Pension and Other Postretirement Benefit Plans**

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

The components of net periodic benefit costs relating to the Company's pension and other postretirement benefit plans are as follows for the quarters ended September 30, 2011 and 2010 (amounts in thousands):

	Pension		Postretirement Benefit Plans	
	Quarters Ended September 30, 2011	Quarters Ended September 30, 2010	Quarters Ended September 30, 2011	Quarters Ended September 30, 2010
Net service cost	\$ 331	\$ 266	\$	\$
Interest cost	533	457	8	16
Expected return on net assets	(175)	(164)		
Amortization:				
Actuarial (gain) loss	96	31	(91)	(79)
Prior service cost	6	5		
Total net periodic benefit (income) costs	\$ 791	\$ 595	\$ (83)	\$ (63)

The components of net periodic benefit costs relating to the Company's pension and other postretirement benefit plans are as follows for the six month periods ended September 30, 2011 and 2010 (amounts in thousands):

	Pension		Postretirement Benefit Plans	
	Six Months Ended September 30, 2011	Six Months Ended September 30, 2010	Six Months Ended September 30, 2011	Six Months Ended September 30, 2010
Net service cost	\$ 663	\$ 532	\$	\$
Interest cost	1,067	914	22	31
Expected return on net assets	(350)	(328)		
Amortization:				
Actuarial (gain) loss	191	62	(162)	(158)
Prior service cost	12	10		
Total net periodic benefit (income) costs	\$ 1,583	\$ 1,190	\$ (140)	\$ (127)

In fiscal year 2012, the Company expects to contribute up to \$4.5 million to the pension plans of which the Company has contributed \$0.5 million as of September 30, 2011. The Company's policy is to pay benefits as costs are incurred for the postretirement benefit plans.

**Note 8. Stock-based Compensation**

*Stock Options*

At September 30, 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 usually vest in one or two 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 September 30, 2014 and 50% on September 30, 2015.

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The compensation expense associated with stock-based compensation for the quarters and six month periods ended September 30, 2011 and 2010 were recorded on the Condensed Consolidated Statements of Operations as follows (amounts in thousands):

	Quarters Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Cost of sales	\$ 207	\$ 32	\$ 455	\$ 70
Selling, general and administrative expenses	777	301	1,720	412
Total stock-based compensation expense	\$ 984	\$ 333	\$ 2,175	\$ 482

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 six month periods ended September 30, 2011 and 2010. Approximately 52 thousand stock options were exercised in the six month period ended September 30, 2011. No stock options were exercised during the six month period ended September 30, 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 granted to the Board of Directors vests in one year while restricted stock granted to the Chief Executive Officer on January 27, 2010 vests 50% on September 30, 2014 and 50% on September 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 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 September 30, 2011, there was \$0.2 million in unrecognized compensation costs related to the unvested restricted stock share 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 expense of \$0.6 million and \$1.3 million in the quarter ended and six month period ended September 30, 2011, respectively. For the first and second quarters of fiscal year 2012, the Company anticipated that the award will be paid out entirely in restricted shares; accordingly the equity component is reflected in the line item *Additional paid-in capital* on the Condensed Consolidated Balance Sheets for the quarter ended September 30, 2011, based on this assessment. 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*

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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 award in restricted shares of the Company's common stock; and the remainder 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 six month period ended September 30, 2011, based on this assessment. The Company recorded no expense for the quarter ended September 30, 2011. As of September 30, 2011, the Company has 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 9. Income Taxes**

During the second quarter of fiscal year 2012, the Company incurred \$2.0 million of income tax expense which was comprised of \$2.2 million of income tax expense from foreign operations and \$0.2 million of state income tax benefit related to a prior year refund. There was no U.S. federal income tax expense in the quarter ended September 30, 2011 due to the utilization of net operating loss carryforward deductions and a valuation allowance on net deferred tax assets.

During the second quarter of fiscal year 2011, the net income tax expense of \$0.6 million related to foreign operations. There was no 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 six month period ended September 30, 2011 was \$3.8 million, comprised of \$4.8 million 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.

During the six month period ended September 30, 2010, income tax expense was \$1.9 million, comprised of a \$1.8 million income tax expense related to foreign operations and \$0.1 million of state income tax expense. No federal tax benefit was recognized from the loss on early extinguishment of debt due to the Company's position regarding its valuation allowance. The \$1.8 million foreign income tax expense includes a \$0.4 million tax expense as a result of a tax law change in Portugal.

The effective income tax rate was 7.6% and 11.2% for the six month periods ended September 30, 2011 and 2010, respectively.

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

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

	Quarters Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
<b>Numerator:</b>				
Net income	\$ 14,318	\$ 34,911	\$ 46,167	\$ 14,812
<b>Denominator:</b>				
<b>Weighted-average shares outstanding:</b>				
Basic	44,370	27,092	41,924	27,092
Assumed conversion of employee stock options	299	305	335	260
Assumed conversion of Closing Warrant	7,561	23,797	10,048	23,177
Diluted	52,230	51,194	52,307	50,529

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Net income per share:								
Basic	\$	0.32	\$	1.29	\$	1.10	\$	0.55
Diluted	\$	0.27	\$	0.68	\$	0.88	\$	0.29

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 September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Assumed conversion of employee stock options	903	767	710	807

**Note 11. 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.

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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 Secretary of State of Delaware.

**Note 12. 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 six month periods ended September 30, 2011 and 2010. There were no customers' accounts receivable balances exceeding 10% of gross accounts receivable at September 30, 2011 or March 31, 2011.

Electronics distributors are an important distribution channel in the electronics industry and accounted for 44% and 51% of the Company's net sales in the six month periods ended September 30, 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 September 30, 2011, KEMET had approximately 10,400 employees, of which 680 are located in the United States, 5,070 in Mexico, 2,520 in Asia and 2,130 in Europe. The number of employees represented by labor organizations at KEMET locations in each of the following countries is: 4,000 hourly employees in Mexico (as required by Mexican law), 700 employees in Italy, 690 employees in Indonesia, 300 employees in Portugal, 220 employees in China, 290 employees in Bulgaria, 220 employees in Finland and 90 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 our labor costs.

**Note 13. 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.





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

**Condensed Consolidating Balance Sheet****September 30, 2011**

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 6,705	\$ 92,255	\$ 28,203	\$	\$ 127,163
Accounts receivable, net		45,596	68,903		114,499
Intercompany receivable	178,197	90,395	165,663	(434,255)	
Inventories, net		125,767	99,103	(297)	224,573
Restricted cash		36,497			36,497
Prepaid expenses and other	208	9,770	21,499		31,477
Deferred income taxes	(131)	1,204	4,278		5,351
Total current assets	184,979	401,484	387,649	(434,552)	539,560
Property and equipment, net	42	95,726	214,264		310,032
Investments in subsidiaries	399,546	346,081	(5,348)	(740,279)	
Intangible assets, net		10,902	10,427		21,329
Other assets	5,791	3,751	1,223		10,765
Long-term intercompany receivable	80,056	97,255		(177,311)	
Total assets	\$ 670,414	\$ 955,199	\$ 608,215	\$ (1,352,142)	\$ 881,686
<b>LIABILITIES AND STOCKHOLDERS</b>					
<b>EQUITY</b>					
Current liabilities:					
Current portion of long-term debt	\$ 36,153	\$	\$ 1,542	\$	\$ 37,695
Accounts payable, trade		29,302	45,122		74,424
Intercompany payable	2,237	331,916	100,399	(434,552)	
Accrued expenses	8,058	27,943	41,035		77,036
Income taxes payable	(2,790)	2,754	3,080		3,044
Total current liabilities	43,658	391,915	191,178	(434,552)	192,199
Long-term debt, less current portion	227,345		2,266		229,611
Other non-current obligations		5,486	46,294		51,780
Deferred income taxes	(131)	2,053	6,637		8,559
Long-term intercompany payable		80,056	97,255	(177,311)	
Stockholders' equity	399,542	475,689	264,585	(740,279)	399,537
Total liabilities and stockholders' equity	\$ 670,414	\$ 955,199	\$ 608,215	\$ (1,352,142)	\$ 881,686

Table of Contents**Condensed Consolidating Balance Sheet****March 31, 2011**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Reclassifications and Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>					
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
<b>LIABILITIES AND STOCKHOLDERS</b>					
<b>EQUITY</b>					
Current liabilities:					
Current portion of long-term debt	\$ 39,012	\$	\$ 3,089	\$	\$ 42,101
Accounts payable, trade	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 September 30, 2011**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Reclassifications and Eliminations</b>	<b>Consolidated</b>
Net sales	\$	\$ 249,751	\$ 245,315	\$ (229,552)	\$ 265,514
<b>Operating costs and expenses:</b>					
Cost of sales	124	200,097	225,122	(222,024)	203,319
Selling, general and administrative expenses	5,617	17,496	13,621	(8,379)	28,355
Research and development		5,276	2,086		7,362
Restructuring charges		1,357	248		1,605
Net (gain) loss on sales and disposals of assets		10	(50)		(40)
Total operating costs and expenses	5,741	224,236	241,027	(230,403)	240,601
Operating income (loss)	(5,741)	25,515	4,288	851	24,913
<b>Other (income) expense:</b>					
Interest income	(2)	(10)	(19)		(31)
Interest expense	7,031	84	167		7,282
Other (income) expense, net	(10,250)	15,833	(4,286)		1,297
Equity in earnings of subsidiaries	(16,584)			16,584	
Income before income taxes	14,064	9,608	8,426	(15,733)	16,365
Income tax expense (benefit)	(254)	(506)	2,807		2,047
Net income	\$ 14,318	\$ 10,114	\$ 5,619	\$ (15,733)	\$ 14,318

Table of Contents**Condensed Consolidating Statement of Operations****For the Quarter Ended September 30, 2010**

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
Net sales	\$	\$ 242,856	\$ 236,659	\$ (230,927)	\$ 248,588
Operating costs and expenses:					
Cost of sales		183,304	216,192	(220,626)	178,870
Selling, general and administrative expenses	11,925	15,031	6,949	(8,906)	24,999
Research and development		4,840	1,384		6,224
Restructuring charges		1,540	763		2,303
Net (gain) loss on sales and disposals of assets		(1,807)	37		(1,770)
Total operating costs and expenses	11,925	202,908	225,325	(229,532)	210,626
Operating income (loss)	(11,925)	39,948	11,334	(1,395)	37,962
Other (income) expenses:					
Interest income	(4)	(131)	(9)	60	(84)
Interest expense	7,093		301	(60)	7,334
Other (income) expense, net	(12,005)	3,145	3,742	326	(4,792)
Equity in earnings of subsidiaries	(41,920)			41,920	
Income before income taxes	34,911	36,934	7,300	(43,641)	35,504
Income tax expense		40	585	(32)	593
Net income	\$ 34,911	\$ 36,894	\$ 6,715	\$ (43,609)	\$ 34,911

Table of Contents**Condensed Consolidating Statement of Operations****For the Six Months Ended September 30, 2011**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Reclassifications and Eliminations</b>	<b>Consolidated</b>
Net sales	\$	\$ 519,438	\$ 525,337	\$ (489,405)	\$ 555,370
<b>Operating costs and expenses:</b>					
Cost of sales	286	426,505	459,690	(472,658)	413,823
Selling, general and administrative expenses	17,066	33,211	25,715	(17,361)	58,631
Research and development		10,303	4,145		14,448
Restructuring charges		1,838	792		2,630
Net loss on sales and disposals of assets	3	29	51		83
Total operating costs and expenses	17,355	471,886	490,393	(490,019)	489,615
Operating income (loss)	(17,355)	47,552	34,944	614	65,755
<b>Other (income) expenses:</b>					
Interest income	(6)	(27)	(41)		(74)
Interest expense	14,134	158	390		14,682
Other (income) expense, net	(21,794)	23,820	(893)	69	1,202
Equity in earnings of subsidiaries	(54,664)			54,664	
Income before income taxes	44,975	23,601	35,488	(54,119)	49,945
Income tax expense (benefit)	(1,192)	97	4,873		3,778
Net income	\$ 46,167	\$ 23,504	\$ 30,615	\$ (54,119)	\$ 46,167

Table of Contents**Condensed Consolidating Statement of Operations****For the Six Months Ended September 30, 2010**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Reclassifications and Eliminations</b>	<b>Consolidated</b>
Net sales	\$	\$ 472,045	\$ 484,838	\$ (464,501)	\$ 492,382
<b>Operating costs and expenses:</b>					
Cost of sales		364,608	441,000	(443,852)	361,756
Selling, general and administrative expenses	20,614	28,299	19,358	(19,057)	49,214
Research and development		9,162	3,093		12,255
Restructuring charges		3,072	1,023		4,095
Net (gain) loss on sales and disposals of assets		(1,783)	348		(1,435)
Total operating costs and expenses	20,614	403,358	464,822	(462,909)	425,885
Operating income (loss)	(20,614)	68,687	20,016	(1,592)	66,497
<b>Other (income) expenses:</b>					
Interest income	(13)	(137)	(15)	60	(105)
Interest expense	14,212	94	546	(60)	14,792
Loss on early extinguishment of debt	38,248				38,248
Other (income) expense, net	(14,680)	12,260	(795)	97	(3,118)
Equity in earnings of subsidiaries	(73,193)			73,193	
Income before income taxes	14,812	56,470	20,280	(74,882)	16,680
Income tax expense		107	1,761		1,868
Net income	\$ 14,812	\$ 56,363	\$ 18,519	\$ (74,882)	\$ 14,812

Table of Contents**Condensed Consolidating Statement of Cash Flows****For the Six Months Ended September 30, 2011**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Reclassifications and Eliminations</b>	<b>Consolidated</b>
Sources (uses) of cash and cash equivalents					
Net cash provided by operating activities	\$ 4,214	\$ 32,545	\$ 14,230	\$	\$ 50,989
Investing activities:					
Capital expenditures	(1)	(11,505)	(8,599)		(20,105)
Acquisitions		(11,584)			(11,584)
Net cash used in investing activities	(1)	(23,089)	(8,599)		(31,689)
Financing activities:					
Change in restricted cash		(36,497)			(36,497)
Payments of long-term debt	(4,084)				(4,084)
Net payments under other credit facilities			(3,153)		(3,153)
Proceeds from exercise of stock options	159				159
Debt issuance costs		(29)			(29)
Net cash used in financing activities	(3,925)	(36,526)	(3,153)		(43,604)
Net increase (decrease) in cash and cash equivalents	288	(27,070)	2,478		(24,304)
Effect of foreign currency fluctuations on cash			(584)		(584)
Cash and cash equivalents at beginning of fiscal period	6,417	119,326	26,308		152,051
Cash and cash equivalents at end of fiscal period	\$ 6,705	\$ 92,256	\$ 28,202	\$	\$ 127,163

**Condensed Consolidating Statement of Cash Flows****For the Six Months Ended September 30, 2010**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Reclassifications and Eliminations</b>	<b>Consolidated</b>
Sources (uses) of cash and cash equivalents					
Net cash provided by (used in) operating activities	\$ (13,977)	\$ 48,573	\$ 21,849	\$	\$ 56,445
Investing activities:					
Capital expenditures		(4,524)	(9,297)		(13,821)
Proceeds from sales of assets		5,425			5,425
Net cash provided by (used in) investing activities		901	(9,297)		(8,396)
Financing activities:					
Proceeds from issuance of debt	226,976		458		227,434
Payments of long-term debt	(210,604)	(15,000)	(2,939)		(228,543)
Net payments under other credit facilities			(1,779)		(1,779)
Debt issuance costs	(7,461)				(7,461)



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Debt extinguishment costs	(207)			(207)
Net cash provided by (used in) financing activities	8,704	(15,000)	(4,260)	(10,556)
Net increase (decrease) in cash and cash equivalents	(5,273)	34,474	8,292	37,493
Effect of foreign currency fluctuations on cash		(28)	790	762
Cash and cash equivalents at beginning of fiscal period	11,602	54,707	12,890	79,199
Cash and cash equivalents at end of fiscal period	\$ 6,329	\$ 89,153	\$ 21,972	\$ 117,454

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

This report contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from those expressed in, or implied by, our forward-looking statements. Words such as expects, anticipates, believes, estimates and other similar expressions or future or conditional verbs such as will, should, would and could are intended to identify such forward-looking statements. Readers of this report should not rely solely on the forward-looking statements and should consider all uncertainties and risks throughout this report as well as those discussed under Part I, Item 1A of the Company's 2011 Annual Report. The statements are representative only as of the date they are made, and we undertook no obligation to update any forward-looking statement.

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

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

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

**ACCOUNTING POLICIES AND ESTIMATES**

The following discussion and analysis of financial condition and results of operations are based on the unaudited condensed consolidated financial statements included herein. Our significant accounting policies are described in Note 1 to the consolidated financial statements in our 2011 Annual Report. Our critical accounting policies are described under the caption Critical Accounting Policies in Item 7 of our 2011 Annual Report.

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The preparation of financial statements in conformity with U.S. generally accepted accounting principles ( U.S. GAAP ) requires management to make estimates, assumptions, and judgments. 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.

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

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**Business Overview**

We are a leading global manufacturer of a wide variety of capacitors. Our product offerings include tantalum, multilayer ceramic, solid and electrolytic aluminum and film and paper capacitors. Capacitors are fundamental components of most electronic circuits and are found in communication systems, data processing equipment, personal computers, cellular phones, automotive electronic systems, defense and aerospace systems, consumer electronics, power management systems and many other electronic devices and systems. Capacitors are typically used to filter out interference, smooth the output of power supplies, block the flow of direct current while allowing alternating current to pass and for many other purposes. We manufacture a broad line of capacitors in many different sizes and configurations using a variety of raw materials. Our product line consists of over 250,000 distinct part configurations distinguished by various attributes, such as dielectric (or insulating) material, configuration, encapsulation, capacitance level and tolerance, performance characteristics and packaging. Most of our customers have multiple capacitance requirements, often within each of their products. Our broad product offering allows us to meet the majority of those needs independent of application and end use. In fiscal year 2011, we shipped approximately 35 billion capacitors and in the six month period ended September 30, 2011, we shipped approximately 18 billion capacitors. We believe the medium-to-long term demand for the various types of capacitors we offer will continue to grow on a regional and global basis due to a variety of factors, including increasing demand for and complexity of electronic products, growing demand for technology in emerging markets and the ongoing development of new solutions for energy generation and conservation.

We operate 23 production facilities and employ approximately 10,400 employees worldwide. We manufacture capacitors in Europe, Mexico, China, the United States and Indonesia. Commodity manufacturing in the United States has been substantially relocated to our lower-cost manufacturing facilities in Mexico and China. Production that remains in the United States focuses primarily on early-stage manufacturing of new products and other specialty products for which customers are predominantly located in North America. For the six month period ended September 30, 2011 and for fiscal year 2011, our consolidated sales were \$555.4 million and \$1,018.5 million, respectively.

We are organized into three business groups: Tantalum, Ceramic, and Film and Electrolytic. The Film and Electrolytic business group operates a machinery division located in Sasso Marconi, Italy that provides automation solutions for the manufacture, processing and assembly of metallized films, film/foil and electrolytic capacitors; and designs, assembles and installs automation solutions for the production of energy storage devices. Each business group is responsible for the operations of certain manufacturing sites as well as all related research and development efforts. The sales and marketing functions are shared by each of the business groups and the costs of which are allocated to the business groups. In addition, all corporate costs are allocated to the business groups.

**Our Competitive Strengths**

We believe that we benefit from the following competitive strengths:

*Strong Customer Relationships.* We have a large and diverse customer base. We believe that our persistent emphasis on quality control and history of performance establishes loyalty with OEMs, EMSs and distributors. Our customer base includes most of the world's major electronics original equipment manufacturers (OEMs) (including Alcatel-Lucent USA, Inc., Apple Inc., Bosch Group, Cisco Systems, Inc., Continental AG, Dell Inc., Hewlett-Packard Company, International Business Machines Corporation, Intel Corporation, Motorola, Inc., Nokia Corporation, and TRW Automotive), electronics manufacturing services providers (EMSs) (including Celestica Inc., Elcoteq SE, Flextronics International LTD, Jabil Circuit, Inc. and Sanmina-SCI Corporation) and distributors (including TTI, Inc., Arrow Electronics, Inc. and Avnet, Inc.). Our strong, extensive and efficient worldwide distribution network is one of our differentiating factors. We believe our ability to provide innovative and flexible service offerings, superior customer support and focus on speed-to-market result in a more rewarding customer experience, earning us a

high degree of customer loyalty.

*Breadth of Our Diversified Product Offering and Markets.* We believe that we have the most complete line of primary capacitor types, across a full spectrum of dielectric materials including tantalum, ceramic, solid and electrolytic aluminum, film and paper. As a result, we believe we can satisfy virtually all of our customers' capacitance needs, thereby strengthening our position as their supplier of choice. We sell our products into a wide range of different end markets, including computing, industrial, telecommunications, transportation, consumer, defense and healthcare markets across all geographic regions. No single end market segment accounted for more than 30% and only one customer, TTI, Inc., accounted for more than 10% of our net sales in the six month period ended September 30, 2011. Our largest customer is a distributor, and no single end use customer accounted for more than 5% of our net sales in the six month period ended September 30, 2011. We believe that well-balanced product, geographic and customer diversification helps us mitigate some of the negative financial impact through economic cycles.

*Leading Market Positions and Operating Scale.* Based on net sales, we believe that we are the largest manufacturer of tantalum capacitors in the world and one of the largest manufacturers of direct current film capacitors in the world and have a significant market position in the specialty ceramic and custom wet aluminum electrolytic markets. We believe that our leading market positions and operating scale allow us to realize production efficiencies, leverage economies of scale and capitalize on growth opportunities in the global capacitor market.

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*Strong Presence in Specialty Products.* We engage in design collaboration with our customers in order to meet their specific needs and provide them with customized products satisfying their engineering specifications. During the six month periods ended September 30, 2011 and 2010, respectively, specialty products accounted for 37.4% and 30.3% of our revenue. By allocating an increasing portion of our management resources and research and development investment to specialty products, we have established ourselves as one of the leading innovators in this fast growing emerging segment of the market, which includes healthcare, renewable energy, telecommunication infrastructure and oil and gas. For example, in August 2009, we were selected as one of thirty companies to receive a grant from the Department of Energy. Our \$15.1 million award will enable us to produce film capacitors within the United States to support alternative energy products and emerging green technologies such as hybrid electric drive vehicles. Producing these parts in the United States will allow us to compete effectively in the alternative energy market domestically. We expect to begin production in the third quarter of fiscal year 2012.

*Low-Cost Production.* We believe we have some of the lowest cost production facilities in the industry. Many of our key customers have relocated their production facilities to Asia, particularly China. We believe our manufacturing facilities in China have low production costs and are in close proximity to the large and growing Chinese market; in addition, we have the ability to increase capacity and change product mix to meet our customers' needs. We believe our operations in Mexico are among the most cost-efficient in the world. In addition, we believe our manufacturing facility in Bulgaria has low production costs and we are expanding our manufacturing to Macedonia which we believe will also have low production costs.

*Our Brand.* Founded by Union Carbide in 1919 as KEMET Laboratories, we believe that we have established a reputation as a high quality, efficient and affordable partner that sets our customers' needs as the top priority. This has allowed us to successfully attract loyal clientele and enabled us to expand our operations and market share over the past few years. We believe our commitment to addressing the needs of the industry in which we operate has differentiated us from our competitors and established us as the Easy-To-Buy-From company.

*Our People.* We believe that we have successfully developed a unique corporate culture based on innovation, customer focus and commitment. We have a strong, highly experienced and committed team in each of our markets. Many of our professionals have developed unparalleled experience in building leadership positions in new markets, as well as successfully integrating acquisitions. Our 16 member executive management team has an average of over 12 years of experience with us and an average of over 25 years of experience in the manufacturing industry.

**Business Strategy**

Our strategy is to use our position as a leading, high-quality manufacturer of capacitors to capitalize on the increasingly demanding requirements of our customers. Key elements of our strategy include:

*One KEMET Campaign.* We continue to focus on improving our business capabilities through various initiatives that all fall under our One KEMET campaign. The One KEMET campaign aims to ensure that we as a company are focused on the same goals and working with the same processes and systems to ensure consistent quality and service. This effort was launched to ensure that as we continue to grow we not only remain grounded in our core principles but that we use those principles, operating procedures and systems as the foundation from which to expand. These initiatives include our global Oracle software implementation which is proceeding on schedule, our Lean and Six Sigma culture evolution and our global customer accounts management system which is now in place and growing.

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*Develop Our Significant Customer Relationships and Industry Presence.* We intend to continue to be responsive to our customers' needs and requirements and to make order entry and fulfillment easier, faster, more flexible and more reliable for our customers, by focusing on building products around customers' needs, by giving decision making authority to customer-facing personnel and by providing purpose-built systems and processes, such as our Easy-To-Buy-From order entry system.

*Continue to Pursue Low-Cost Production Strategy.* We continue to evaluate and are actively pursuing measures that will allow us to maintain our position as a low-cost producer of capacitors with facilities close to our customers. We have shifted and will continue to shift production to low cost locations in order to reduce material and labor costs. We plan to expand our manufacturing to Macedonia which we believe will have low production costs. Additionally, we are focused on developing more cost-efficient manufacturing equipment and processes, designing manufacturing plants for more efficient production and reducing work-in-process ( WIP ) inventory by building products from start to finish in one factory. Furthermore, we continue to implement the Lean and Six Sigma methodology to drive towards zero product defects so that quality remains a given in the minds of our customers.

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*Leverage Our Technological Competence and Expand Our Leadership in Specialty Products.* We continue to leverage our technological competence to introduce new products in a timely and cost-efficient manner and generate an increasing portion of our sales from new and customized solutions to meet our customers' varied and evolving capacitor needs as well as to improve financial performance. We believe that by continuing to build on our strength in the higher growth and higher margin specialty segments of the capacitor market, we will be well positioned to achieve our long-term growth objectives while also improving our profitability. During the second quarter of fiscal year 2012, we introduced 197 new products of which 55 were first to market, and specialty products accounted for 38.8% of our revenue over this period. During the six month period ended September 30, 2011, we introduced 30,157 new products of which 2,066 were first to market, and specialty products accounted for 37.4% of our revenue over this period.

*Further Expand Our Broad Capacitance Capabilities.* We identify ourselves as The Capacitance Company and strive to be the supplier of choice for all our customers' capacitance needs across the full spectrum of dielectric materials including tantalum, ceramic, solid and electrolytic aluminum, film and paper. While we believe we have the most complete line of capacitor technologies across these primary capacitor types, we intend to continue to research and pursue additional capacitance technologies and solutions in order to maximize the breadth of our product offerings.

*Selectively Target Complementary Acquisitions.* We expect to continue to evaluate and pursue strategic acquisition opportunities, some of which may be significant in size, which would enable us to enhance our competitive position and expand our market presence. Our strategy is to acquire complementary capacitor and other related businesses that would allow us to leverage our business model, potentially including those involved in other passive components that are synergistic with our customers' technologies and our current product offerings. For example, 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 electrolytic capacitors.

*Promote the KEMET Brand Globally.* We are focused on promoting the KEMET brand globally by highlighting the high-quality and high reliability of our products and our superior customer service. We will continue to market our products to new and existing customers around the world in order to expand our business. We continue to be recognized by our customers as a leading global supplier. For example, in calendar year 2011, we received the Supplier of the Year Award from TTI, Inc. and from Arrow Electronics, Inc., both of which are electronics distributors.

*Global Sales & Marketing Strategy.* Our motto Think Global Act Local describes our approach to sales and marketing. Each of our three sales regions (North America and South America ( Americas ), Europe, Middle East and Africa ( EMEA ) and Asia and Pacific Rim ( APAC )) has account managers, field application engineers and strategic marketing managers in the region. In addition, we also have local customer and quality-control support in each region. This organizational structure allows us to respond to the needs of our customers on a timely basis and in their native language. The regions are managed locally and report to a senior manager who is on the KEMET Leadership Team. Furthermore, this organizational structure ensures the efficient communication of our global goals and strategies and allows us to serve the language, cultural and other region-specific needs of our customers.

**Recent Developments and Trends**

Net sales for the quarter ended September 30, 2011 were \$265.5 million, which is a 6.8% increase over the same quarter last fiscal year and an 8.4% decrease over the prior fiscal quarter ended June 30, 2011. Net sales for the six month period ended September 30, 2011 were \$555.4 million, which is a 12.8% increase over the same six month period last fiscal year.



On May 31, 2011, K Equity sold a portion of the Platinum Warrant to Deutsche Bank Securities Inc., in connection with the offering of a total 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.

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 electrolytic capacitors. The purchase price was \$15.0 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. As a result of the acquisition, 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.

In July 2011, we announced our plans to construct a new manufacturing facility in Skopje, Macedonia. This facility is a component of our long-term strategy of consolidating and maintaining manufacturing for our European customer base, while fulfilling our objective of lowering the cost structure associated with Film and Electrolytic. The initial facility will be 100,000 square feet of manufacturing and administrative office space and we expect to employ approximately 200 people when fully operational. The

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expected completion date of the facility is the second quarter of fiscal year 2013. The investment in this new facility, including transferred assets, is expected to be approximately 12 million (\$17 million). The cost of the facility construction during the Company's current fiscal year is included in the previously announced capital plan for the year.

*Outlook*

For the third quarter of fiscal year 2012, we expect revenue to decline approximately 10% to 14% compared to the second quarter of fiscal year 2012 and gross margins in the range of 19 to 22%. The primary driver for this change is volume and mix, driven almost exclusively by the inventory adjustments occurring in the distribution channels. The accuracy of our forecast is subject to the effect of the floods occurring in Thailand and the uncertainty surrounding the unfortunate economic disaster that will affect many industries in the months ahead. We are working to fill the pipeline and support those affected by this situation and ramping up our operations to fill the expected supply shortages. The financial impact, possibly a benefit, of this situation on our operations during this current quarter which ends on December 31, 2011 is unknown at this time.

**CONDENSED CONSOLIDATED RESULTS OF OPERATIONS**

*Comparison of the Second Quarter of Fiscal Year 2012 with the Second Quarter of Fiscal Year 2011*

The following table sets forth the operating income for each of our business segments for the quarters ended September 30, 2011 and 2010. The table also sets forth each of the segments' net sales as a percent to total net sales and the net income components as a percent to total net sales (dollars in thousands):

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	Quarters Ended			
	September 30, 2011		September 30, 2010	
	Amount	% to Total Sales	Amount	% to Total Sales
<b>Net sales</b>				
Tantalum	\$ 112,290	42.3%	\$ 123,873	49.8%
Ceramic	56,112	21.1%	56,730	22.8%
Film and Electrolytic	97,112	36.6%	67,985	27.4%
	\$ 265,514	100.0%	\$ 248,588	100.0%
<b>Gross margin</b>				
Tantalum	\$ 26,747		\$ 41,752	
Ceramic	18,387		19,416	
Film and Electrolytic	17,061		8,550	
	62,195	23.4%	69,718	28.0%
<b>SG&amp;A expenses</b>				
Tantalum	11,659		10,981	
Ceramic	6,083		6,000	
Film and Electrolytic	10,613		8,018	
	28,355	10.7%	24,999	10.1%
<b>R&amp;D expenses</b>				
Tantalum	3,623		3,104	
Ceramic	1,702		1,654	
Film and Electrolytic	2,037		1,466	
	7,362	2.8%	6,224	2.5%
<b>Restructuring charges</b>				
Tantalum	864		322	
Ceramic	49		93	
Film and Electrolytic	692		1,888	
	1,605	0.6%	2,303	0.9%
<b>(Gain) loss on sales and disposals of assets</b>				
Tantalum			(121)	
Ceramic			(1,655)	
Film and Electrolytic	(40)		6	
	(40)		(1,770)	-0.7%
<b>Operating income (loss)</b>				
Tantalum	10,601		27,466	
Ceramic	10,553		13,324	
Film and Electrolytic	3,759		(2,828)	
	24,913	9.4%	37,962	15.3%
<b>Other (income) expense, net</b>	8,548	3.2%	2,458	1.0%
<b>Income before income taxes</b>	16,365	6.2%	35,504	14.3%
<b>Income tax expense</b>	2,047	0.8%	593	0.2%
<b>Net income</b>	\$ 14,318	5.4%	\$ 34,911	14.0%

Table of Contents***Consolidated Comparison of the Second Quarter of Fiscal Year 2012 with the Second Quarter of Fiscal Year 2011****Net Sales*

Net sales for the quarter ended September 30, 2011 were \$265.5 million compared to \$248.6 million in the second quarter of fiscal year 2011, a 6.8% increase due to an increase in average selling prices which was offset by a 6% decrease in unit sales volume. Average selling prices for capacitors increased 7% due to a favorable shift in both region and product line mix as well as an increase in average selling prices necessary to offset the increase in raw material costs. In addition, the Film and Electrolytic machinery division increased net sales by \$15.0 million in the second quarter of fiscal year 2012 compared to the second quarter of fiscal year 2011. The etched foil manufacturing operation acquired in June 2011 contributed \$7.4 million of net sales to the second quarter of fiscal year 2012.

The following table reflects the percentage of net sales by region for the quarters ended September 30, 2011 and 2010:

	<b>Quarters Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Americas	31%	29%
EMEA	40%	34%
APAC	29%	37%
	100%	100%

The following table reflects the percentage of net sales by channel for the quarters ended September 30, 2011 and 2010:

	<b>Quarters Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Distributors	43%	53%
EMS	12%	15%
OEM	45%	32%
	100%	100%

*Gross Margin*

Gross margin for the second quarter of fiscal year 2012 decreased \$7.5 million when compared to the second quarter of fiscal year 2011. The primary contributors to the decline in gross margin were lower unit sales volume and our inability to pass on the entire effect of higher raw material costs to our customers. Gross margin as a percent of net sales declined to 23.4% of net sales in the second quarter of fiscal year 2012, from 28.0% of net sales in the second quarter of fiscal year 2011. This decline is driven by the decreases of gross margin as a percent of net sales in the Tantalum and Ceramic business groups of 9.9% and 1.4%, respectively. These decreases were offset by a 5.0% increase in gross margin as a percent of net sales in the Film and Electrolytic business group which is primarily due to improvements in average selling prices and a favorable shift in product line mix.

*Selling, General and Administrative Expenses*

Selling, general and administrative ( SG&A ) expenses were \$28.4 million, or 10.7% of net sales for the second quarter of fiscal year 2012 compared to \$25.0 million or 10.1% of net sales for second quarter of fiscal year 2011. The \$3.4 million increase in SG&A expenses primarily consist of the following increases in the second quarter of fiscal year 2012 compared to the second quarter of fiscal year 2011: \$1.5 million related to Enterprise Resource Planning ( ERP ) integration costs, \$1.0 million in selling expenses consistent with the increase in net sales, and \$1.3 million related to marketing expenses.

*Research and Development*

Research and development expenses were \$7.4 million or 2.8% of net sales for the second quarter of fiscal year 2012, compared to \$6.2 million, or 2.5% of net sales for the second quarter of fiscal year 2011. The 18.3% increase resulted from increased activities to ensure that products are available to support KEMET ' s growth and to meet customer needs. The growth in spending also

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reflects KEMET's increased focus on specialty product development which requires an increase in expense from sampling, tooling and testing.

*Restructuring Charges*

We incurred \$1.6 million in restructuring charges in the second quarter of fiscal year 2012 compared to \$2.3 million in restructuring charges for the second quarter of fiscal year 2011. The restructuring charges in the second quarter of fiscal year 2012 included \$0.6 million for the relocation of equipment to China and Mexico. In addition, the Company incurred \$1.0 million in personnel reduction costs primarily due to headcount reductions in the Tantalum business group's Mexican operations.

*Operating Income*

Operating income for the quarter ended September 30, 2011 was \$24.9 million compared to \$38.0 million for the quarter ended September 30, 2010. Gross margin for the second quarter of fiscal year 2012 decreased \$7.5 million as compared to the second quarter of fiscal year 2011. Additionally, SG&A expenses increased \$3.4 million and research and development expenses increased \$1.1 million for the second quarter of fiscal year 2012 compared to the second quarter of fiscal year 2011. During the second quarter of fiscal year 2011 a \$1.6 million gain was realized on the sale of an idle facility in the U.S. compared to a minimal gain on sales and disposals of assets in the second quarter of fiscal year 2012.

*Other (Income) Expense, net*

Other (income) expense, net was an expense of \$8.5 million in the second quarter of fiscal year 2012 compared to \$2.5 million in the second quarter of fiscal year 2011. During the second quarter of fiscal year 2011, we granted a supplier of tantalum powder and wire and related materials, a non-exclusive license, with a right to sublicense, concerning certain patents and patent applications which resulted in a net gain of \$2.0 million. In addition, in the second quarter of fiscal year 2012 we recognized a \$1.4 million foreign currency exchange loss as compared to a \$2.7 million gain on foreign currency exchange in the second quarter of fiscal year 2011, primarily due to the change in the value of the Euro and Mexican Peso compared to the U.S. dollar.

*Income Taxes*

Our income tax expense for the second quarter of fiscal year 2012 was \$2.0 million compared to a \$0.6 million income tax expense for the second quarter of fiscal year 2011. Income tax expense for the second quarter of fiscal year 2012 was comprised of \$2.2 million of income tax expense from foreign operations and \$0.2 million of state income tax benefit. There was no U.S. federal income tax expense related to the second quarter of fiscal year 2012 earnings due to the utilization of net operating loss carryforward deductions and a valuation allowance on net deferred tax assets. The effective income tax rate for the second quarter of fiscal year 2012 was 12.5%.

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During the second quarter of fiscal year 2011, we incurred \$0.6 million of income tax expense related to foreign operations. The effective income tax rate for the second quarter of fiscal year 2011 was 1.7%.

Table of Contents***Business Groups Comparison of the Quarter Ended September 30, 2011 with the Quarter Ended September 30, 2010******Tantalum***

The table sets forth Net sales, Gross margin, Gross margin as a percentage of net sales, Operating income and Operating income as a percentage of net sales for our Tantalum business group for the quarters ended September 30, 2011 and 2010 (amounts in thousands, except percentages):

	Quarters Ended			
	September 30, 2011		September 30, 2010	
	Amount	% to Net Sales	Amount	% to Net Sales
Net sales	\$ 112,290		\$ 123,873	
Gross margin	26,747	23.8%	41,752	33.7%
Operating income	10,601	9.4%	27,466	22.2%

*Net Sales*

Net sales decreased 9.4% during the second quarter of fiscal year 2012 as compared to the second quarter of fiscal year 2011. Average selling prices increased 36.5% for the second quarter of fiscal year 2012 as compared to the second quarter of fiscal year 2011. The increase in average selling prices was offset by a 33.6% decrease in unit sales volume during the second quarter of fiscal year 2012 as compared to the second quarter of fiscal year 2011. The increase in average selling prices was primarily due to our ability to increase selling prices offsetting increases realized in tantalum raw material cost, as well as to a favorable shift in regional sales to the EMEA region. The EMEA region's unit sales volume represented 35.4% of the total unit sales volume in the second quarter of the fiscal year 2012 as compared to 21.5% in the same quarter of fiscal year 2011. While OEM and EMS revenue increased, the distributor channel revenue decreased across all regions as their inventory reached levels needed to respond to their customers' demand. Sales in the automotive, green technology, and telecommunication sectors remained stable.

*Gross Margin*

Gross margin decreased by \$15.0 million during the quarter ended September 30, 2011, as compared to the quarter ended September 30, 2010. Gross margin as a percentage of Tantalum net sales decreased to 23.8% in the second quarter of fiscal year 2012 as compared to 33.7% in the second quarter of fiscal year 2011. Despite our continued efforts to reduce costs through process engineering improvements and to pass raw material cost increases on to our customers, we were unable to completely offset the increase in raw material costs which resulted in a decrease in gross margin as a percentage of Tantalum net sales.

*Operating Income*



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Operating income for the second quarter of fiscal year 2012 was \$10.6 million compared to \$27.5 million in the second quarter of fiscal year 2011. The \$16.9 million decrease was attributable to a decrease in gross margin of \$15 million and an increase in selling, general and administrative, and research and development expenses ( operating expenses ) of \$1.2 million when comparing the second quarter of fiscal year 2012 to the second quarter of fiscal year 2011. This decrease was also attributable to a \$0.6 million increase in restructuring charges and a \$0.1 million decrease in the net gain on sales and disposals of assets in the second quarter of fiscal year 2012 as compared to the same quarter of fiscal year 2011.

### *Ceramic*

The table sets forth Net sales, Gross margin, Gross margin as a percentage of net sales, Operating income and Operating income as a percentage of net sales for our Ceramic business group for the quarters ended September 30, 2011 and 2010 (amounts in thousands, except percentages):

	Quarters Ended			
	September 30, 2011		September 30, 2010	
	Amount	% to Net Sales	Amount	% to Net Sales
Net sales	\$ 56,112		\$ 56,730	
Gross margin	18,387	32.8%	19,416	34.2%
Operating income	10,553	18.8%	13,324	23.5%

Table of Contents*Net Sales*

Net sales decreased by 1.1% during the second quarter of fiscal year 2012 as compared to the second quarter of fiscal year 2011 primarily because of a decrease in unit sales volume partially offset by a favorable shift in product mix. Unit sales volume decreased 2.1% during the second quarter of fiscal year 2012, as compared to the second quarter of fiscal year 2011 due to declining market demand in Asia. Average selling prices increased 1.3% primarily due to a favorable shift in regional sales to the Americas from Asia. Average selling prices are higher in the Americas due to product mix and distribution channel.

*Gross Margin*

Gross margin as a percentage of Ceramic net sales for the second quarter of fiscal year 2012 decreased by 1.4% to 32.8% due primarily to higher operating costs and lower unit sales volumes. Operating expenses increased \$0.7 million related to foreign exchange. The higher operating costs included utilities, raw materials and labor.

*Operating Income*

Operating income for the second quarter of fiscal year 2012 decreased \$2.8 million primarily due to a \$1.6 million gain on the sale of an idle facility in the U.S. in the second quarter of fiscal year 2011. Gross margin declined \$1.0 million when comparing the second quarter of fiscal year 2012 to the second quarter of fiscal year 2011.

*Film and Electrolytic*

The table sets forth Net sales, Gross margin, Gross margin as a percentage of net sales, Operating income (loss) and Operating income (loss) as a percentage of net sales for our Film and Electrolytic business group for the quarters ended September 30, 2011 and 2010 (amounts in thousands, except percentages):

	Quarters Ended			
	September 30, 2011		September 30, 2010	
	Amount	% to Net Sales	Amount	% to Net Sales
Net sales	\$ 97,112		\$ 67,985	
Gross margin	17,061	17.6%	8,550	12.6%
Operating income (loss)	3,759	3.9%	(2,828)	(4.2)%

*Net Sales*

Net sales increased 42.8% in the second quarter of fiscal year 2012 compared to the second quarter of fiscal year 2011. Average selling prices increased 25.7% in the second quarter of fiscal year 2012 as compared to the same quarter last year. The improvement is primarily due to a favorable shift in product line mix. Capacitor unit sales volume for the second quarter of fiscal year 2012 decreased 20.1% compared to the second quarter of fiscal year 2011. Capacitor net sales were favorably impacted by \$6.3 million related to foreign exchange. The Film and Electrolytic machinery division increased net sales by \$15.0 million in the second quarter of fiscal year 2012 compared to the second quarter of fiscal year 2011. The improvement in the Film and Electrolytic machinery division net sales is primarily due to an increase in unit sales volume as well as a \$2.1 million benefit related to foreign exchange. The recently acquired etched foil manufacturing operation contributed \$7.4 million of net sales.

*Gross Margin*

Gross margin increased by \$8.5 million or 100% in the quarter ended September 30, 2011 as compared to the quarter ended September 30, 2010. The Film and Electrolytic machinery division increase in net sales contributed to the improvement in gross margin. Gross margin as a percentage to Film and Electrolytic net sales increased to 17.6% in the second quarter of fiscal year 2012 as compared to 12.6% in the second quarter of fiscal year 2011. The improvement is primarily due to the improvement in average selling prices and a favorable shift in product line mix.

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*Operating Income (Loss)*

Operating income for the second quarter of fiscal year 2012 was \$3.8 million as compared to a loss of \$2.8 million in the second quarter of fiscal year 2011. The improvement is primarily attributable to a \$29.1 million increase in net sales and a related \$8.5 million increase in gross margin. Offsetting these improvements was a \$3.2 million increase in operating expenses as compared to the second quarter of fiscal year 2011. Within the operating expenses increase, research and development costs increased \$0.6 million to ensure that products are available to support our growth and to meet customer needs.

*Comparison of the Six Month Period Ended September 30, 2011 with the Six Month Period Ended September 30, 2010*

The following table sets forth the operating income (loss) for each of our business segments for the six month periods ended September 30, 2011 and September 30, 2010. The table also sets forth each of the segments' net sales as a percent to total net sales and the net income components as a percent to total net sales (dollars in thousands):

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	September 30, 2011		Six Months Ended		September 30, 2010	
	Amount	% to Total Sales	Amount	% to Total Sales	Amount	% to Total Sales
<b>Net sales</b>						
Tantalum	\$ 234,733	42.3%	\$ 237,441	48.2%		
Ceramic	115,491	20.8%	111,054	22.6%		
Film and Electrolytic	205,146	36.9%	143,887	29.2%		
	\$ 555,370	100.0%	\$ 492,382	100.0%		
<b>Gross margin</b>						
Tantalum	\$ 59,547		\$ 73,127			
Ceramic	37,124		37,377			
Film and Electrolytic	44,876		20,122			
	141,547	25.5%	130,626	26.5%		
<b>SG&amp;A expenses</b>						
Tantalum	23,617		21,309			
Ceramic	12,269		11,442			
Film and Electrolytic	22,745		16,463			
	58,631	10.6%	49,214	10.0%		
<b>R&amp;D expenses</b>						
Tantalum	6,966		6,082			
Ceramic	3,353		3,026			
Film and Electrolytic	4,129		3,147			
	14,448	2.6%	12,255	2.5%		
<b>Restructuring charges</b>						
Tantalum	899		779			
Ceramic	88		187			
Film and Electrolytic	1,643		3,129			
	2,630	0.5%	4,095	0.8%		
<b>(Gain) loss on sales and disposals of assets</b>						
Tantalum	49		(15)			
Ceramic	2		(1,632)			
Film and Electrolytic	32		212			
	83		(1,435)	-0.3%		
<b>Operating income (loss)</b>						
Tantalum	28,013		44,972			
Ceramic	21,409		24,354			
Film and Electrolytic	16,333		(2,829)			
	65,755	11.8%	66,497	13.5%		
<b>Other (income) expense, net</b>	15,810	2.8%	49,817	10.1%		
<b>Income before income taxes</b>	49,945	9.0%	16,680	3.4%		
<b>Income tax expense</b>	3,778	0.7%	1,868	0.4%		
<b>Net income</b>	\$ 46,167	8.3%	\$ 14,812	3.0%		

Table of Contents***Consolidated Comparison of the Six Month Period Ended September 30, 2011 with the Six Month Period Ended September 30, 2010****Net Sales*

Net sales for the six month period ended September 30, 2011 increased by \$63.0 million, or 12.8% to \$555.4 million compared to the same period in fiscal year 2011 primarily due to an increase in average selling prices. Average selling prices for capacitors increased 15% due to a favorable shift in both region and product line mix. The increase in average selling prices was offset by a 7% decrease in capacitor unit sales volume. In addition, the Film and Electrolytic machinery division increased net sales by \$29.3 million in the six month period ended September 30, 2011 compared to the six month period ended September 30, 2010.

The following table reflects the percentage of net sales by region for the six month periods ended September 30, 2011 and 2010:

	<b>Six Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Americas	28%	26%
EMEA	38%	35%
APAC	34%	39%
	100%	100%

The following table reflects the percentage of net sales by channel for the six month periods ended September 30, 2011 and 2010:

	<b>Six Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Distributors	44%	51%
EMS	14%	14%
OEM	42%	35%
	100%	100%

*Gross Margin*

Gross margin was \$141.5 million or 25.5% of net sales for the six month period ended September 30, 2011 compared to \$130.6 million or 26.5% of net sales for the six month period ended September 30, 2010. The primary contributor to the higher gross margin was a \$24.8 million increase in gross margin related to Film and Electrolytic for the six month period ended September 30, 2011 compared to the same period in fiscal year 2011. This improvement was primarily due to higher average selling prices and a favorable shift in product line mix. This increase in gross margin was offset by a gross margin decline of \$13.6 million in Tantalum for the six month period ended September 30, 2011 compared to the same period in fiscal year 2011. Despite our continued efforts to reduce costs through process engineering improvements and to pass raw material cost increases on to our customers, we were unable to completely offset the increase in raw material costs which resulted in a decrease in gross margin as a percentage of net sales.

*Selling, General and Administrative Expenses*

SG&A expenses for the six month period ended September 30, 2011 were \$58.6 million, or 10.6% of net sales, as compared to \$49.2 million, or 10.0% of net sales for the same period in fiscal year 2011. The \$9.4 million increase in SG&A expenses included an increase of \$3.3 million in selling expenses consistent with the increase in sales. In addition, there was an increase of \$2.5 million related to ERP integration costs, \$1.5 million related to marketing expenses, and \$0.6 million in acquisition related fees.

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*Research and Development Expenses*

R&D expenses for the six month period ended September 30, 2011 were \$14.4 million, or 2.6% of net sales compared to \$12.3 million, or 2.5% of net sales for the same period in fiscal year 2011. The 17.9% increase resulted from increased activities to ensure that products are available to support KEMET's growth and to meet customer needs. The growth in spending also reflects KEMET's increased focus on specialty product development which requires an increase in sampling, tooling, and testing.

*Restructuring Charges*

During the six month period ended September 30, 2011, we incurred \$2.6 million in restructuring charges compared to \$4.1 million in restructuring charges for the six month period ended September 30, 2010. The restructuring charges in the six month period ended September 30, 2011 included \$1.4 million in charges for the relocation of equipment to Mexico and China and \$1.2 million for reductions in workforce.

*Operating Income*

Operating income for the six month period ended September 30, 2011 was \$65.8 million, compared to operating income of \$66.5 million for the six month period ended September 30, 2010. Gross margin increased \$10.9 million and restructuring charges decreased to \$2.6 million compared to \$4.1 million of restructuring charges for the six month period ended September 30, 2010. These improvements were offset by a \$9.4 million increase in SG&A expenses, and a \$2.1 million increase in research and development expenses. During the six month period ended September 30, 2010, a \$1.6 million gain was realized on the sale of an idle facility in the U.S. compared to a \$0.1 million loss on sales and disposals of assets in the six month period ended September 30, 2011.

*Other (Income) Expense, net*

Other (income) expense, net was an expense of \$15.8 million in the first half of fiscal year 2012 compared to an expense of \$49.8 million in the first half of fiscal year 2011. The improvement is attributable to a \$38.2 million non-cash loss recognized on the early extinguishment of debt in the first half of fiscal year 2011 compared to none in the first half of fiscal year 2012. Also, there was a loss on foreign currency translation of \$1.3 million in the first half of fiscal year 2012 as compared to a gain on foreign currency translation of \$1.4 million in first half of fiscal year 2011, primarily due to the strengthening of the Euro against the U.S. dollar. Additionally, a net gain of \$2.0 million was recognized in the first half of fiscal year 2011 when we granted a supplier of tantalum powder, wire and related materials, a non-exclusive license, with a right to sublicense, concerning certain patents and patent applications.

*Income Taxes*



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For the six month period ended September 30, 2011, income tax expense of \$3.8 million was comprised of a \$4.8 million income tax expense related to foreign operations, \$0.1 million of state income tax benefit, and a \$0.9 million U.S. federal income tax benefit related to a prior year settlement. During the six month period ended September 30, 2010, we recognized net income tax expense of \$1.9 million comprised of a \$1.8 million income tax expense related to foreign operations and \$0.1 million of federal and state income tax expense. The effective tax rate was 7.6% and 11.2% for the six month periods ended September 30, 2011 and 2010, respectively.

Table of Contents***Business Groups Comparison of the Six Month Period Ended September 30, 2011 with the Six Month Period Ended September 30, 2010******Tantalum***

The table sets forth Net sales, Gross margin, Gross margin as a percentage of net sales, Operating income and Operating income as a percentage of net sales for our Tantalum business group for the quarters ended September 30, 2011 and 2010 (amounts in thousands, except percentages):

	Six Months Ended			
	September 30, 2011		September 30, 2010	
	Amount	% to Net Sales	Amount	% to Net Sales
Net sales	\$ 234,733		\$ 237,441	
Gross margin	59,547	25.4%	73,127	30.8%
Operating income	28,013	11.9%	44,972	18.9%

***Net Sales***

Net sales decreased 1.1% during the six month period ended September 30, 2011, as compared to the same period of fiscal year 2011. Average selling prices increased 33.5% for the six month period ended September 30, 2011 as compared to the same period ended September 30, 2010. The average selling prices impact was offset by a 22.9% decrease in unit sales volume during the six month period ended September 30, 2011 as compared to the six month period ended September 30, 2010. The increase in average selling prices was primarily related to increases realized in tantalum raw material cost, as well as a favorable shift in regional sales to the Americas and EMEA regions. The Americas and EMEA regions unit sales volume represented 54.4% of the total unit sales volume in the six month period ended September 30, 2011 as compared to 49.4% in the six month period ended September 30, 2010. While OEM and EMS revenue increased during the six month period ended September 30, 2011 as compared to the six month period ended September 30, 2010, the distributor channel revenue decreased across all regions as inventories reached levels needed to respond to their customers demand. Sales to the automotive, green technology and the telecommunication sectors remained stable.

***Gross Margin***

Gross margin decreased by \$13.6 million or 18.6% during the six month period ended September 30, 2011, as compared to the six month period ended September 30, 2010. Gross margin as a percentage of Tantalum net sales decreased to 25.4% in the six month period ended September 30, 2011 as compared to 30.8% in the six month period ended September 30, 2010. Despite our continued efforts to reduce costs through process engineering improvements and to pass raw material cost increases on to our customers, we were unable to completely offset the increase in raw material costs which resulted in a decrease in gross margin as a percentage of Tantalum net sales.

***Operating Income***

Operating income for the six month period ended September 30, 2011 was \$28.0 million, as compared to an operating income of \$45.0 million in the first half of fiscal year 2011. The decline is attributable to the decrease in gross margin of \$13.6 million as compared to the six month period ended September 30, 2010. This decrease was also attributable to an increase in operating expenses of \$3.2 million and an increase in restructuring charges of \$0.1 million during the six month period ended September 30, 2011 as compared to the six month period ended September 30, 2010.

Table of Contents*Ceramic*

The table sets forth Net sales, Gross margin, Gross margin as a percentage of net sales, Operating income and Operating income as a percentage of net sales for our Ceramic business group for the six months ended September 30, 2011 and 2010 (amounts in thousands, except percentages):

	Six Months Ended			
	September 30, 2011		September 30, 2010	
	Amount	% to Net Sales	Amount	% to Net Sales
Net sales	\$ 115,491		\$ 111,054	
Gross margin	37,124	32.1%	37,377	33.7%
Operating income	21,409	18.5%	24,354	21.9%

*Net Sales*

Net sales increased by 4.0% during the six month period ended September 30, 2011 as compared to the same period of fiscal year 2011. The increase was primarily attributable to higher average selling prices. Unit sales volume decreased 4.1% during the six month period ended September 30, 2011 as compared to the same period of fiscal year 2011 due to declining market demand in Asia. Average selling prices increased 9.0% due primarily to product mix improvements compared to fiscal year 2011.

*Gross Margin*

Gross margin decreased by \$0.3 million during the six month period ended September 30, 2011, as compared to the six month period ended September 30, 2010. The decrease in gross margin is attributable to increases in operating costs partially offset by a favorable shift in product mix to higher priced products. Gross margin as a percentage of Ceramic net sales decreased to 32.1% in the six month period ended September 30, 2011 as compared to 33.7% in the six month period ended September 30, 2010. The drivers of the gross margin percentage decline were increases in raw materials, labor and utility rates. Operating expenses increased by \$1.6 million due to foreign exchange.

*Operating Income*

Operating income declined from \$24.4 million in the first half of fiscal year 2011 to operating income of \$21.4 million in the first half of fiscal year 2012. The decrease in operating income of \$2.9 million was attributable to the \$1.2 million increase in operating expenses and no gain on sale of assets in the first half of fiscal year 2012 compared to a gain of \$1.6 million in the first half of fiscal year 2011.

*Film and Electrolytic*

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The table sets forth Net sales, Gross margin, Gross margin as a percentage of net sales, Operating income and Operating income (loss) as a percentage of net sales for our Film and Electrolytic business group for the six months ended September 30, 2011 and 2010 (amounts in thousands, except percentages):

	Six Months Ended			
	September 30, 2011		September 30, 2010	
	Amount	% to Net Sales	Amount	% to Net Sales
Net sales	\$ 205,146		\$ 143,887	
Gross margin	44,876	21.9%	20,122	14.0%
Operating income (loss)	16,333	8.0%	(2,828)	(2.0)%

*Net Sales*

Net sales increased by 42.6% from \$143.9 million in the first half of fiscal year 2011 to \$205.1 million in the first half of fiscal year 2012. Capacitor average selling prices increased 25.5% at comparable exchange rates for the six month period ended September 30, 2011 as compared to the same six month period in fiscal year 2011 due to a favorable shift in product line mix.

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Offsetting the increase in average selling prices, capacitor unit sales volume for the first half of fiscal year 2012 decreased 12.1% compared to the same period in fiscal year 2011. Capacitor sales were favorably impacted by \$12.3 million related to foreign exchange. The Film and Electrolytic machinery division increased net sales by \$29.3 million in the six month period ended September 30, 2011 compared to the same period of fiscal year 2011. The improvement in the Film and Electrolytic machinery division net sales is primarily due to an increase in unit sales volume as well as a \$5.2 million benefit related to foreign exchange. The recently acquired etched foil manufacturing operation contributed \$7.4 million of net sales.

*Gross Margin*

Gross margin increased \$24.8 million from \$20.1 million in the first half of fiscal year 2011 to \$44.9 million in the first half of fiscal year 2012. The improvement in gross margin was primarily driven by higher average selling prices, a favorable shift in product line mix and the Film and Electrolytic machinery division's increase in net sales. Gross margin as a percentage to Film and Electrolytic net sales increased to 21.9% in the six month period ended September 30, 2011 as compared to 14.0% in the same six month period in fiscal year 2011.

*Operating Income (Loss)*

Operating income was \$16.3 million in the first half of fiscal year 2012 compared to an operating loss of \$2.8 million in the first half of fiscal year 2011. The improvement in operating income of \$19.2 million was attributable primarily to the \$24.8 million improvement in gross margin, a decrease in restructuring charges of \$1.5 million during the six month period ended September 30, 2011 as compared to the six month period ended September 30, 2010, and zero loss on sales and disposals of assets in the first half of fiscal year 2012 as compared to a loss of \$0.2 million in the first half of fiscal year 2011. This improvement was partly offset by a \$7.2 million increase in operating expenses in the first half of fiscal year 2012 as compared to the first half of fiscal year 2011.

**Liquidity and Capital Resources**

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

*Issuance of 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 us of \$222.2 million. The Company used a portion of the proceeds of the private placement to repay all of the outstanding indebtedness under the credit facility with K Financing, the EUR 60 million credit facility and EUR 35 million credit facility with UniCredit and the term loan with a subsidiary of Vishay Intertechnology, Inc. (Vishay). 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 due 2026 (the Convertible Notes) and to pay costs incurred

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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 \$5.8 million as of September 30, 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 have 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.

### *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. There were no borrowings against the Loan and Security Agreement as of September 30, 2011 or March 31, 2011.

Table of Contents*Short Term Liquidity*

We expect to be required to extinguish all or a substantial portion of our outstanding Convertible Notes on November 15, 2011 pursuant to a right provided by the Convertible Notes Indenture whereby the holders of such notes may require the Company to purchase for cash all or a portion of their Convertible Notes on that date. We have reserved \$36.5 million of cash for this anticipated payment and this amount is reflected in the line item Restricted cash on the September 30, 2011 condensed consolidated balance sheet.

Based on our current operating plans, we believe that cash on hand and cash generated from operations will be sufficient to cover our operating requirements for the next twelve months, including \$28.2 million in interest payments and expected capital expenditures in the range of \$55 million to \$60 million.

Cash and cash equivalents decreased by \$24.9 million for the six month period ended September 30, 2011 as compared with an increase of \$38.3 million during the six month period ended September 30, 2010. The decrease in cash and cash equivalents during the six month period ended September 30, 2011 is due to the aforementioned cash restriction requirement in the amount of \$36.5 million which represents the maximum potential principal payment due on November 15, 2011 for the Convertible Notes.

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

	<b>Six Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Cash provided by operating activities	\$ 50,989	\$ 56,445
Cash used in investing activities	(31,689)	(8,396)
Cash used in financing activities	(43,604)	(10,556)
Effects of foreign currency fluctuations on cash	(584)	762
Net increase (decrease) in cash and cash equivalents	\$ (24,888)	\$ 38,255

*Operations*

Cash provided by operating activities decreased by \$5.5 million in the six months ended September 30, 2011 compared to the six months ended September 30, 2010. This decrease was primarily a result of an \$8.6 million decrease in cash flows related to operations (net income adjusted for non-cash items).

The change in operating assets resulted in a \$57.5 million improvement in cash generation. Due to increasing sales, accounts receivable and inventories increased during the first half of fiscal year 2011 which resulted in a use of cash of \$8.0 million and \$30.2 million, respectively. During the six months ended September 30, 2011, the change in accounts receivable provided \$37.5 million of cash. Offsetting this cash generation, inventories increased, primarily due to higher raw materials prices, which resulted in a \$15.3 million use of cash.



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The change in operating liabilities resulted in a \$56.9 million increase in cash used for the six months ended September 30, 2011 compared to the six months ended September 30, 2010. Within operating liabilities, decreases in accounts payable and accrued liabilities accounted for \$49.3 million in cash used. The \$38.2 million loss on early extinguishment of debt that was incurred during the six months ended September 30, 2010 was a non-cash item and did not affect cash provided by operations.

### *Investing*

Cash used in investing activities increased \$23.3 million in the six month period ended September 30, 2011 compared to the six month period ended September 30, 2010. Capital expenditures increased \$6.3 million in the six month period ended September 30, 2011 compared to the six month period ended September 30, 2010. Also contributing to the increase in cash used in investing activities during the six months ended September 30, 2011 was the \$11.6 million acquisition of Cornell Dubilier Foil, LLC made in the first quarter of fiscal year 2012. In the first half of fiscal year 2011, we received \$5.4 million in proceeds from the sale of assets while there were no proceeds from the sale of assets during the first half of fiscal year 2012.

### *Financing*

Cash used in financing activities increased \$33.0 million in the six month period ended September 30, 2011 as compared to the six month period ended September 30, 2010. A \$36.5 million change in restricted cash was the most significant use of cash from financing activities during the six months ended September 30, 2011. On August 15, 2011, a restriction was placed on a portion of our cash balance arising from our potential \$36.5 million principal payment on the Convertible Notes. The Convertible Note holders

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have the right to require us to repurchase for cash all or a portion of the Convertible Notes outstanding. Such payment, if required, would be due on November 15, 2011.

In the six month period ended September 30, 2011, we used \$7.2 million for payments on both long-term and short-term debt. In the first half of fiscal year 2011, proceeds from the issuance of debt resulted from the private placement of \$230.0 million in aggregate principal amount of our 10.5% Senior Notes due 2018. The proceeds of \$182.5 million were used to repay all of the outstanding indebtedness under our credit facilities with K Financing, LLC, our EUR 60 million credit facility and EUR 35 million credit facility with UniCredit and our term loan with Vishay. We used \$38.1 million to retire \$40.5 million in aggregate principal amount of our Convertible Notes and \$6.6 million to pay costs incurred in connection with the private placement, the tender offer and the foregoing repayments. We made a principal payment related to UniCredit Facility A on April 1, 2010 for EUR 7.7 million (\$10.4 million).

**Commitments**

Our commitments have not changed materially from those disclosed in the Company's 2011 Annual Report.

***Non-U.S. GAAP Financial Measures***

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

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

	Quarters Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Operating income	\$ 24,913	\$ 37,962	\$ 65,755	\$ 66,497
Adjustments:				
Restructuring charges	1,605	2,303	2,630	4,095
Plant start-up costs	718		718	
Stock-based compensation expense	984	333	2,175	482
Net (gain) loss on sales and disposals of assets	(40)	(1,770)	83	(1,435)
ERP integration costs	1,918	375	3,123	655
Registration related fees	77		281	
Acquisition related fees			610	

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Adjusted operating income	\$	30,175	\$	39,203	\$	75,375	\$	70,294
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Adjusted net income is calculated as follows (amounts in thousands):

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	Quarters Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Net income	\$ 14,318	\$ 34,911	\$ 46,167	\$ 14,812
Adjustments:				
Restructuring charges	1,605	2,303	2,630	4,095
Plant start-up costs	718		718	
Amortization included in interest expense	1,012	830	2,056	2,754
Net (gain) loss on sales and disposals of assets	(40)	(1,770)	83	(1,435)
Net foreign exchange (gain) loss	1,391	(2,679)	1,268	(1,407)
Stock-based compensation expense	984	333	2,175	482
ERP integration costs	1,918	375	3,123	655
Registration related fees	77		281	
Acquisition related fees			610	
Gain on licencing of patents		(2,000)		(2,000)
Loss on early extinguishment of debt				38,248
Income tax impact of adjustments	406	(364)	390	(632)
Adjusted net income	\$ 22,389	\$ 31,939	\$ 59,501	\$ 55,572

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

	Quarters Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Net income	\$ 14,318	\$ 34,911	\$ 46,167	\$ 14,812
Adjustments:				
Income tax expense	2,047	593	3,778	1,868
Interest expense, net	7,251	7,250	14,608	14,687
Depreciation and amortization	11,852	14,132	23,011	28,642
Restructuring charges	1,605	2,303	2,630	4,095
Plant start-up costs	718		718	
Net foreign exchange (gain) loss	1,391	(2,679)	1,268	(1,407)
Stock-based compensation expense	984	333	2,175	482
Net (gain) loss on sales and disposals of assets	(40)	(1,770)	83	(1,435)
ERP integration costs	1,918	375	3,123	655
Registration related fees	77		281	
Acquisition related fees			610	
Gain on licencing of patents		(2,000)		(2,000)
Loss on early extinguishment of debt				38,248
Adjusted EBITDA	\$ 42,121	\$ 53,448	\$ 98,452	\$ 98,647

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

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

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Adjusted EBITDA represents net income (loss) before income tax expense, interest expense, net, and depreciation and amortization expense, adjusted to exclude restructuring charges, plant start-up costs, net foreign exchange (gain) loss, stock-based compensation expense, net gain/loss on sales and disposals of assets, ERP integration costs, registration related fees, acquisition related fees, gain on licensing of patents, and loss on the early extinguishment of debt. We present Adjusted EBITDA as a supplemental measure of our performance and ability to service debt. We also present Adjusted EBITDA because we believe such measure is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry.

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

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

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

- it does not reflect our cash expenditures, future requirements for capital expenditures or contractual commitments;
  
- it does not reflect changes in, or cash requirements for, our working capital needs;
  
- it does not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments on our debt;
  
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and our Adjusted EBITDA measure does not reflect any cash requirements for such replacements;
  
- it is not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;

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- it does not reflect the impact of earnings or charges resulting from matters we consider not be indicative of our ongoing operations;
- it does not reflect limitations on or costs related to transferring earnings from our subsidiaries to us; and
- other companies in our industry may calculate this measure differently than we do, limiting its usefulness as a comparative measure.

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

### **Off-Balance Sheet Arrangements**

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

### **Impact of Recently Issued Accounting Standards**

#### *New accounting standards adopted*

There were no accounting standards adopted in the six month period ended September 30, 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

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comprehensive income or (2) two separate but consecutive statements. The ASU does not change the items that must be reported in other comprehensive income. ASU 2011-05 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.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There has been no material changes regarding the Company's market risk position from the information included in the Company's 2011 Annual Report.

**Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

As of September 30, 2011, an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act)) was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

*Changes in Internal Control Over Financial Reporting*



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

Other than the change described above, there has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings**

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

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**Item 1A. Risk Factors**

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A, of the Company's 2011 Annual Report except that we have removed the following risk factor as it is no longer applicable: recent events in Japan could negatively impact our sales and supply chain.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. [Removed and Reserved]**

**Item 5. Other Information**

None.

**Item 6. Exhibits**

Exhibit 4.1 Supplemental Indenture, dated as of August 10, 2011, among KEMET Foil Manufacturing LLC (f/k/a Cornell Dubilier Foil, LLC), KEMET Corporation, the other Guarantors and Wilmington Trust Company, as trustee.

Exhibit 10.1 KEMET Corporation 2011 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 2, 2011)

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

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

Exhibit 32.1 Section 1350 Certification - Principal Executive Officer

Exhibit 32.2 Section 1350 Certification - Principal Financial Officer

Exhibit 101 The following financial information from KEMET Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Income for the three and six months ended September 30, 2011 and 2010, (ii) Condensed Consolidated Balance Sheets at September 30, 2011, and March 31, 2011, (iii) Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2011 and 2010, and (iv) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

**SIGNATURE**

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

Date: November 3, 2011

KEMET Corporation

/s/ WILLIAM M. LOWE, JR.

William M. Lowe, Jr.

*Executive Vice President and Chief Financial Officer*

*(Principal Financial Officer and Principal Accounting Officer)*

*(Duly Authorized Officer)*

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**EXHIBIT INDEX**

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