KEMET CORP
Form 10-Q
February 08, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2012

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

Commission File Number: 001-15491

KEMET CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**57-0923789**

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

2835 KEMET WAY, SIMPSONVILLE, SOUTH CAROLINA 29681

(Address of principal executive offices, zip code)

(864) 963-6300

(Registrant s telephone number, including area code)

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

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

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

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

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

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

The number of shares outstanding of the registrant s common stock, par value $0.01 per share, as of February 4, 2013 was 44,921,629.

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KEMET CORPORATION AND SUBSIDIARIES

Form 10-Q for the Quarter Ended December 31, 2012

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PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

KEMET CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Amounts in thousands, except per share data)

	December 31, 2012 (Unaudited)	March 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 137,559	$ 210,521
Accounts receivable, net	96,648	104,950
Inventories, net	221,360	212,234
Prepaid expenses and other	36,509	32,259
Deferred income taxes	5,383	6,370
Total current assets	497,459	566,334
Property and equipment, net of accumulated depreciation of $777,780 and $761,522 as of December 31, 2012 and March 31, 2012, respectively	312,911	315,848
Goodwill	35,584	36,676
Intangible assets, net	39,750	41,527
Restricted cash	26,177	2,204
Other assets	14,459	12,963
Total assets	$ 926,340	$ 975,552
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 7,908	$ 1,951
Accounts payable	61,593	74,404
Accrued expenses	85,077	89,079
Income taxes payable	1,104	2,256
Total current liabilities	155,682	167,690
Long-term debt, less current portion	375,587	345,380
Other non-current obligations	86,455	101,229
Deferred income taxes	4,805	2,257
Stockholders equity:		
Preferred stock, par value $0.01, authorized 10,000 shares, none issued		
Common stock, par value $0.01, authorized 175,000 shares, issued 46,508 shares at December 31, 2012 and March 31, 2012	465	465
Additional paid-in capital	467,708	470,059
Retained deficit	(137,984)	(81,053)
Accumulated other comprehensive income	10,320	12,020
Treasury stock, at cost (1,588 and 1,839 shares at December 31, 2012 and March 31, 2012, respectively)	(36,698)	(42,495)
Total stockholders equity	303,811	358,996
Total liabilities and stockholders equity	$ 926,340	$ 975,552

See accompanying notes to the unaudited condensed consolidated financial statements.

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KEMET CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Amounts in thousands, except per share data)

(Unaudited)

	Quarters Ended December 31, 2012	Quarters Ended December 31, 2011	Nine Months Ended December 31, 2012	Nine Months Ended December 31, 2011
Net sales	$ 200,297	$ 218,795	$ 639,920	$ 774,165
Operating costs and expenses:				
Cost of sales	166,117	178,305	540,491	592,128
Selling, general and administrative expenses	25,411	24,737	80,649	83,368
Research and development	6,698	7,172	21,264	21,620
Restructuring charges	3,886	10,748	13,672	13,378
Goodwill impairment			1,092	
Write down of long-lived assets	3,084	15,786	7,318	15,786
Net curtailment and settlement (gain) loss on benefit plans	587		(1,088)	
Net (gain) loss on sales and disposals of assets	(196)	9	(123)	92
Total operating costs and expenses	205,587	236,757	663,275	726,372
Operating income (loss)	(5,290)	(17,962)	(23,355)	47,793
Other (income) expense:				
Interest income	(54)	(62)	(111)	(136)
Interest expense	10,247	7,036	30,840	21,718
Other (income) expense, net	(1,641)	716	(1,126)	1,918
Income (loss) before income taxes	(13,842)	(25,652)	(52,958)	24,293
Income tax expense	415	2,119	3,973	5,897
Net income (loss)	$ (14,257)	$ (27,771)	$ (56,931)	$ 18,396
Net income (loss) per share:				
Basic	$ (0.32)	$ (0.62)	$ (1.27)	$ 0.43
Diluted	$ (0.32)	$ (0.62)	$ (1.27)	$ 0.35
Weighted-average shares outstanding:				
Basic	44,918	44,644	44,879	42,834
Diluted	44,918	44,644	44,879	52,302

See accompanying notes to the unaudited condensed consolidated financial statements.

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KEMET CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Amounts in thousands)

(Unaudited)

	Quarters Ended December 31,		Nine Months Ended December 31,	
	2012	2011	2012	2011
Net income (loss)	$ (14,257)	$ (27,771)	$ (56,931)	$ 18,396
Other comprehensive income (loss):				
Foreign currency translation gains (losses)	3,456	(5,854)	(603)	(14,341)
Defined benefit pension plans, net of tax impact	288	118	(854)	334
Defined benefit post-retirement plan adjustments	(82)	(82)	(243)	(243)
Other comprehensive income (loss)	3,662	(5,818)	(1,700)	(14,250)
Total comprehensive income (loss)	$ (10,595)	$ (33,589)	$ (58,631)	$ 4,146

See accompanying notes to the unaudited condensed consolidated financial statements.

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KEMET CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Amounts in thousands)

(Unaudited)

	Nine Months Ended December 31,	
	2012	2011
Net income (loss)	$ (56,931)	$ 18,396
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	33,679	33,384
Amortization of debt discount and debt issuance costs	3,046	2,903
Net (gain) loss on sales and disposals of assets	(123)	92
Stock-based compensation expense	3,584	1,378
Goodwill impairment	1,092	
Write down of long-lived assets	7,318	15,786
Net curtailment and settlement (gain) loss on benefit plans	(1,088)	
Change in deferred income taxes	1,517	909
Change in operating assets	(5,576)	46,330
Change in operating liabilities	(28,173)	(48,116)
Other	33	841
Net cash provided by (used in) operating activities	(41,622)	71,903
Investing activities:		
Capital expenditures	(38,349)	(31,793)
Change in restricted cash	(24,000)	
Acquisition, net of cash received		(11,584)
Net cash used in investing activities	(62,349)	(43,377)
Financing activities:		
Proceeds from issuance of debt	39,825	
Deferred acquisition payments	(6,617)	
Payments of long-term debt	(1,901)	(40,581)
Net borrowings (payments) under other credit facilities		(3,153)
Proceeds from exercise of stock options	58	225
Debt issuance costs	(275)	(36)
Net cash provided by (used in) financing activities	31,090	(43,545)
Net decrease in cash and cash equivalents	(72,881)	(15,019)
Effect of foreign currency fluctuations on cash	(81)	(983)
Cash and cash equivalents at beginning of fiscal period	210,521	152,051
Cash and cash equivalents at end of fiscal period	$ 137,559	$ 136,049

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 Form 10-K for the fiscal year ended March 31, 2012 (the Company s 2012 Annual Report).

Net sales and operating results for the three and nine months ended December 31, 2012 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 2012 Annual Report.

Use of Estimates and Assumptions

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

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

Recently Issued Accounting Pronouncements

New accounting standards adopted

In 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 it is more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be needed. ASU 2011-08 was effective for the Company on April 1, 2012 and did not have a material effect on the Company s financial position.

In December 2011, the FASB issued ASU 2011-12, Comprehensive Income. ASU 2011-12 defers the requirement in ASU 2011-05 that companies present reclassification adjustments for each component of AOCI in both OCI and net income on the face of the financial statements. ASU 2011-12 requires companies to continue to present amounts reclassified out of AOCI on the face of the financial statements or disclosed in the notes to the financial statements. ASU 2011-12 also defers the requirement to report reclassification adjustments in interim periods and requires companies to present only total comprehensive income in either a single continuous statement or two consecutive statements in interim periods. ASU 2011-05 and ASU 2011-12 was effective for the Company on April 1, 2012 and did not have a material effect on the Company s financial position.

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

Restricted Cash

As discussed in Note 2, *Deb*t, the Company received a $24.0 million prepayment from an original equipment manufacturer (OEM), which is classified as restricted cash.

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A bank guarantee in the amount of EUR 1.5 million ($2.0 million) was issued by a European bank on behalf of the Company in August 2006 in conjunction with the establishment of a Value-Added Tax (VAT) registration in The Netherlands. Accordingly, a deposit was placed with the European bank for EUR 1.7 million ($2.2 million). While the deposit is in KEMET s name, and KEMET receives all interest earned by this deposit, the deposit is pledged to the European bank, and the bank can use the funds if a valid claim against the bank guarantee is made. The bank guarantee will remain valid until it is discharged by the beneficiary.

Fair Value Measurement

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

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

- Level 1 Quoted prices in active markets for identical assets or liabilities.

- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 and March 31, 2012 are as follows (amounts in thousands):

	Carrying Value December 31, 2012	Fair Value December 31, 2012	Fair Value Measurement Using			Carrying Value March 31, 2012	Fair Value March 31, 2012	Fair Value Measurement Using		
			Level 1	Level 2 (2)	Level 3			Level 1	Level 2 (2)	Level 3
Assets:										
Money markets (1)	$ 26,253	$ 26,253	$ 26,253	$	$	$ 26,215	$ 26,215	$ 26,215	$	$
Long-term debt	383,495	373,366	348,788	24,578		347,331	362,086	358,700	3,386	

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

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

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

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

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of Operations, while the associated reserves are included in the line item Accounts receivable, net on the Condensed Consolidated Balance Sheets.

Estimates used in determining sales allowances are subject to various factors. This includes, but is not limited to, changes in economic conditions, pricing changes, product demand, inventory levels in the supply chain, the effects of technological change, and other variables that might result in changes to our estimates.

The Company provides a limited warranty to customers that the Company s products meet certain specifications. The warranty period is generally limited to one year, and the Company s liability under the warranty is generally limited to a replacement of the product or refund of the purchase price of the product. Warranty costs as a percentage of net sales were 1% or less for the quarters and nine months ended December 31, 2012 and 2011. The Company recognizes warranty costs when they are both probable and reasonably estimable.

Inventories

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

	December 31, 2012	March 31, 2012
Raw materials and supplies	$ 94,669	$ 86,845
Work in process	72,708	72,411
Finished goods	73,073	70,122
	240,450	229,378
Inventory reserves	(19,090)	(17,144)
	$ 221,360	$ 212,234

Warrant Liability

As of December 31, 2012 and March 31, 2012, 8.4 million shares are subject to a warrant held by K Equity, LLC.

Note 2. Debt

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

	December 31, 2012	March 31, 2012
10.5% Senior Notes, net of premium of $3,920 and $3,539 as of December 31, 2012 and March 31, 2012, respectively	$ 358,920	$ 343,539
Advanced payment from OEM, net of discount of $1,270 as of December 31, 2012	22,730	
Other	1,845	3,792
Total debt	383,495	347,331
Current maturities	(7,908)	(1,951)
Total long-term debt	$ 375,587	$ 345,380

The line item Interest expense on the Condensed Consolidated Statements of Operations for the quarters and nine months ended December 31, 2012 and 2011, is as follows (amounts in thousands):

	Quarters Ended December 31,		Nine Months Ended December 31,	
	2012	2011	2012	2011
Contractual interest expense	$ 9,125	$ 6,189	$ 27,794	$ 18,815
Amortization of debt issuance costs	426	274	1,278	829
Amortization of debt (premium) discount	48	415	(250)	1,669
Imputed interest on acquisition related obligations	648	158	2,018	405
	$ 10,247	$ 7,036	$ 30,840	$ 21,718

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Advanced Payment from OEM

On August 28, 2012, the Company entered into and amended an agreement (the Agreement), with an original equipment manufacturer (the OEM) pursuant to which the OEM agreed to advance KEMET $24.0 million (the Advance Payment). The Agreement provides that on a monthly-basis starting eight months following the receipt of the Advance Payment, the Company will pay the OEM an amount equal to a percentage of the aggregate purchase price of the capacitors sold to the OEM the preceding month, not to exceed $1.0 million per month. Pursuant to the terms of the Agreement, the percentage of the aggregate purchase price of capacitors sold to the OEM that will be used to repay the Advance Payment will double, and the total amount to be repaid will not exceed $2.0 million per month, in the event that (1) the OEM provides evidence that the price charged by KEMET for a particular capacitor during any prior quarter was equal to or greater than 110% of the price paid by the OEM or its affiliates for a third-party part qualified for the same product, and shipping in volume during such period, and (2) agreement cannot be reached between the OEM and the Company for a price adjustment during the current quarter which would bring KEMET s price within 110% of the third-party price. Thirty-two months after the date of the Advance Payment, the remaining outstanding balance, if any, is due in full. Pursuant to the terms of the Agreement, the Company delivered to the OEM an irrevocable standby letter of credit in the amount of $16.0 million on October 8, 2012 and on October 22, 2012 the Company received the Advance Payment from the OEM. The debt discount related to the Advance Payment as of December 31, 2012 was $1.3 million which will be amortized over the term of the Agreement.

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). On March 27, 2012 and April 3, 2012, the Company completed the sale of $110.0 million and $15.0 million aggregate principal amount of its 10.5% Senior Notes due 2018, respectively, at an issue price of 105.5% of the principal amount plus accrued interest from November 1, 2011. The Senior Notes were issued as additional notes under the indenture, dated May 5, 2010, among the Company, the guarantors party thereto and Wilmington Trust Company, as trustee. Debt issuance costs related to the 10.5% Senior Notes, net of amortization, of $7.1 million and $7.8 million as of December 31, 2012 and March 31, 2012, respectively are being amortized over the term of the 10.5% Senior Notes. Debt premium related to the 10.5% Senior Notes of $3.9 million and $3.5 million as of December 31, 2012 and March 31, 2012, respectively are being amortized over the term of the 10.5% Senior Notes.

The Company had interest payable related to the 10.5% Senior Notes included in the line item Accrued expenses on its Condensed Consolidated Balance Sheets of $6.2 million and $14.7 million at December 31, 2012 and March 31, 2012, respectively.

Revolving Line of Credit

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

Debt issuance costs related to the Loan and Security Agreement, net of amortization, were $0.7 million and $0.9 million as of December 31, 2012 and March 31, 2012, respectively are being amortized over the term of the Loan and Security Agreement. As described above, a standby letter of credit for $16.0 million was delivered to the OEM on October 8, 2012 which reduced the Company s availability under the Loan and Security Agreement. There were no borrowings against the Loan and Security Agreement as of December 31, 2012 and March 31, 2012.

Note 3. Goodwill

The Company s annual goodwill and other indefinite-lived intangible asset impairment test was assessed as of May 31st of each year. Due to reduced earnings and cash flows caused by macro-economic factors and excess capacity issues in our industry, the Company revised its earnings forecast; as a result, recorded a $1.1 million goodwill impairment charge, which represented all of the goodwill related to the KEMET Foil Manufacturing, LLC (KEMET Foil) reporting unit.

During the quarter ended December 31, 2012, the Company voluntarily changed the test date of its annual goodwill and other indefinite-lived intangible asset impairment test from May 31st to January 1st. The Company determined that this change is preferable under the circumstances as it (1) better aligns with the Company s annual financial planning and budgeting process, (2) provides the Company with additional time to prepare and complete the impairment test, including measurement of any indicated impairment, as

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necessary, prior to filing of the Form 10-K and (3) the impairment testing will use financial information as of the beginning of a quarter, which will have been subject to the prior quarter s closing process. This voluntary change in accounting principle was not made to delay, accelerate or avoid an impairment charge. This change is not applied retrospectively as it is impracticable to do so because retrospective application would require the application of significant estimates and assumptions with the use of hindsight. Accordingly, the change will be applied prospectively.

Note 4. Write Down of Long-Lived Assets

During the third quarter of fiscal year 2013, the Company incurred impairment charges totaling $3.1 million related to the Tantalum Business Group (Tantalum). The Company is restructuring its Evora, Portugal manufacturing operations, which is expected to be completed during the quarter ending March 31, 2014. As a part of our ongoing commitment to expand our polymer capacity, the Company will be moving certain Tantalum manufacturing operations from the Evora, Portugal facility to a manufacturing facility in Mexico and the equipment in Portugal will be disposed. The Company has used an income approach to estimate the fair value of the assets to be disposed. The impairment charge is recorded on the Condensed Consolidated Statements of Operations line item Write down of long-lived assets in the third quarter of fiscal year 2013.

During the second quarter of fiscal year 2013, in connection with the consolidation of two manufacturing facilities within Italy, the Company incurred impairment charges totaling $4.2 million related to the Film and Electrolytic Business Group (Film and Electrolytic).The Company obtained appraisals for each of these facilities indicating there was a decrease in the market price of the manufacturing facilities, and therefore, the carrying amounts for these manufacturing facilities were reviewed for recoverability. It was determined that the carrying amounts of the manufacturing facilities were not recoverable since they exceeded the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group). The impairment was measured as the amount by which the carrying amount of a long-lived asset (asset group) exceeded its fair value. The Company utilized the market approach to estimate fair value of the long-lived asset group. The impairment charge is recorded on the Condensed Consolidated Statements of Operations line item Write down of long-lived assets in the nine month period ended December 31, 2012.

Note 5. Restructuring Charges

A summary of the expenses aggregated on the Condensed Consolidated Statements of Operations line item Restructuring charges in the quarters and nine months ended December 31, 2012 and 2011, are as follows (amounts in thousands):

	Quarters Ended December 31,		Nine Months Ended December 31,	
	2012	**2011**	**2012**	**2011**
Cost of relocating manufacturing equipment	$ 497	$ 261	$ 1,658	$ 1,646
Personnel reduction costs	3,389	10,487	12,014	11,732
	$ 3,886	$ 10,748	$ 13,672	$ 13,378

Nine months ended December 31, 2012

In fiscal year 2010, the Company initiated the first phase of a plan to restructure Film and Electrolytic and to reduce overhead within the Company as a whole. Since that time the restructuring plan has been expanded to all business groups and includes implementing programs to make the Company more competitive by removing excess capacity, moving production to lower cost locations and eliminating unnecessary costs throughout the Company. In the nine months ended December 31, 2012 personnel reduction costs related to this plan were $12.0 million and are comprised of the following: $2.8 million in termination benefits associated with converting the Landsberg, Germany manufacturing facility into a technology center; $2.3 million in termination benefits associated with converting the Weymouth, United Kingdom manufacturing facility into a technology center; $1.5 million for reductions in production workforce in Mexico; $1.1 million for reductions in production workforce in Portugal; $2.3 million for reductions in administrative overhead primarily in the Corporate headquarters and $2.0 million for reductions in production workforce and administrative overhead across the entire Company. The total termination benefits paid for the conversion of the United Kingdom manufacturing facility are expected to be $2.6 million and the expected completion date is the third quarter of fiscal year 2014.

In addition to these personnel reduction costs, the Company incurred manufacturing relocation costs of $1.7 million for relocation of equipment to Bulgaria, China, Macedonia and Mexico and for the consolidation of manufacturing operations within Italy.

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Nine months ended December 31, 2011

In the nine months ended December 31, 2011, personnel reduction costs of $11.7 million were primarily comprised of the following: termination benefits of $6.1 million related to facility closures in Italy that commenced during fiscal year 2013; charges of $4.5 million also incurred in Italy to participate in a plan to save labor costs whereby a company may temporarily lay off employees while the government continues to pay their wages for a certain period of time; and, $1.2 million in personnel reduction costs primarily due to headcount reductions related to Tantalum operations in Mexico. These charges related to the Company s efforts to restructure its manufacturing operations within Europe, primarily within Film and Electrolytic. Construction has commenced on a new manufacturing facility in Pontecchio, Italy, that will allow the closure and consolidation of multiple manufacturing operations located in Italy. In addition to these personnel reduction costs, the Company incurred manufacturing relocation costs of $1.6 million for relocation of equipment to China and Mexico.

Reconciliation of restructuring liability

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

	Quarter Ended December 31, 2012		Quarter Ended December 31, 2011	
	Personnel Reductions	Manufacturing Relocations	Personnel Reductions	Manufacturing Relocations
Beginning of period	$ 15,019	$	$ 1,121	$
Costs charged to expense	3,389	497	10,487	261
Costs paid or settled	(4,139)	(497)	(617)	(261)
Change in foreign exchange	239		(390)	
End of period	$ 14,508	$	$ 10,601	$

	Nine Months Ended December 31, 2012		Nine Months Ended December 31, 2011	
	Personnel Reductions	Manufacturing Relocations	Personnel Reductions	Manufacturing Relocations
Beginning of period	$ 11,474	$	$ 1,827	$
Costs charged to expense	12,014	1,658	11,732	1,646
Costs paid or settled	(8,990)	(1,658)	(2,521)	(1,646)
Change in foreign exchange	10		(437)	
End of period	$ 14,508	$	$ 10,601	$

Note 6. Comprehensive Income (Loss) and Accumulated Other Comprehensive Income

Comprehensive income (loss) for the quarters and nine months ended December 31, 2012 and 2011 includes the following components (amounts in thousands):

	Quarters Ended December 31,	Nine Months Ended December 31,

	2012	2011	2012	2011
Net income (loss)	$ (14,257)	$ (27,771)	$ (56,931)	$ 18,396
Currency translation gain (loss)(1)	3,456	(5,854)	(603)	(14,341)
Amortization of defined benefit pension plans	288	118	(854)	334
Amortization of postretirement benefit plan	(82)	(82)	(243)	(243)
	$ (10,595)	$ (33,589)	$ (58,631)	$ 4,146

(1) Due primarily to the Company s permanent re-investment assertion relating to foreign earnings, there was no significant deferred tax effect associated with the cumulative currency translation gains and losses during the quarters and nine months ended December 31, 2012 and 2011.

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

		December 31, 2012		March 31, 2012
Foreign currency translation gain	$	17,504	$	18,107
Defined benefit pension plans		(8,936)		(8,082)
Defined benefit postretirement plan adjustments		1,752		1,995
	$	10,320	$	12,020

Note 7. Acquisitions

Cornell Dubilier Foil, LLC

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 a $0.5 million working capital adjustment, of which $11.6 million (net of cash received) was paid at closing and $1.0 million was paid on the first anniversary of the closing date and $1.0 million is to be paid on each of the next two anniversaries of the closing date. The Company recorded goodwill of $1.1 million and amortizable intangibles of $1.6 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) included the trained workforce. Pro forma results are not presented because the acquisition was not material to the consolidated financial statements. KEMET Foil is included within Film and Electrolytic.

As discussed in Note 3, Goodwill, the goodwill recorded for KEMET Foil was fully impaired in the second quarter of fiscal year 2013.

Niotan Incorporated

On February 21, 2012, KEMET acquired all of the outstanding shares of Niotan Incorporated, whose name was subsequently changed to KEMET Blue Powder Corporation (Blue Powder), a leading manufacturer of tantalum powders, from an affiliate of Denham Capital Management LP. Blue Powder has its headquarters and principal operating location in Carson City, Nevada. KEMET paid an initial purchase price of $30.5 million (net of cash received) at the closing of the transaction. Additional deferred payments of $45 million are payable over a thirty-month period after the closing and a working capital adjustment of $0.4 million was paid in April 2012. KEMET made the first installment payment of $5.0 million in August of 2012. KEMET will also be required to make quarterly royalty payments for tantalum powder produced by Blue Powder, in an aggregate amount equal to $10 million by December 31, 2014. The Company determined that the royalty payments should be treated as part of the consideration for Blue Powder instead of a separate transaction because (i) it is paid to the selling shareholder who is not continuing with Blue Powder, (ii) it was based solely on the negotiation process and (iii) KEMET now owns the technology. The Company recorded goodwill of $35.6 million and amortizable intangibles of $22.4 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 not tax deductible) include market recognition of the world class quality of Blue Powder s tantalum powder, the Company s cost savings due to vertical integration and Blue Powder s ability to provide a constant and reliable supply of tantalum powder. Pro forma results

are not presented because the acquisition was not material to the consolidated financial statements. Blue Powder is included within Tantalum.

The total discounted purchase price for Blue Powder was $82.0 million which includes (amounts in thousands):

Cash at closing	$	30,656
Deferred payments (discounted)		41,938
Royalty payments (discounted)		8,975
Working capital adjustment		403