

KEMET CORP
Form 10-K
May 30, 2014

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended March 31, 2014

Or

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

For the transition period from _____ to _____

Commission File Number: 001-15491

KEMET Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

57-0923789

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

2835 Kemet Way, Simpsonville, South Carolina

(Address of principal executive offices)

29681

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$0.01 New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 No

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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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 (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
Aggregate market value of voting common stock held by non-affiliates of the registrant as of September 30, 2013, computed by reference to the closing sale price of the registrant's common stock was approximately \$182,411,910.
Number of shares of each class of common stock outstanding as of May 27, 2014: common stock, \$0.01 par value, 45,362,350.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement to be delivered to stockholders in connection with the Annual Meeting of Stockholders to be held July 24, 2014 are incorporated by reference in Part III of this report.

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PART I

ITEM 1. BUSINESS

Background of Company

KEMET is a leading global manufacturer of a wide variety of capacitors. As used in this report, the terms "we", "us", "our", "KEMET" and the "Company" refer to KEMET Corporation and its predecessors, subsidiaries and affiliates, unless the context indicates otherwise. KEMET's operations began in 1919 as a business of Union Carbide Corporation ("Union Carbide") to manufacture component parts for vacuum tubes. In the 1950s, Bell Laboratories invented solid-state transistors along with tantalum capacitors and other passive components necessary for their operation. As vacuum tubes were gradually replaced by transistors, we changed our manufacturing focus from vacuum tube parts to tantalum capacitors. We entered the market for tantalum capacitors in 1958 as one of approximately 25 United States manufacturers and by 1966; we were the United States' market leader in tantalum capacitors. In 1969, we began production of ceramic capacitors as one of approximately 35 United States manufacturers and opened our first manufacturing facility in Mexico. In 2003, we expanded operations into Asia, opening our first facility in Suzhou, China. In fiscal year 2007, we acquired the tantalum business unit of EPCOS AG ("EPCOS"). In fiscal year 2008, we acquired Evox Rifa Group Oyj ("Evox Rifa") and Arcotronics Italia S.p.A. ("Arcotronics") and, as a result, entered into markets for film, electrolytic and paper capacitors. In fiscal year 2012, we acquired Cornell Dubilier Foil, LLC (whose name was subsequently changed to KEMET Foil Manufacturing, LLC ("KEMET Foil")) and Niotan Incorporated (whose name was subsequently changed to KEMET Blue Powder Corporation ("Blue Powder")) which has allowed us to vertically integrate certain manufacturing processes within our two segments: our Film and Electrolytic Business Group ("Film and Electrolytic") and our Solid Capacitors Business Group ("Solid Capacitors"). In fiscal year 2013, KEMET Electronics Corporation ("KEC") acquired a 34% economic interest in NEC TOKIN Corporation ("NEC TOKIN") as calculated based on the number of common shares held by KEC, directly and indirectly, in proportion to the aggregate number of common and preferred shares of NEC TOKIN outstanding as of such date. The Company accounts for its investment in NEC TOKIN using the equity method for a non-consolidated variable interest entity since KEC does not have the power to direct significant activities of NEC TOKIN.

KEMET Corporation is a Delaware corporation that was formed in 1990 by certain members of the Company's management at the time, Citicorp Venture Capital, Ltd. and other investors that acquired the outstanding common stock of KEMET Electronics Corporation from Union Carbide. In 1992, we publicly issued shares of our common stock. Today, our common stock trades on the New York Stock Exchange ("NYSE") under the symbol "KEM".

General

Capacitors are electronic components that store, filter, and regulate electrical energy and current flow. As an essential passive component used in most circuit boards, capacitors are typically used for coupling, decoupling, filtering, oscillating and wave shaping and are used 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 (basically anything that plugs in or has a battery). Manufacturing a broad line of capacitors in many different sizes and configurations using a variety of raw materials, our product offerings include tantalum, multilayer ceramic, solid and electrolytic aluminum and film capacitors. Our product line consists of nearly 5 million distinct part configurations distinguished by various attributes, such as dielectric (or insulating) material, configuration, encapsulation, capacitance (at various tolerances), voltage, performance characteristics and packaging. Most of our customers have multiple capacitance requirements, often within each of their products and our broad product offering allows us to meet the majority of those needs independent of application and end use.

During fiscal years 2014, 2013 and 2012 we shipped 35 billion, 32 billion and 32 billion capacitors, respectively. We believe the long-term demand for the various types of capacitors we offer will 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 21 production facilities in Europe, North America and Asia and employ 9,600 employees worldwide. Our customer base includes most of the world's major electronics original equipment manufacturers ("OEMs") (including Alcatel-Lucent USA 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., Flextronics International LTD, Jabil Circuit, Inc. and Sanmina-SCI Corporation) and distributors (including TTI, Inc., Arrow Electronics, Inc. and Avnet, Inc.).

Our Industry

We manufacture capacitors in many different sizes and configurations including surface-mount capacitors, which are attached directly to the circuit board without lead wires; leaded capacitors, which are attached to the circuit board using lead wires; and, chassis-mount and other pin-through-hole board-mount capacitors, which utilize attachment methods such as screw terminal and snap-in.

The choice of capacitor dielectric is driven by the engineering specifications and the application of the component product into which the capacitor is incorporated. Product design engineers in the electronics industry typically select capacitors on the basis of capacitance levels, voltage requirements, size and cost. We compete with others that manufacture and distribute capacitors both domestically and globally and our success in the market is influenced by many factors, including price, availability, engineering specifications, quality, breadth of offering, performance characteristics, customer service and geographic location of our manufacturing sites. As in all manufacturing industries, there is ongoing pressure on average unit selling prices for capacitors. To help mitigate this effect, KEMET as well as many of our larger competitors have relocated their manufacturing operations to low cost regions and locations in closer proximity to our respective customers.

Solid Capacitors products are commonly used in conjunction with integrated circuits, and the same circuit may, and frequently does, contain both ceramic and tantalum capacitors. Tantalum capacitors are a popular choice because of their ability for high capacitance in a small volume package. Generally, ceramic capacitors are more cost-effective at lower capacitance values, and tantalum capacitors are more cost-effective at higher capacitance values. Solid aluminum capacitors can be more effective in special applications. Film, paper and aluminum electrolytic capacitors can be used to support integrated circuits, but also are used in the field of power electronics to provide energy for applications such as motor starts, power conditioning, electromagnetic interference filtering safety and inverters. Capacitors account for the largest market within the passive component product grouping.

According to a March 2014 report entitled "Passive Electronic Components: World Market Outlook: 2014-2019" by Paumanok Publications, Inc. ("Paumanok"), a market research firm concentrating on the passive components industry, the global capacitor market in fiscal year 2014 (fiscal year ending March 2014) was estimated to be \$18.3 billion in revenues and 1.59 trillion units. According to the Paumanok report, the global capacitor market is expected to improve substantially and achieve revenue and unit volume increases of 24% and 29%, respectively, by fiscal year 2019.

According to Paumanok, the forecast of the capacitor industry for fiscal year 2014 and the expected growth to fiscal year 2019 are as follows (amounts in billions):

	Fiscal Year 2014	Fiscal Year 2019
Tantalum	\$1.9	\$2.4
Ceramic	9.6	11.8
Aluminum	4.1	5.0
Paper and plastic film	2.0	2.6
Other	0.7	0.9
	\$18.3	\$22.7

Because capacitors are a fundamental component of electronic circuits, demand for capacitors tends to reflect the general demand for electronic products, as well as integrated circuits, which, though cyclical, continues to grow. We believe that growth in the electronics market and the resulting growth in demand for capacitors will be driven primarily by a number of recent trends which include:

- the development of new products and applications, such as alternative and renewable energy systems, hybrid transportation systems, electronic controls for engines and industrial machinery, smart phones and mobile personal computing devices;
- the increase in the electronic content of existing products, such as home appliances, medical equipment and automobiles;

• consumer desire for mobility and connectivity; and
• the enhanced functionality, complexity and convergence of electronic devices that use state-of-the-art microprocessors.

Markets and Customers

Our products are sold to a variety of OEMs in a broad range of industries including the computer, communications, automotive, military, consumer, industrial and aerospace industries. We also sell products to EMS providers, which also serve

OEMs in these industries. Electronics distributors are an important channel of distribution in the electronics industry and represent the largest channel through which we sell our capacitors. One electronics distributor, accounted for over 10% of our net sales in fiscal years 2014, 2013 and 2012. If our relationship with this customer were to terminate, we would need to determine alternative means of delivering our products to the end-customers served by them. Our top 50 customers accounted for 83.3% of our net sales during fiscal year 2014.

The following table presents an overview of the diverse industries that incorporate our capacitors into their products and the general nature of those products.

Industry	Products
Automotive	Adaptive cruise control, high intensity discharge lamp, light emitting diode electronic modules, lane departure warning, rearview camera systems, audio systems, tire pressure monitoring, power train electronics, instrumentation, airbag systems, anti-lock braking and stabilization systems, hybrid and electric drive vehicles, electronic engine control modules, driver comfort controls, and security systems
Communications	Smart phones, telephones, switching equipment, relays, base stations, and wireless infrastructure
Computer-related	Personal computers (laptops, tablets, netbooks), workstations, servers, mainframes, computer peripheral equipment, power supplies, disk drives, solid state drives, printers, and local area networks
Industrial	Electronic controls, measurement equipment, instrumentation, solar and wind energy generation, and medical electronics
Consumer	Digital media devices, game consoles, televisions and global positioning systems
Military/Aerospace	Avionics, radar, guidance systems, and satellite communications
Alternative Energy	Wind generation systems, solar generation systems, geothermal generation systems, tidal generation systems and electric drive vehicles

We produce a small percentage of capacitors under military specification standards sold for both military and commercial uses. We do not sell any capacitors directly to the United States government. Certain of our customers purchase capacitors for products in the military and aerospace industries.

It is impracticable to report revenues from external customers for each of the above noted products primarily because approximately 45% of our external sales were to electronics distributors for fiscal year 2014.

KEMET in the United States

Our corporate headquarters is located in Simpsonville, South Carolina, which is part of the greater Greenville, South Carolina metropolitan area. Individual functions continue to evolve to support global activities in Asia, Europe, and the Americas, either from Greenville or through other locations in appropriate parts of the world.

Commodity manufacturing previously located 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. In March 2012, we began the production of power film capacitors in the United States to support alternative energy products and emerging green technologies, such as hybrid electric drive vehicles.

On June 13, 2011, we completed the acquisition of KEMET Foil, a Tennessee based manufacturer of etched foils utilized as a core component in the manufacture of electrolytic capacitors. On February 21, 2012, we completed the acquisition of all of the outstanding shares of Blue Powder, a leading manufacturer of tantalum powders. Blue Powder had been a significant supplier of tantalum powder to KEMET for several years. Blue Powder's principal operating location is in Carson City, Nevada.

To accelerate the pace of innovations, the KEMET Innovation Center for Solid Capacitors was created in July 2003. The primary objectives of the KEMET Innovation Center are to ensure the flow of new product platforms, material sets, and processes that are expected to keep us at the forefront of our customers' product designs, while enabling these products to be transferred rapidly to the most appropriate KEMET manufacturing location in the world for low-cost, high-volume production. The main campus of the KEMET Innovation Center is located in Simpsonville, South Carolina.

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KEMET in Mexico

We believe our operations in Mexico are among the most cost efficient in the world, and they will continue to be our primary production facilities supporting North American and European customers for Solid Capacitors. One of the strengths of KEMET Mexico is that it is a local operation, including local management and workers. These facilities are responsible for maintaining KEMET's tradition of excellence in quality, service, and delivery, while driving costs down. The facilities in Victoria and Matamoros are focused primarily on tantalum capacitors, while the facilities in Monterrey are focused on ceramic capacitors.

KEMET in Asia Pacific

Over the past several years, low production costs and proximity to large, growing markets have caused many of our key customers to relocate production facilities to Asia, particularly China. We have a well-established sales and logistics network in Asia to support our customers' Asian operations. In calendar year 2003, we commenced shipments from Suzhou, China. In connection with the Evox Rifa acquisition, which was completed in April 2007, we added another Chinese operation in Nantong, China, as well as a manufacturing operation in Batam, Indonesia. In fiscal year 2012, as part of our restructuring plan, we began to reduce the operations at the Nantong, China plant and relocate its operations to Suzhou, China. During fiscal year 2013 we closed operations in Nantong, China. With the Arcotronics acquisition, which was completed in October 2007, we further expanded our presence in China with a manufacturing operation in Anting, China. These operations will continue to support customers in Asia with top quality film and electrolytic capacitors. In the fourth quarter of fiscal year 2010, we began to manufacture aluminum polymer products in a second facility in Suzhou, China and during the second quarter of fiscal year 2012, we began production of Electrolytic products in a third facility in Suzhou, China. Manufacturing operations in China are expected to continue to grow and we anticipate that our production capacity in China may be equivalent to Mexico in the future. The vision for KEMET China is to be a local operation, with local management and workers, to help achieve our objective of being a global company. These facilities will be responsible for maintaining our tradition of excellence in quality, service, and delivery, while accelerating cost-reduction efforts and supporting efforts to grow our customer base in Asia.

KEMET in Europe

We acquired the tantalum business unit of EPCOS in April 2006, acquired Evox Rifa in April 2007, and acquired Arcotronics in October 2007. These acquisitions provided us with manufacturing operations in Europe. We currently have one or more manufacturing locations in each of the following countries: Bulgaria, Finland, Germany, Italy, Macedonia, Portugal, and Sweden. In addition, we operate product innovation centers in the United Kingdom, Italy, Germany and Sweden. We will maintain and enhance our strong European sales and customer service infrastructure, allowing us to continue to meet the local preferences of European customers who remain an important focus for KEMET.

Global Sales and Logistics

In recent years, it has become more complicated to do business in the electronics industry. Market leading electronics manufacturers have spread their facilities globally. The growth of the electronics manufacturing services industry has resulted in a more challenging supply chain. New Asian electronics manufacturers are emerging rapidly. In order to drive down costs, the most successful business models in the electronics industry are based on tightly integrated supply chain logistics. Our direct worldwide sales force and a well-developed global logistics infrastructure distinguish us in the marketplace and will remain a hallmark of KEMET in meeting the needs of our global customers. The North America and South America ("Americas") sales staff is organized into four areas supported by regional offices. The sales staff for Europe, the Middle East and Africa ("EMEA") is organized into three areas, also supported by regional offices. The APAC sales staff is organized into three areas, and is also supported by regional offices. We also have independent sales representatives located in seven countries worldwide including: Brazil, Israel, Canada, and the United States.

In our major markets, we market and sell our products primarily through a direct sales force. With a global sales organization that is customer-focused, our direct sales personnel from around the world serve on KEMET Global Account Teams committed to serving any customer location in the world with a dedicated KEMET representative. The traditional sales team is supported by regional Field Application Engineers who are experts in electronic engineering and market all of KEMET's products by assisting customers with the resolution of capacitor application issues. We believe our direct sales force creates a distinct advantage in the marketplace by enabling us to establish and maintain strong relationships with our customers to efficiently process simple repeat business as well as to consult with customers on new and technically complex custom applications. In addition, where appropriate, we use independent commissioned representatives. This approach requires a blend of accountability and responsibility for specific customer locations, guided by an overall account strategy for each customer.

Electronics distributors are an important distribution channel in the electronics industry and accounted for 45%, 46%, and 45% of our net sales in fiscal years 2014, 2013 and 2012, respectively. A portion of our net sales is made to distributors under

agreements allowing certain rights of return and price protection on unsold merchandise held by distributors. Our distributor policy includes inventory price protection and "ship-from-stock and debit" ("SFSD") programs common in the industry.

Sales by Geography

In fiscal years 2014 and 2013, net sales by region were as follows (dollars in millions):

	Fiscal Year 2014			Fiscal Year 2013		
	Net Sales	% of Total		Net Sales	% of Total	
Americas	\$262.9	31	% Americas	\$244.9	30	%
APAC	282.3	34	% APAC	294.5	36	%
EMEA	288.5	35	% EMEA	284.5	34	%
Total	\$833.7		Total	\$823.9		

We believe our regional balance of revenues is a benefit to our business. The geographic diversity of our net sales diminishes the impact of regional sales decreases caused by various holiday seasons. While sales in the Americas are the lowest of the three regions, the Americas remains the leading region in the world for product design in activity where engagement with OEM design engineers determines product placement independent of the region of the world where the final product is manufactured.

Inventory and Backlog

Our customers often encounter uncertain or changing demand for their products. They historically order products from us based on their forecast and if demand does not meet their forecasts, they may cancel or reschedule the shipments included in our backlog, in many instances without penalty. Additionally, many of our customers have started to require shorter lead times and "just in time" delivery. As a result of these factors, the twelve month order backlog is not a meaningful trend indicator for us.

Although we manufacture and inventory standardized products, a portion of our products are produced to meet specific customer requirements. Cancellations by customers of orders already in production could have an impact on inventories. However, historically, cancellations have not been significant.

Competition

The market for capacitors is highly competitive. The capacitor industry is characterized by, among other factors, a long-term trend toward lower prices, low transportation costs, and few import barriers. Competitive factors that influence the market for our products include: product quality, customer service, technical innovation, pricing, and timely delivery. We believe that we compete favorably on the basis of each of these factors.

Our major global competitors include AVX Corporation, Matsushita Electric Industrial Company, Ltd. (Panasonic), Murata Manufacturing Co., Ltd., Sanyo Electric Co., Ltd., Samsung, Taiyo Yuden Co., Ltd., TDK-EPC Corporation, WIMA GmbH & Co., KG and Vishay Intertechnology, Inc. ("Vishay"). These competitors, among others, cover the breadth of our capacitor offerings.

Raw Materials

The principal raw materials used in the manufacture of our products are tantalum powder, tantalum ore, palladium, aluminum and silver. These materials are considered commodities and are subject to price volatility. Additionally, any delays in obtaining raw materials could hinder our ability to manufacture our products, negatively impacting our competitive position and our relationships with customers.

Tantalum is a metal found in minerals such as tantalite, columbite and coltan, and is mined principally in Central Africa, Australia, Brazil, Canada and Mozambique. As a result of our tantalum vertical integration program which began in fiscal year 2012, we have reduced our exposure to price volatility and supply uncertainty in the tantalum supply chain. A majority of our tantalum needs are now met through our direct sourcing of conflict free tantalum ore or tantalum scrap reclaim, which is then processed into the intermediate product potassium heptafluorotantalate (commonly known as K-salt) at our own facility in Mexico, before final processing into tantalum powder at Blue

Powder. Price increases for tantalum ore, or for the remaining tantalum powder that we source from third parties, could impact our financial performance as we may be unable to pass all such price increases on to our customers.

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Palladium is a precious metal used in the manufacture of multilayer ceramic capacitors ("MLCC") and is mined primarily in Russia and South Africa. We continue to pursue ways to reduce palladium usage in ceramic capacitors in order to minimize the price risk. The amount of palladium that we require has generally been available in sufficient quantities; however, the price of palladium is driven by the market which has shown significant price fluctuations. For instance, in fiscal year 2014 the price of palladium fluctuated between \$640 to \$792 per troy ounce. Price increases and the possibility of our inability to pass such increases on to our customers could have an adverse effect on profitability.

Silver and aluminum have generally been available in sufficient quantities, and we believe there are a sufficient number of suppliers from which we can purchase our requirements. An increase in the price of silver and aluminum that we are unable to pass on to our customers, could, however, have an adverse effect on our profitability.

Patents and Trademarks

At March 31, 2014, we held the following number of patents and trademarks:

	Patents	Trademarks
United States	113	7
Foreign	42	98

We believe that the success of our business is not materially dependent on the existence or duration of any patent, license, or trademark other than the trademarks "KEMET" and "KEMET Charged". Our engineering and research and development staffs have developed and continue to develop proprietary manufacturing processes and equipment designed to enhance our manufacturing facilities and reduce costs.

Research and Development

Research and development expenses were \$24.5 million, \$26.9 million and \$27.8 million for fiscal years 2014, 2013 and 2012, respectively. These amounts include expenditures for product development and the design and development of machinery and equipment for new processes and cost reduction efforts. Most of our products and manufacturing processes have been designed and developed by our engineers. We continue to invest in new technology to improve product performance and production efficiencies.

Segment Reporting

We are organized into two business groups: Solid Capacitors 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, marketing and corporate functions are shared by each of the business groups. See Note 9, "Segment and Geographic Information" to our consolidated financial statements.

Solid Capacitors Business Group

Solid Capacitors operates nine capacitor manufacturing sites in Portugal, Mexico, China and a product innovation center in the United States and primarily produces tantalum, aluminum, polymer and ceramic capacitors which are sold globally. Solid Capacitors also produces tantalum powder used in the production of tantalum capacitors. Solid Capacitors employs over 6,850 employees worldwide. For fiscal years 2014, 2013 and 2012, Solid Capacitors had consolidated net sales of \$626.5 million, \$622.3 million and \$630.8 million, respectively.

We continue to make significant investments in tantalum production within Solid Capacitors and, based on net sales, we believe that we are the largest tantalum capacitor manufacturer in the world. We believe we have one of the broadest lines of tantalum product offerings and are one of the leaders in the growing market for high-frequency surface mount tantalum and aluminum polymer capacitors. On February 21, 2012, we acquired Blue Powder which we believe is the largest production facility for tantalum powder in the western hemisphere.

Our tantalum product line's broad product portfolio, industry leading process and materials technology, global manufacturing base and on-time delivery capabilities allow us to serve a wide range of customers in a diverse group of end markets, including computing, telecommunications, consumer, medical, military, automotive and general industries.

Our ceramic product line offers an extensive line of multilayer ceramic capacitors in a variety of sizes and configurations. We are one of the two leading ceramic capacitor manufacturers in the United States and among the ten largest manufacturers worldwide.

Our ceramic product line high temperature and capacitance stable product lines provide us with what we believe to be a significant advantage over many of our competitors, especially in high reliability markets, such as medical, industrial, defense and aerospace. Our other significant end markets include computing, telecommunications, automotive and general industries.

Film and Electrolytic Business Group

Our Film and Electrolytic Business Group produces film, paper and wet aluminum electrolytic capacitors. We entered this market through the acquisitions of Evox Rifa and Arcotronics in fiscal year 2008. Film capacitors are preferred where high reliability is a determining factor, while wet aluminum electrolytic capacitors are preferred when high capacitance at a reasonable cost is required. We are one of the world's largest suppliers of film and one of the leaders in wet aluminum electrolytic capacitors for high-value custom applications. On June 13, 2011, we completed the acquisition of KEMET Foil, which manufactures etched foils utilized as a core component in the manufacture of electrolytic capacitors. For fiscal years 2014, 2013 and 2012, our Film and Electrolytic Business Group had consolidated net sales of \$207.2 million, \$201.6 million and \$293.3 million, respectively.

Our Film and Electrolytic Business Group primarily serves the industrial, automotive, consumer and telecom markets. We believe that our Film and Electrolytic Business Group's product portfolio, technology and experience position us to significantly benefit from the continued growth in alternative energy solutions. We operate twelve film and electrolytic manufacturing sites throughout Europe, Asia and the United States and product innovation centers in the United Kingdom, Italy, Germany and Sweden. In June 2011, we began the production of power film capacitors in the United States to support alternative energy products and emerging green technologies, such as hybrid electric drive vehicles. Our Film and Electrolytic Business Group employs approximately 2,350 employees worldwide.

In September 2009, we announced plans to reduce operating costs by consolidating the manufacturing of certain products and by implementing other Lean initiatives. Manufacturing consolidation plans include the movement of certain standard, high-volume products to lower cost manufacturing locations. We anticipate the plans will be completed in fiscal year 2016; however, the length of time required to complete the restructuring activities is dependent upon a number of factors, including the ability to continue to manufacture products required to meet customer demand while at the same time relocating certain production lines, and the progress of discussions with union and government representatives in certain European locations concerning the optimization of product mix and related headcount requirements in such manufacturing locations. In July 2010, we relocated our Netherlands distribution facility to the Czech Republic as part of our cost reduction measures. This relocation has allowed shipping lane optimization and customer consolidation (bi-weekly or weekly) for all import shipments. Our European manufacturing plants will continue to ship direct to 'local' customers (customers located in the same country as the plant). In November 2011, we reached an agreement with labor unions in Italy to continue the restructuring process in Italy by consolidating three existing plants into a single new facility in Pontecchio, Italy. We began manufacturing from Pontecchio, Italy in the fourth quarter of fiscal year 2014. Production within one other manufacturing facility in Italy is expected to move to Pontecchio in the first quarter of fiscal year 2015. During the remainder of the restructuring plan, we expect to incur charges of \$10.7 million for relocation, severance and other restructuring related costs in Film and Electrolytic. The two legacy facilities in Italy are currently being marketed for sale but do not meet accounting guidelines to be classified as 'held for sale' as the facilities are not available for immediate sale. We expect the restructuring plan to result in a \$5.3 million reduction in our operating cost structure in Europe in fiscal year 2015 compared to fiscal year 2014 and anticipate that benefits from the restructuring plan will continue to improve during fiscal year 2016.

Environmental and Regulatory Compliance

We are subject to various North American, European, and Asian federal, state, and local environmental laws and regulations relating to the protection of the environment, including those governing the handling and management of certain chemicals and materials used and generated in manufacturing electronic components. Based on the annual costs incurred over the past several years, we do not believe that compliance with these laws and regulations will have

a material adverse effect on our capital expenditures, earnings, or competitive position. We believe, however, that it is reasonably likely that the trend in environmental litigation, laws, and regulations will continue to be toward stricter standards. Such changes in the laws and regulations may require us to make additional capital expenditures which, while not currently estimable with certainty, are not presently expected to have a material adverse effect on our financial condition.

Our Guiding Principles support a strong commitment to economic, environmental, and socially sustainable development. As a result of this commitment, we have adopted the Electronic Industry Citizen Coalition ("EICC") Code of Conduct. The EICC Code of Conduct is a comprehensive code of conduct that addresses all aspects of corporate responsibility including Labor, Health and Safety, the Environment, and Business Ethics. It outlines standards to ensure working conditions in the electronic industry supply chain are safe, that workers are treated with respect and dignity, that manufacturing processes are environmentally friendly and that materials are sourced responsibly.

Policies, programs, and procedures implemented throughout KEMET ensure compliance with legal and regulatory requirements, the content of the EICC Code of Conduct, and customer contractual requirements related to social and environmental responsibility.

We are committed to these business ethics, labor, health and safety, and environmental standards. We fully support the position of the EICC, the Global e-Sustainability Initiative ("GeSI"), the Electronic Components Industry Association ("ECIA") and the Tantalum-Niobium International Study Center ("TIC") in avoiding the use of conflict minerals which directly or indirectly finance or benefit armed groups in the Democratic Republic of Congo or adjoining countries, in line with full compliance to the EICC Code of Conduct. Our tantalum supply base has been and continues to be validated as being sourced conflict free. All of our tantalum raw material providers have been validated as compliant to the EICC/GeSI Conflict Free Smelter Program ("CFSP") program. This policy and validation requirement has been implemented for all conflict minerals. We will immediately discontinue doing business with any supplier found to be purchasing materials which directly or indirectly finance or benefit armed groups in the Democratic Republic of Congo or adjoining countries. We will continue to work through the EICC, GeSI, ECIA and TIC towards the goal of greater transparency in the supply chain.

Summary of Activities to Develop a Transparent Supply Chain

We have been involved in developing a transparent supply chain. We are a member of the EICC/GeSI working group that developed the CFSP assessment protocols and participated in the pilot implementation phase of the Organization for Economic Cooperation and Development Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. We will rely on the EICC/GeSI Conflict-Free Smelter Program independent third party audits to supplement our internal due diligence of conflict mineral suppliers and are monitoring the progress of these audits to ensure our supply chain is conflict free. We fully support section 1502 "Conflict Minerals" of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and will comply with all reporting requirements.

Employees

We have approximately 9,625 employees as of March 31, 2014 in the following locations:

Mexico	5,250
Asia	2,100
Europe	1,700
United States	575

The number of employees represented by labor organizations at KEMET locations in each of the following countries is:

Mexico	4,300
Italy	300
Bulgaria	100
Indonesia	200
China	100
Finland	200
Portugal	100

In fiscal year 2014, we did not experience any major work stoppages. Our 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.

Securities Exchange Act of 1934 Reports

We maintain an Internet website at the following address: <http://www.kemet.com>. KEMET makes available on or through our Internet website certain reports and amendments to those reports that are filed or furnished to the Securities and Exchange Commission ("SEC") pursuant to Section 13(a) or 15(d) of the Exchange Act. These include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and beneficial ownership

reports on Forms 3, 4 and 5. This information is available on our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC.

Global Code of Conduct and updated Mission, Vision and Values

To complement KEMET's Global Code of Conduct ("Code of Conduct"), which became effective August 1, 2010, KEMET introduced updated mission and vision statements along with a set of core values in June 2011. KEMET's Mission is to help make the world a better, safer, more connected place to live. KEMET's Vision is to be the world's most trusted partner for innovative component solutions. KEMET's updated Values embody the key expectations of how our employees should approach the work they do every day: One KEMET, Unparalleled Customer Experience, Ethics and Integrity, Talent Oriented, No Politics, The Math Must Work and Speed. The Global Code of Conduct and updated Mission, Vision and Values are applicable to all employees, officers, and directors of the Company. The Code of Conduct, Mission, Vision and Values and any amendments thereto are available at <http://www.kemet.com>.

ITEM 1A. RISK FACTORS.

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. The statements are representative only as of the date they are made, and we undertake 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 our forward-looking statements.

Factors that may cause the 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) continued net losses could impact our ability to realize current operating plans and could materially adversely affect our liquidity and our ability to continue to operate; (iii) adverse economic conditions could cause the write down of long-lived assets or goodwill; (iv) an increase in the cost or a decrease in the availability of our principal or single-sourced purchased materials; (v) changes in the competitive environment; (vi) uncertainty of the timing of customer product qualifications in heavily regulated industries; (vii) economic, political, or regulatory changes in the countries in which we operate; (viii) difficulties, delays or unexpected costs in completing the restructuring plan; (ix) equity method investment in NEC TOKIN expose us to a variety of risks; (x) acquisitions and other strategic transactions expose us to a variety of risks; (xi) inability to attract, train and retain effective employees and management; (xii) inability to develop innovative products to maintain customer relationships and offset potential price erosion in older products; (xiii) exposure to claims alleging product defects; (xiv) the impact of laws and regulations that apply to our business, including those relating to environmental matters; (xv) the impact of international laws relating to trade, export controls and foreign corrupt practices; (xvi) volatility of financial and credit markets affecting our access to capital; (xvii) the need to reduce the total costs of our products to remain competitive; (xviii) potential limitation on the use of net operating losses to offset possible future taxable income; (xix) restrictions in our debt agreements that limit our flexibility in operating our business; and (xx) 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

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.

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.

While our operating plans provide for cash generated from operations to be sufficient to cover our future operating requirements, many factors, including reduced demand for our products, currency exchange rate fluctuations, increased raw material costs, and other adverse market conditions which we cannot predict could cause a shortfall in net cash generated from operations. As an example, the electronics industry is a highly cyclical industry with demand for capacitors reflecting the demand for products in the electronics market. Customers' requirements for our capacitors fluctuate as a result of changes in

general economic activity and other factors that affect the demand for their end-products. During periods of increasing demand for their products, they typically seek to increase their inventory of our products to avoid production bottlenecks. When demand for their products peaks and begins to decline, they may rapidly decrease orders for our products while they use accumulated inventory. Business cycles vary somewhat in different geographical regions, such as Asia, and within customer industries. We are also vulnerable to general economic events beyond our control and our sales and profits may suffer in periods of weak demand.

A single customer accounted for over 10% of our net sales in fiscal years 2014, 2013 and 2012. If our relationship with this customer were to terminate, we would need to determine alternative means of delivering our products to the end-customers served by them.

Our ability to realize operating plans is also dependent upon meeting our payment obligations and complying with any applicable financial covenants under our debt agreements. If cash generated from operating, investing and financing activities is insufficient to pay for operating requirements and to cover interest payment obligations under debt instruments, planned operating and capital expenditures may need to be reduced.

Continued net losses could impact our ability to realize current operating plans and could materially adversely affect our liquidity and our ability to continue to operate.

Our liquidity and ability to realize our current operating plans is dependent on an improvement in operating results. If cash generated from operating, investing and financing activities is insufficient to pay for operating requirements and to cover payment obligations under debt instruments, planned operating and capital expenditures may need to be reduced, or the debt instruments may need to be amended or refinanced. There can be no assurances that we would be able to secure such amendments or refinancing on satisfactory terms.

However, to provide financial flexibility, we could explore further extending our revolving line of credit and if necessary the sale of certain non-core assets. There can be no assurances that we would be successful in either of these strategic initiatives. Our ability to realize current operating plans is also dependent upon meeting our payment obligations and complying with any applicable financial covenants under our debt agreements.

Adverse economic conditions could cause the write down of long-lived assets or goodwill.

Long-lived assets and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset or group of assets may not be recoverable. In the event that the test shows that the carrying value of certain long-lived assets is impaired, we would be required to take an impairment charge to earnings under U.S. generally accepted accounting principles. However, such a charge would have no direct effect on our cash. In fiscal year 2014, we incurred charges totaling \$4.5 million for the write down of long-lived assets. If the economic conditions decline we could incur additional charges in the future.

Goodwill is reviewed for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable. In the event that the test shows that the carrying value of goodwill is impaired, we would be required to take an impairment charge to earnings under U.S. generally accepted accounting principles. However, such a charge would have no direct effect on our cash. If the economic conditions decline we could incur additional charges in the future.

An increase in the cost or decrease in the availability of our principal or single-sourced purchased materials could adversely affect profitability.

The principal raw materials used in the manufacture of our products are tantalum powder, tantalum ore, palladium, aluminum and silver. These materials are considered commodities and are subject to price volatility. Additionally, any delays in obtaining raw materials could hinder our ability to manufacture our products, negatively impacting our competitive position and our relationships with customers.

Tantalum is a metal found in minerals such as tantalite, columbite and coltan, and is mined principally in Central Africa, Australia, Brazil, Canada and Mozambique. As a result of our tantalum vertical integration program which began in fiscal year 2012, we have reduced our exposure to price volatility and supply uncertainty in the tantalum

supply chain. A majority of our tantalum needs are now met through our direct sourcing of conflict free tantalum ore or tantalum scrap reclaim, which is then processed into the intermediate product potassium heptafluorotantalate (commonly known as K-salt) at our own facility in Mexico, before final processing into tantalum powder at Blue Powder. Price increases for tantalum ore, or for the remaining tantalum powder that we source from third parties, could impact our financial performance as we may be unable to pass all such price increases on to our customers.

Palladium is a precious metal used in the manufacture of multilayer ceramic capacitors and is mined primarily in Russia and South Africa. We continue to pursue ways to reduce palladium usage in ceramic capacitors in order to minimize the price risk. The amount of palladium that we require has generally been available in sufficient quantities; however the price of palladium is subject to significant price fluctuations driven by market demand. For instance, in fiscal year 2014 the price of palladium fluctuated between \$640 to \$792 per troy ounce. Price increases and the possibility of our inability to pass such increases on to our customers could have an adverse effect on profitability. Silver and aluminum have generally been available in sufficient quantities, and we believe there are a sufficient number of suppliers from which we can purchase our requirements. An increase in the price of silver and aluminum that we are unable to pass on to our customers, could, however, have an adverse effect on our profitability. Changes in the competitive environment could harm our business.

The capacitor business is highly competitive worldwide, with low transportation costs and few import barriers. Competition is based on factors such as product quality and reliability, availability, customer service, timely delivery and price. The industry has become increasingly consolidated and globalized in recent years, and our primary U.S. and non-U.S. competitors, some of which are larger than us, have significant financial resources. The greater financial resources of such competitors may enable them to commit larger amounts of capital in response to changing market conditions. Some competitors may also have the ability to use profits from other operations to subsidize losses sustained in their businesses with which we compete. Certain competitors may also develop product or service innovations that could put us at a disadvantage.

Uncertainty of the timing of customer product qualifications in heavily regulated industries could affect the timing of product revenues and profitability arising from these industries.

Our capacitors are incorporated into products used in diverse industries. Certain of these industries, such as military, aerospace and medical, are heavily regulated, with long and sometimes unpredictable product approval and qualification processes. Due to such regulatory compliance issues, there can be no assurances as to the timing of product revenues and profitability arising from our product development and sales efforts in these industries.

We manufacture many capacitors in Europe, Mexico and Asia and economic, political or regulatory changes in any of these regions could adversely affect our profitability.

Our international operations are subject to a number of special risks, in addition to the same risks as our domestic business. These risks include currency exchange rate fluctuations, differing protections of intellectual property, trade barriers, labor unrest, exchange controls, regional economic uncertainty, differing (and possibly more stringent) labor regulation, risk of governmental expropriation, domestic and foreign customs and tariffs, current and changing regulatory regimes, differences in the availability and terms of financing, political instability and potential increases in taxes. These factors could impact our production capability or adversely affect our results of operations or financial condition.

We may experience difficulties, delays or unexpected costs in completing our restructuring plan.

In the second quarter of fiscal year 2010, we initiated a restructuring plan designed to improve the operating performance of Film and Electrolytic. However, any anticipated benefits of this restructuring activity will not be fully realized until fiscal year 2016. Since its initiation, 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.

We may not realize, in full or in part, the anticipated benefits of the restructuring plan without encountering difficulties, which may include complications in the transfer of production knowledge, loss of key employees and/or customers, the disruption of ongoing business, possible inconsistencies in standards, controls and procedures and potential difficulty in meeting customer demand in the event the market dramatically improves. We are party to collective bargaining agreements in certain jurisdictions in which we operate which could potentially prevent or delay execution of parts of our restructuring plan.

The financial performance of our equity method investment in NEC TOKIN could adversely impact our results of operations.

On February 1, 2013, we closed on KEC's investment in a 34% economic interest in NEC TOKIN with the purchase of 51% of the common stock in NEC TOKIN. The 34% economic interest is calculated based on the number of common shares held by KEC, directly and indirectly, in proportion to the aggregate number of common and preferred shares of NEC TOKIN outstanding as of such date. These businesses are subject to laws, regulations or market conditions, or have risks inherent in their operations, that could adversely affect their performance. We do not have the power to direct significant activities of our equity method investments and therefore the performance of the investment may be negatively impacted. The interests of our partners may differ from the Company's, and they may cause such entities to take actions which are not in the Company's best

interest. Any of these factors could adversely impact our results of operations and the value of our investment. In fiscal years 2014 and 2013 we incurred a loss on our equity investment in NEC TOKIN of \$7.1 million and \$1.3 million, respectively.

Acquisitions and other strategic transactions expose us to a variety of operational and financial risks.

Our ability to realize the anticipated benefits of acquisitions depends, to a large extent, on our ability to integrate the acquired companies with our own. The attention and resources devoted to these efforts, which may disrupt the business of each of the companies and, if executed ineffectively, could preclude realization of the full benefits we expect. Failure to realize the anticipated benefits of our acquisitions could cause an interruption of, or a loss of momentum in, the operations of the acquired company. In addition, the efforts required to realize the benefits of our acquisitions may result in material unanticipated problems, expenses, liabilities, competitive responses, loss of customer relationships, the diversion of management's attention, and may cause our stock price to decline. The risks associated with such acquisitions and other strategic transactions include:

- difficulties in integrating or retaining key employees of the acquired company;
- difficulties in integrating the operations of the acquired company, such as information technology resources, and financial and operational data;
- entering geographic or product markets in which we have no or limited prior experience;
- difficulties in assimilating product lines or integrating technologies of the acquired company into our products;
- disruptions to our operations;
- diversion of our management's attention;
- potential incompatibility of business cultures; and
- the assumption of debt and other liabilities, both known and unknown.

Many of these factors will be outside of our control, and any one of them could result in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy.

Additionally, we may finance acquisitions or future payments with cash from operations, additional indebtedness and/or the issuance of additional securities, any of which may impair the operation of our business or present additional risks, such as reduced liquidity or increased interest expense. Such acquisition financing could result in a decrease of our ratio of earnings to fixed charges. We may also seek to restructure our business in the future by disposing of certain of our assets, which may harm our future operating results, divert significant managerial attention from our operations and/or require us to accept non-cash consideration, the market value of which may fluctuate. Failure to implement our acquisition strategy, including successfully integrating acquired businesses, could have an adverse effect on our business, financial condition and results of operations.

Our inability to attract, train and retain effective employees and management could harm our business.

Our success depends upon the continued contributions of our executive officers and certain other employees, many of whom have many years of experience with us and would be extremely difficult to replace. We must also attract and retain experienced and highly skilled engineering, sales and marketing and managerial personnel. Competition for qualified personnel is intense in our industry, and we may not be successful in hiring and retaining these people. If we lost the services of our executive officers or our other highly qualified and experienced employees or cannot attract and retain other qualified personnel, our business could suffer through less effective management due to loss of accumulated knowledge of our business or through less successful products due to a reduced ability to design, manufacture and market our products.

We must continue to develop innovative products to maintain relationships with our customers and to offset potential price erosion in older products.

While most of the fundamental technologies used in the passive components industry have been available for a long time, the market is nonetheless characterized by rapid changes in product designs and technological advances allowing for better performance, smaller size and/or lower cost. New applications are frequently found for existing technologies, and new technologies occasionally replace existing technologies for some applications or open up new

business opportunities in other areas of application. We believe that successful innovation is critical for maintaining profitability in order to offset potential erosion of selling prices for existing products and to ensure the flow of new products and robust manufacturing processes that will keep us at the forefront of our customers' product designs. Non-customized commodity products are especially vulnerable to price pressure, but customized products have also experienced price pressure in recent years. Developing and marketing new products requires start-up costs that may not be recouped if these products or production techniques are not successful. There are numerous risks inherent in product development, including the risks that we will be unable to anticipate the direction of technological change or that we will be unable to develop and market new products and applications in a timely fashion to satisfy customer demands. If this occurs, we could lose customers and experience adverse effects on our results of operations.

We may be exposed to claims alleging product defects.

Our business exposes us to claims alleging product defects or nonconformance with product specifications. We may be held liable for, or incur costs related to, such claims if any of our products, or products in which our products are incorporated, are found to have caused end market product application failures, product recalls, property damage or personal injury. Provisions in our customer and distributor agreements are designed to limit our exposure to potential material product defect claims, including warranty, indemnification, waiver and limitation of liability provisions, but such provisions may not be effective under the laws of some jurisdictions. If we cannot successfully defend ourselves against product defect claims, we may incur substantial liabilities. Regardless of the merits or eventual outcome, defect claims could entail substantial expense and require the time and attention of key management personnel.

Our insurance program may not be adequate to cover all liabilities arising out of product defect claims and, at any time, insurance coverage may not be available on commercially reasonable terms or at all. If liability coverage is insufficient, a product defect claim could result in liability to us, which could materially and adversely affect our results of operations or financial condition. Even if we have adequate insurance coverage, product defect claims or recalls could result in negative publicity or force us to devote significant time and attention to those matters.

Various laws and regulations that apply to our business, including those relating to conflict minerals and environmental matters, could limit our ability to operate as we are currently and could result in additional costs.

We are subject to various laws and regulations of federal, state and local authorities in the countries in which we operate regarding a wide variety of matters, including conflict minerals, environmental, employment, land use, anti-trust, and others that affect the day-to-day operations of our business. The liabilities and requirements associated with the laws and regulations that affect us may be costly and time-consuming. There can be no assurance that we have been or will be at all times in compliance with such applicable laws and regulations. Failure to comply may result in the assessment of administrative, civil and criminal penalties, the issuance of injunctions to limit or cease operations, the suspension or revocation of permits and other enforcement measures that could have the effect of limiting our operations. If we are pursued for sanctions, costs or liabilities in respect of these matters, our operations and, as a result, our profitability could be materially and adversely affected.

On August 22, 2012, the SEC adopted a new reporting rule requiring issuers for whom tantalum, tin, tungsten and gold are necessary to the functionality or production of a product manufactured by such person to disclose annually whether any of those minerals originated in the Democratic Republic of the Congo or an adjoining country. As defined by the SEC, tantalum, tin, tungsten and gold are commonly referred to as “conflict minerals” or “3TG”. If an issuer’s conflict minerals originated in those countries, the rule requires the issuer to submit a report to the Commission that includes a description of the measures it took to exercise due diligence on the conflict minerals’ source and chain of custody. We use tantalum, tin and to a lesser degree other of the 3TG minerals, in our production processes and in our products. The first such report is due by June 2, 2014 (the first business day after the filing deadline of May 31, 2014). Our tantalum supply base has been and continues to be validated as being sourced conflict free. All of our processed tantalum material providers have been validated as compliant with the EICC/GeSI Conflict-Free Smelter Program (“CFSP”). As this program expands and gains maturity in the supply chain the validation requirement is being applied to suppliers of other conflict minerals. We have exercised due diligence on the source and chain of custody during the reporting period and as required under the rule and will disclose a description of these measures in a special disclosure prior to the filing deadline. However, the rule may cause changes to the pricing of 3TG minerals, which could adversely affect our profitability. In addition, it is possible that some of our disclosures pursuant to the rule related to our inquiries and supply chain custody diligence could cause reputational harm and cause the company to lose customers or sales.

In addition, we are subject to a variety of U.S. federal, state and local, as well as foreign, environmental laws and regulations relating, among other things, to wastewater discharge, air emissions, handling of hazardous materials, disposal of solid and hazardous wastes, and remediation of soil and groundwater contamination. We use a number of chemicals or similar substances, and generate wastes, that are considered hazardous. We are required to hold

environmental permits to conduct many of our operations. Violations of environmental laws and regulations could result in substantial fines, penalties, and other sanctions. Changes in environmental laws or regulations (or in their enforcement) affecting or limiting, for example, our chemical uses, certain of our manufacturing processes, or our disposal practices, could restrict our ability to operate as we are currently operating or impose additional costs. In addition, we may experience releases of certain chemicals or discover existing contamination, which could cause us to incur material cleanup costs or other damages.

Our international sales and operations are subject to applicable laws relating to trade, export controls and foreign corrupt practices, the violation of which could adversely affect our operations.

We must comply with all applicable export control laws and regulations of the United States and other countries. United States laws and regulations applicable to us include the Arms Export Control Act, the International Traffic in Arms Regulations ("ITAR"), the Export Administration Regulations ("EAR") and the trade sanctions laws and regulations administered by the United States Department of the Treasury's Office of Foreign Assets Control ("OFAC"). EAR restricts the export of dual-use products and technical data to certain countries, while ITAR restricts the export of defense products, technical data and defense services. The U.S. government agencies responsible for administering EAR and ITAR have significant discretion in the interpretation and enforcement of these regulations. We also cannot provide services to certain countries subject to United States trade sanctions unless we first obtain the necessary authorizations from OFAC. In addition, we are subject to the Foreign Corrupt Practices Act and other anti-bribery laws that, generally, bar bribes or unreasonable gifts to foreign governments or officials.

Violations of these laws or regulations could result in significant additional sanctions including fines, more onerous compliance requirements, more extensive debarments from export privileges, loss of authorizations needed to conduct aspects of our international business and criminal penalties and may harm our ability to enter contracts with customers who have contracts with the U.S. government. A violation of the laws or the regulations enumerated above could materially adversely affect our business, financial condition and results of operations.

Volatility of financial and credit markets could affect our access to capital.

The uncertainty in the global financial and credit markets could impact our ability to implement new financial arrangements or to modify our existing financial arrangements. An inability to obtain new financing or to further modify existing financing could adversely impact the execution of our restructuring plans and delay the realization of the expected cost reductions. Our ability to generate adequate liquidity will depend on our ability to execute our operating plans and to manage costs in light of developing economic conditions. An unanticipated decrease in sales, or other factors that would cause the actual outcome of our plans to differ from expectations, could create a shortfall in cash available to fund our liquidity needs. Being unable to access new capital, experiencing a shortfall in cash from operations to fund our liquidity needs and the failure to implement an initiative to offset the shortfall in cash would likely have a material adverse effect on our business.

We must consistently reduce the total costs of our products to remain competitive.

Our industry is intensely competitive and prices for existing commodity products tend to decrease steadily over their life cycle. There is substantial and continuing pressure from customers to reduce the total cost of capacitors. To remain competitive, we must achieve continuous cost reductions through process and product improvements.

We must also be in a position to minimize our customers' shipping and inventory financing costs and to meet their other goals for rationalization of supply and production. Our growth and the profit margins of our products will suffer if our competitors are more successful in reducing the total cost to customers of their products than we are. We must also continue to introduce new products that offer performance advantages over our existing products and can thereby achieve premium prices, offsetting the price declines in our more mature products.

Our use of net operating losses to offset possible future taxable income could be limited by ownership changes.

In addition to the general limitations on the carryback and carryforward of net operating losses under Section 172 of the Internal Revenue Code (the "Code"), Section 382 of the Code imposes further limitations on the utilization of net operating losses by a corporation following ownership changes which result in more than a 50 percentage point change in ownership of a corporation within a three year period. If Section 382 applies, the post-ownership change utilization of our net operating losses may be subject to limitation for federal income tax purposes related to regular and alternative minimum tax. The application of Section 382 of the Code now or in the future could limit a substantial part of our future utilization of available net operating losses. Such limitation could require us to pay substantial additional income taxes and adversely affect our liquidity and financial position.

We do not believe we have experienced an ownership change to date. However, the Section 382 rules are complex and there is no assurance our view is correct. For example, the issuance of a warrant (the "Platinum Warrant") in May 2009 to K Financing, LLC ("K Financing"), in connection with the entry into a credit facility (the "Platinum Credit Facility") with K Financing, may be deemed to have resulted in an "ownership change" for purposes of Section 382 of the Code. If such an ownership change is deemed to have occurred, the amount of our post-ownership change taxable income that could be offset by our pre-ownership change net operating loss carryforwards would be severely limited. While we believe that the issuance of the Platinum Warrant did not result in an ownership change for purposes of Section 382 of the Code, there is no assurance that our view will be unchallenged.

Even if we have not experienced an ownership change to date, we could experience an ownership change in the near future if there are certain significant purchases of our common stock or other events outside our control.

Our debt agreements contain restrictions that limit our flexibility in operating our business.

The agreement governing our revolving credit facility and the indenture governing the notes and certain of our other debt agreements contain various covenants that, subject to exceptions, limit our ability to, among other things: incur additional indebtedness; create liens on assets; make capital expenditures; engage in mergers, consolidations, liquidations and dissolutions; sell assets (including pursuant to sale leaseback transactions); pay dividends and distributions on or repurchase capital stock; make investments (including acquisitions), loans, or advances; prepay certain junior indebtedness; engage in certain transactions with affiliates; enter into restrictive agreements; amend material agreements governing certain junior indebtedness; and change lines of business. The agreement governing our revolving credit facility also includes a fixed charge coverage ratio covenant that we must satisfy if an event of default occurs or in the event that we do not meet certain excess availability requirements under our revolving credit facility. Our ability to comply with this covenant is dependent on our future performance, which may be subject to many factors, some of which are beyond our control.

K Equity may obtain significant influence over all matters submitted to a stockholder vote, which may limit the ability of other shareholders to influence corporate activities and may adversely affect the market price of our common stock. As part of the consideration for entering into the Platinum Credit Facility on May 5, 2009, K Financing received the Platinum Warrant to purchase up to 26,848,484 shares of our common stock (subject to certain adjustments), representing 49.9% of our outstanding common stock at the time of issuance on a post-exercise basis. This Platinum Warrant was subsequently transferred to K Equity, an affiliate of K Financing. As of March 31, 2014, 8,416,815 shares remain subject to the Platinum Warrant. To the extent that K Equity exercises the remainder of the Platinum Warrant in whole or in part but does not sell all or a significant part of the shares it acquires upon exercise, K Equity may own up to 15.7% of our outstanding common stock. As a result, K Equity may have substantial influence over the outcome of votes on all matters requiring approval by our stockholders, including the election of directors, the adoption of amendments to our restated certificate of incorporation and by-laws and approval of significant corporate transactions. K Equity could also take actions that have the effect of delaying or preventing a change in control of us or discouraging others from making tender offers for our shares, which could prevent stockholders from receiving a premium for their shares. These actions may be taken even if other stockholders oppose them. Moreover, this concentration of stock ownership may make it difficult for stockholders to replace management. In addition, this significant concentration of stock ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. This concentration of control could be disadvantageous to other stockholders with interests different from those of our officers, directors and principal stockholders, and the trading price of shares of our common stock could be adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We are headquartered in Simpsonville, South Carolina, and have a total of 21 manufacturing plants (two facilities contain manufacturing operations for both Solid Capacitors and Film and Electrolytic) located in North America, Europe and Asia. Some of our plants manufacture products for multiple business groups. Our existing manufacturing and assembly facilities have approximately 3.4 million square feet of floor space and are highly automated with proprietary manufacturing processes and equipment.

Our facilities in Mexico operate under the Maquiladora Program. In general, a company that operates under this program is afforded certain duty and tax preferences and incentives on products brought into the United States. Our manufacturing standards, including compliance with worker safety laws and regulations, are essentially identical in North America, Europe and Asia. Our operations in Mexico, Europe and Asia, similar to our United States operations,

have won numerous quality, environmental and safety awards.

We have developed just-in-time manufacturing and sourcing systems. These systems enable us to meet customer requirements for faster deliveries while minimizing the need to carry significant inventory levels. We continue to emphasize flexibility in all of our manufacturing operations to improve product delivery response times.

We believe that substantially all of our property and equipment is in good condition, and that overall, we have sufficient capacity to meet our current and projected manufacturing and distribution needs.

The following table provides certain information regarding our principal facilities:

Location	Square Footage (in thousands)	Type of Interest	Description of Use
Simpsonville, South Carolina U.S.A.	372	Owned	Headquarters, Innovation Center, Advanced Tantalum Manufacturing and Film Manufacturing
Solid Capacitor Business Group			
Matamoros, Mexico(1)	341	(1)	(1)
Monterrey, Mexico(2)	532	Owned	Manufacturing
Suzhou, China(2)(3)	353	Leased	Manufacturing
Ciudad Victoria, Mexico	265	Owned	Manufacturing
Evora, Portugal(3)	140	Owned	Manufacturing
Carson City, Nevada U.S.A.	87	Owned	Manufacturing
Film and Electrolytic Business Group			
Evora, Portugal(3)	93	Owned	Manufacturing
Suzhou, China(3)	134	Leased	Manufacturing
Skopje, Macedonia	126	Owned	Manufacturing
Granna, Sweden	132	Owned	Manufacturing
Suomussalmi, Finland	106	Leased	Manufacturing
Batam, Indonesia	86	Owned	Manufacturing
Knoxville, Tennessee U.S.A.	78	Owned	Manufacturing
Kyustendil, Bulgaria	82	Owned	Manufacturing
Landsberg, Germany	81	Leased	Manufacturing and Innovation Center
Pontecchio, Italy(4)	226	Owned	Manufacturing
Weymouth, United Kingdom	96	Leased	Innovation Center
Anting, China	38	Owned	Manufacturing
Farjestaden, Sweden	28	Leased	Manufacturing and Innovation Center

1. Includes two manufacturing facilities, one owned and one leased facility. The leased facility processes raw materials.

2. Includes two manufacturing facilities.

3. Facility contains manufacturing operations for both Solid Capacitors and Film and Electrolytic, square footage noted relates to portion of each plant used by the respective business group.

4. We began manufacturing in Pontecchio, Italy in the fourth quarter of fiscal year 2014. This facility replaced the Sasso Marconi, Monghidoro and Vergato facilities, each in Italy.

ITEM 3. LEGAL PROCEEDINGS.

We or our subsidiaries are at any one time parties to a number of lawsuits arising out of their respective operations, including workers' compensation or work place safety cases, some of which involve claims of substantial damages. 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.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The name, age, business experience, positions and offices held and period served in such positions or offices for each of the executive officers and certain key employees of the Company is as listed below.

Name	Age	Position	Years with Company
Per-Olof Lööf	63	Chief Executive Officer and Director	9
William M. Lowe, Jr.	61	Executive Vice President and Chief Financial Officer	6
Charles C. Meeks, Jr.	52	Executive Vice President, Solid Capacitor Business Group	30
Susan B. Barkal	51	Senior Vice President Quality, Chief Compliance Officer and Chief of Staff	14
John J. Drabik	40	Senior Vice President Global Sales	17
Dr. Phillip M. Lessner	55	Senior Vice President and Chief Technology Officer	18
Robert S. Willoughby	53	Vice President, Film and Electrolytic Business Group	28
R. James Assaf	54	Senior Vice President, General Counsel and Secretary	6
Michael L. Raynor	48	Vice President and Corporate Controller	6
Richard J. Vatinelle	50	Vice President and Treasurer	1

Executive Officers

Per-Olof Lööf, Chief Executive Officer and Director, was named such in April 2005. Mr. Lööf was previously the Managing Partner of QuanStar Group, LLC, a management consulting firm and had served in such capacity since December 2003. Prior thereto, he served as Chief Executive Officer of Sensormatic Electronics Corporation and in various management roles with Andersen Consulting, Digital Equipment Corporation, AT&T and NCR. Mr. Lööf serves as a board member of Global Options, Inc. Mr. Lööf also serves on several charity boards including Boca Raton Regional Hospital and the International Centre for Missing & Exploited Children. He received a "civilekonom examen" degree in economics and business administration from the Stockholm School of Economics.

William M. Lowe, Jr., Executive Vice President and Chief Financial Officer, was named such in July 2008. Mr. Lowe was previously the Vice President, Chief Operating Officer and Chief Financial Officer of Unifi, Inc., a producer and processor of textured synthetic yarns from January 2004 to October 2007. Prior to holding that position, he was Executive Vice President and Chief Financial Officer for Metaldyne, an automotive components manufacturer. He also held various financial management positions with ArvinMeritor, Inc., a premier global supplier of integrated automotive components. He received his B.S. degree in business administration with a major in accounting from Tri-State University and is a Certified Public Accountant in the state of Ohio.

Charles C. Meeks, Jr., Executive Vice President, Solid Capacitor Business Group, was named such in May 2013. He joined KEMET in December 1983 in the position of Process Engineer, and has held various positions of increased responsibility including the positions of Plant Manager and Director of Operations, Ceramic Business Group. He was named Vice President, Ceramic Business Group in June 2005, Senior Vice President, Ceramic Business Group in October 2007, Senior Vice President, Ceramic and Film and Electrolytic Business Group in March 2010 and Executive Vice President Ceramic and Film and Electrolytic Business Group in May 2011 prior to his appointment to his current position. In addition, since January 2000, Mr. Meeks has served as President of Top Notch Inc., a private company that offers stress management therapy services. Mr. Meeks received a Masters of Business Administration degree and a Bachelor of Science degree in Ceramic Engineering from Clemson University.

Susan B. Barkal, Senior Vice President Quality, Chief Compliance Officer and Chief of Staff, was named such in February 2014. Ms. Barkal joined KEMET in November 1999, and has served as Quality Manager for the Tantalum Business Group (now a part of Solid Capacitors), Technical Product Manager for all Tantalum product lines and Director of Tantalum Product Management. Ms. Barkal was appointed Vice President of Quality and Chief

Compliance Officer in December 2008 prior to her appointment to her current position. Ms. Barkal holds a Bachelor of Science degree in Chemical Engineering from Clarkson University and a Master of Science degree in Mechanical Engineering from California Polytechnic University.

John J. Drabik, Senior Vice President-Global Sales, was named such in May 2013. He joined KEMET in 1997 and has held various positions of increased responsibility in Sales and Product Management, including District Sales Manager, Area Sales Manager, Ceramic Product Manager, Director of Product Management - Ceramic Business Group and, from August 2007

through April, 2013, Vice President Sales-Americas. He holds a Bachelor of Science in Management with a minor in Marketing from Purdue University and is a 2007 graduate of the KEMET Leadership Forum.

Dr. Philip M. Lessner, Senior Vice President and Chief Technology Officer, was named such in February 2014. He joined KEMET in March 1996 as a Technical Associate in the Tantalum Technology Group. He has held several positions of increased responsibility in the Technology and Product Management areas including Senior Technical Associate, Director Tantalum Technology, Director Technical Marketing Services and Vice President Tantalum Technology. Dr. Lessner was named Vice President, Chief Technology Officer and Chief Scientist in December 2006, Senior Vice President, Chief Technology Officer and Chief Scientist in May 2011 and Senior Vice President and Chief Technology and Marketing Officer in November 2012 prior to his appointment to his current position.

Dr. Lessner received a PhD in Chemical Engineering from the University of California, Berkeley and a Bachelor of Engineering in Chemical Engineering from Cooper Union.

Robert S. Willoughby, Vice President-Film and Electrolytic Business Group, was named such in May 2013. He joined KEMET in December 1985 and has held positions of increasing responsibility in Diagnostic, Quality, New Product and Process Engineering. Mr. Willoughby served as Director - Ceramic Operations from July 2007 until March 2010 and served as Vice President of Operations - Film and Paper Business Unit from March 2010 until May 2013. He holds a Bachelor of Science degree in Industrial Engineering from Clemson University and is a 2007 graduate of the KEMET Leadership Forum.

Other Key Employees

R. James Assaf, Senior Vice President, General Counsel and Secretary, was named such in February 2014. Mr. Assaf joined KEMET as Vice President, General Counsel in March 2008, and was appointed Vice President, General Counsel and Secretary in July 2008 prior to his appointment to his current position. Before joining KEMET, Mr. Assaf served as General Manager for InkSure Inc., a start-up seller of product authentication solutions. He had also previously held several positions with Sensormatic Electronics Corporation, including Associate General Counsel and Director of Business Development, Mergers & Acquisitions. Prior to Sensormatic, Mr. Assaf served as an Associate Attorney with the international law firm Squire Sanders & Dempsey. Mr. Assaf received his Bachelor of Arts degree from Kenyon College and his Juris Doctor degree from Case Western Reserve University School of Law. Michael L. Raynor, Vice President and Corporate Controller, was named such in November 2012. Mr. Raynor joined the Company in July 2007 as the Assistant Corporate Controller; in November of 2008 Mr. Raynor was named Director of Financial Planning & Analysis prior to his appointment to his current position. Prior to joining KEMET, Mr. Raynor held various controller level positions with distribution and manufacturing companies. Mr. Raynor received a Bachelor of Arts degree in Economics and a Masters of Accounting from the University of North Carolina at Chapel Hill and is a Certified Public Accountant in the state of North Carolina.

Richard J. Vatinelle, Vice President and Treasurer, was named such in March 2014. Mr. Vatinelle joined the Company in November 2012 as Controller - Tantalum Business Group. Prior to joining KEMET, Mr. Vatinelle served for two years as Regional Controller - Latin America for Leo Pharma A/S, a global manufacturer of pharmaceutical products. From 2007 to 2009 he served as Director of Finance, Policies and Reporting, for Stiefel Laboratories, a pharmaceutical company specialized in dermatology. Mr. Vatinelle's career in finance includes eight years with Conagra Foods Inc., where he held various international finance roles, and eleven years with Banque Sudameris, an international banking group where he began his career. Mr. Vatinelle holds a Bachelor of Science degree in Finance and International Management from Georgetown University.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market for Common Stock of the Company

Our common stock trades on the NYSE under the ticker symbol "KEM" (NYSE: KEM). We had 158 stockholders of record as of May 23, 2014. The following table represents the high and low sale prices of our common stock for the periods indicated:

Quarter	Fiscal Year 2014		Fiscal Year 2013	
	High	Low	High	Low
First	\$ 6.83	\$ 4.00	\$ 9.63	\$ 5.38
Second	4.98	3.93	6.26	4.36
Third	6.22	4.07	5.20	3.75
Fourth	6.41	5.11	6.94	4.94

Dividend Policy

We have not declared or paid any cash dividends on our common stock since our initial public offering in October 1992. We do not anticipate paying dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our Board and will depend upon, among other factors, the capital requirements, operating results, and our financial condition. In addition, we are restricted from paying cash dividends under the terms of the 10.5% Senior Notes Indenture. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

PERFORMANCE GRAPH

The following graph compares our cumulative total stockholder return for the past five fiscal years, beginning on March 31, 2009, with the Russell 3000 and a peer group (the "Peer Group") comprised of certain companies which manufacture capacitors and with which we generally compete. The Peer Group is comprised of AVX Corporation, Littelfuse, Inc. and Vishay Intertechnology, Inc.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among KEMET Corporation, the Russell 3000 Index,
and a Peer Group

*\$100 invested on 3/31/09 in stock or index, including reinvestment of dividends.

Fiscal year ending March 31.

RETURNS

Years Ending March 31,

	3/09	3/10	3/11	3/12	3/13	3/14
KEMET Corporation	100.00	571.43	2,017.69	1,273.47	850.34	790.48
Russell 3000	100.00	152.44	117.41	107.19	114.57	137.76
Peer Group	100.00	112.93	162.84	139.22	143.94	501.78

Unregistered Sales of Equity Securities

We did not sell any of our equity securities during fiscal year 2014 that were not registered under the Securities Act of 1933, as amended (the "Securities Act").

Repurchase of Equity Securities

We did not repurchase any of our equity securities during the three months ended March 31, 2014.

Equity Compensation Plan Disclosure

The following table summarizes equity compensation plans approved by stockholders and equity compensation plans that were not approved by stockholders as of March 31, 2014:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights	(b) Weighted-average price of outstanding options, warrants, and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders	1,733,559	\$ 9.87	1,666,620
Equity compensation plans not approved by stockholders	—	—	—
Total	1,733,559	\$ 9.87	1,666,620

ITEM 6. SELECTED FINANCIAL DATA.

The following table summarizes our selected historical consolidated financial information for each of the last five years. The selected financial information under the captions "Income Statement Data," "Per Share Data," "Balance Sheet Data," and "Other Data" shown below has been derived from our audited consolidated financial statements. This table should be read in conjunction with other consolidated financial information of KEMET, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements, included elsewhere herein. The data set forth below may not be indicative of our future financial condition or results of operations (see Item 1A, "Risk Factors") (amounts in thousands except per share amounts):

	Fiscal Years Ended March 31,				
	2014	2013	2012(1)	2011	2010
Income Statement Data: (2)					
Net sales	\$ 833,666	\$ 823,903	\$ 924,052	\$ 986,480	\$ 714,265
Operating income (loss)	(18,211)	(35,080)	28,083	123,891	6,223
Interest income	(195)	(139)	(175)	(218)	(188)
Interest expense	40,962	41,331	28,567	30,175	26,008
Income (loss) from continuing operations (3)	(64,869)	(78,512)	(2,350)	58,175	(70,842)
Income (loss) from discontinued operations	(3,634)	(3,670)	9,042	4,869	1,395
Net income (loss)	(68,503)	(82,182)	6,692	63,044	(69,447)
Per Share Data:					
Net income (loss) per basic share:					
Income (loss) from continuing operations	\$(1.44)	\$(1.75)	\$(0.05)	\$ 1.95	\$(2.63)
Income (loss) from discontinued operations	\$(0.08)	\$(0.08)	\$ 0.21	\$ 0.16	\$ 0.05
Net income (loss)	\$(1.52)	\$(1.83)	\$ 0.16	\$ 2.11	\$(2.58)
Net income (loss) per diluted share:					
Income (loss) from continuing operations	\$(1.44)	\$(1.75)	\$(0.04)	\$ 1.13	\$(2.63)
Income (loss) from discontinued operations	\$(0.08)	\$(0.08)	\$ 0.17	\$ 0.09	\$ 0.05
Net income (loss)	\$(1.52)	\$(1.83)	\$ 0.13	\$ 1.22	(2.58)
Balance Sheet Data:					
Total assets	\$ 843,667	\$ 911,591	\$ 980,862	\$ 884,309	\$ 740,961
Working capital	233,744	261,945	396,494	316,605	226,600
Long-term debt, less current portion(4)	391,292	372,707	345,380	231,215	231,629
Other non-current obligations	55,864	69,022	101,229	59,727	55,626
Stockholders' equity(3)	221,884	276,916	358,996	359,753	284,272
Other Data:					
Cash flow provided by (used in) operating activities	\$(6,746)	\$(22,827)	\$ 80,730	\$ 113,968	\$ 54,620
Capital expenditures	32,147	46,174	49,314	34,989	12,921
Research and development	24,466	26,876	27,765	24,597	21,639

(1) In fiscal year 2012, the Company acquired KEMET Foil on June 13, 2011 and Blue Powder on February 21, 2012.

(2) All periods have been revised due to the classification in fiscal year 2014 of the machinery division as a discontinued operation.

(3) In fiscal year 2010, the Platinum Warrant was initially classified as a derivative and the Company recorded a mark-to-market adjustment of \$81.1 million through earnings. As of September 29, 2009, the strike price of the Platinum Warrant became fixed and the Company reevaluated the Platinum Warrant concluding that the Platinum Warrant is indexed to the Company's own stock and should be classified as a component of equity. The Company

reclassified the warrant liability of \$112.5 million into the line item "Additional paid-in capital". In addition, in fiscal year 2010 the Company incurred a loss on early extinguishment of debt of \$38.9 million.

In fiscal year 2010, the Company repurchased \$93.9 million in face value of Convertible Notes and incurred additional borrowings of \$57.8 million with K Financing. In fiscal year 2013, 2012 and 2011, the Company issued \$15.0 million, \$110.0 million and \$230 million, respectively of 10.5% Senior Notes. In fiscal year 2013, the (4) Company received a \$24.0 million Advance Payment, as defined herein, from an original equipment manufacturer. In fiscal year 2014, the Company had \$18.4 million outstanding under a Loan and Security Agreement (the "Loan and Security Agreement"), with Bank of America, N.A.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis provides information that we believe is useful in understanding our operating results, cash flows, and financial condition for the three fiscal years ended March 31, 2014. The discussion should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements and related notes appearing elsewhere in this report. Except for the historical information contained herein, the discussions in this document contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties. Our actual future results could differ materially from those discussed here. Factors that could cause or contribute to such differences include, but are not limited to, those discussed under the Item 1A, "Risk Factors" and, from time to time, in our other filings with the Securities and Exchange Commission.

Business Overview

We are a leading global manufacturer of a wide variety of tantalum, multilayer ceramic, solid and electrolytic aluminum and film capacitors. Capacitors are electronic components that store, filter, and regulate electrical energy and current flow. As an essential passive component used in most circuit boards, capacitors are typically used for coupling, decoupling, filtering, oscillating and wave shaping and are used 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 (basically anything that plugs in or has a battery). We manufacture a broad line of capacitors in many different sizes and configurations using a variety of raw materials. Our product line consists of nearly 5 million distinct part configurations distinguished by various attributes, such as dielectric (or insulating) material, configuration, encapsulation, capacitance (at various tolerances), voltage, 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 years 2014, 2013 and 2012 we shipped 35 billion, 32 billion and 32 billion capacitors, respectively. We believe the long-term demand for various types of capacitors we offer will 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.

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 OEMs (including Alcatel-Lucent USA, 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), EMSs (including Celestica Inc., 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 discussed below, our private label partnership with NEC TOKIN has expanded our product offerings and markets. 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 a single customer, an electronics distributor, accounted for more than 10% of our net sales in fiscal year 2014. No single end use customer accounted for more than 6% of our net sales in fiscal year 2014. 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. As discussed below, our private label partnership with NEC TOKIN allows us to achieve true scale in operations to manage raw materials sourcing as

well as maximize efficiencies. 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.

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 fiscal years 2014 and 2013, respectively, specialty products accounted for 46.1% and 41.1% of our revenue. By allocating an increasing portion of our management resources and research and development ("R&D") investment (particularly through our partnership with NEC TOKIN discussed below) 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.

Low-Cost and Strategic Locations. We believe our plants in China, Mexico, Bulgaria and Macedonia 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 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.

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 17 years of experience with us and an average of over 24 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 also use those principles, operating procedures and systems as the foundation from which to expand. These initiatives include implementing Oracle 11i EBS throughout most locations, our Lean and Six Sigma culture evolution and our global customer accounts management program.

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.

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 have expanded our manufacturing to Macedonia which has 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.

Leverage Our Technological Competence and Expand Our Leadership in Specialty Products. We continue to leverage our technological competence and partnership with NEC TOKIN 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 fiscal year 2014, we introduced 16,829 new products of which 2,377 were first to market, and specialty products accounted for 46.1% of our revenue over this period.

Further Expand Our Broad Capacitance Capabilities. We identify ourselves as "The Electronic Components 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. As discussed below, through our partnership with NEC TOKIN we have further expanded our product offerings. 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 and Equity Investments. As strategic opportunities are identified, we will evaluate and possibly pursue them if they 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, in fiscal year 2012, we acquired Cornell Dubilier Foil, LLC (whose name was subsequently changed to KEMET Foil) and Blue Powder which has allowed us to vertically integrate certain manufacturing processes within Film and Electrolytic and Solid Capacitors, respectively. In addition, on February 1, 2013 KEC, a wholly owned subsidiary of the Company, acquired a 34% economic interest in NEC TOKIN, a manufacturer of tantalum capacitors and electro-magnetic, electro-mechanical and access devices.

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 2013, we received the "Supplier Excellence Award" from TTI, Inc. and the "Supplier Engagement" and "Perfect Order Index" awards 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 (Americas, EMEA and 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.

KEMET is organized into two business groups: Solid Capacitors 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, marketing and corporate functions are shared by each of the business groups. See Note 9, "Segment and Geographic Information" to our consolidated financial statements.

Recent Developments and Trends

Net sales of \$833.7 million in fiscal year 2014 have increased 1.2% from \$823.9 million in fiscal year 2013. Capacitor unit sales volumes increased 11.0 % for fiscal year 2014 as compared to fiscal year 2013. Average selling prices for capacitors decreased 9.3% for fiscal year 2014 as compared to fiscal year 2013 due to excess capacity in the market which decreased average selling prices across the market. We have continued to focus on vertical integration and restructure our operations by shifting production to lower cost locations. Through our recent acquisition of Blue Powder and equity investment in NEC TOKIN Corporation ("NEC TOKIN"), as described herein, we believe we can enhance our competitive position.

Equity Investment

On February 1, 2013, KEC closed on a transaction to acquire 51% (which represents a 34% economic interest calculated based on the number of common shares held by KEC, directly and indirectly, in proportion to the aggregate number of common and preferred shares of NEC TOKIN outstanding as of such date) of the common stock of NEC TOKIN, a manufacturer of tantalum capacitors, electro-magnetic, electro-mechanical and access devices. The Company accounts for its investment in NEC TOKIN using the equity method for a non-consolidated variable interest entity since KEC does not have the power to direct significant activities of NEC TOKIN.

In connection with KEC's entry into the Stock Purchase Agreement, KEC entered into a Stockholders' Agreement (the "Stockholders' Agreement") with NEC TOKIN and NEC, which provides for restrictions on transfers of NEC TOKIN's capital stock, certain tag-along and first refusal rights on transfer, restrictions on NEC's ability to convert the preferred stock of NEC

TOKIN held by it, certain management services to be provided to NEC TOKIN by KEC (or an affiliate of KEC) and certain board representation rights. KEC holds four of seven NEC TOKIN director positions. However, NEC has significant board rights.

Concurrent with entry into the Stock Purchase Agreement and the Stockholders' Agreement, KEC entered into an Option Agreement (the "Option Agreement") with NEC whereby KEC may purchase additional shares of NEC TOKIN common stock from NEC TOKIN for a purchase price of \$50.0 million resulting in an economic interest of approximately 49% while maintaining ownership of 51% of NEC TOKIN's common stock (the "First Call Option") by providing notice of the First Call Option between the Initial Closing and August 31, 2014. Upon providing such notice, KEC may also exercise an option to purchase all outstanding capital stock of NEC TOKIN from its stockholders, primarily NEC, for a purchase price based on the greater of six times LTM EBITDA (as defined in the Option Agreement) less the previous payments and certain other adjustments, or the outstanding amount of NEC TOKIN's debt obligation to NEC (the "Second Call Option") by providing notice of the Second Call Option by May 31, 2018. From August 1, 2014 through May 31, 2018, NEC may require KEC to purchase all outstanding capital stock of NEC TOKIN from its stockholders, primarily NEC. However, NEC may only exercise this right (the "Put Option") from August 1, 2014 through April 1, 2016 if NEC TOKIN achieves certain financial performance. The purchase price for the Put Option will be based on the greater six times LTM EBITDA less previous payments and certain other adjustments, or the outstanding amount of NEC TOKIN's debt obligation to NEC as of the date the Put Option is exercised. The purchase price for the Put Option is reduced by the amount of NEC TOKIN's debt obligation to NEC which KEC will assume. The determination of the purchase price will be modified in the event there is an unresolved agreement between NEC and us under the Stockholders' Agreement. In the event the Put Option is exercised, NEC will be required to maintain in place the outstanding debt obligation owed by NEC TOKIN to NEC. Partnership with NEC TOKIN.

Through our cross licensing agreement and private label partnership with NEC TOKIN we have expanded product offerings and markets for both KEMET and NEC TOKIN. KEMET's strong presence in the western hemisphere and the excellent NEC TOKIN position in Japan and Asia significantly enhance the customer reach for both companies. Through this partnership we can achieve true scale in operations allowing us to manage raw materials sourcing as well as maximize efficiencies and best practices in manufacturing and product development. We believe that the international management team of KEMET and NEC TOKIN allows us to be more sensitive and aware of region-specific business needs than our competitors. Combining our R&D capabilities and university relationships will allow us to be on the forefront of new developments and technological advancements in the capacitor industry. Leveraging R&D investment in both Japan and the U.S enables KEMET to diversify beyond capacitors in the passives market as a result of the NEC TOKIN partnership.

Vertical Integration.

Through the acquisition of Blue Powder and the creation of a tantalum K-Salt facility in Matamoros, Mexico, we have successfully vertically integrated our tantalum supply chain. This has allowed us to purchase ore directly from mines and stabilize the supply chain. In addition, vertical integration has provided KEMET complete oversight of our closed loop supply chain for Tantalum, thereby facilitating compliance with new conflict minerals regulations.

Write Down of Long-Lived Assets

In fiscal year 2014, we incurred impairment charges totaling \$4.5 million, recorded on the Consolidated Statements of Operations line item "Write down of long-lived assets". We are in the process of restructuring our Evora, Portugal manufacturing operations, which is expected to be completed during the quarter ending June 30, 2014. As a part of our restructuring activities, we have moved certain Solid Capacitors manufacturing operations from the Evora, Portugal facility to a manufacturing facility in Mexico and the remaining Solid Capacitors equipment in Portugal will be disposed. During fiscal year 2013, the Company incurred impairment charges totaling \$3.1 million. In fiscal year 2014 we incurred \$3.9 million in additional impairment charges due to a decrease in forecasted revenues. We utilized an income approach to estimate the fair value of the assets to be disposed. In addition, during fiscal year 2014, the

Company incurred impairment charges totaling \$0.6 million in Film and Electrolytic which were related to manufacturing equipment in a facility in Italy.

Restructuring

In fiscal year 2010, we 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. We incurred \$14.1 million in restructuring charges in the fiscal year ended March, 31, 2014 including \$10.6 million related to personnel reduction costs which are primarily comprised of the following: \$1.9 million related to the closure of a portion of our innovation center in the U.S.; \$1.2 million related to the reduction of the solid capacitor production workforce in Mexico; \$1.1 million related to the Company's initiative to reduce

overhead; \$0.5 million in termination benefits associated with converting the Weymouth, United Kingdom manufacturing facility into a technology center; \$4.5 million related to headcount reductions of 126 employees in Evora, Portugal due to the relocation of certain Solid Capacitors manufacturing operations to Mexico and \$0.4 million related to an additional Cassia Integrazione Guadagni Straordinaria (“CIGS”) plan in Italy. In addition, \$0.9 million is related to a headcount reduction of 31 employees due to the consolidation of manufacturing facilities in Italy. In addition to these personnel reduction costs, we incurred manufacturing relocation costs of \$3.6 million due to the consolidation of manufacturing facilities within Italy and relocation of manufacturing equipment to Evora, Portugal, Skopje, Macedonia and Mexico.

During the remainder of the restructuring plan, we expect to incur charges of \$10.7 million for relocation, severance and other restructuring related costs in Film and Electrolytic. The two legacy facilities in Italy are currently being marketed for sale but do not meet accounting guidelines to be classified as 'held for sale' as the facilities are not available for immediate sale. We expect the restructuring plan to result in a \$5.3 million reduction in our operating cost structure in Europe in fiscal year 2015 compared to fiscal year 2014 and anticipate that benefits from the restructuring plan will continue to improve during fiscal year 2016.

Discontinued Operation

In December 2013 KEMET signed a letter of intent to sell the machinery division within Film and Electrolytic. At that time the division qualified as held for sale and was classified as a discontinued operation. All historical financial results contained in this Form 10-K have been revised due to the classification of the machinery division as a discontinued operation. On April 30, 2014, the transaction closed.

Off-Balance Sheet Arrangements

As of March 31, 2014, other than operating lease commitments as described in Note 15, "Commitments and Contingencies", 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.

Critical Accounting Policies

Our accounting policies are summarized in Note 1, "Organization and Significant Accounting Policies" to the consolidated financial statements. The following identifies a number of policies which require significant judgments and estimates, or are otherwise deemed critical to our financial statements.

Our estimates and assumptions are based on historical data and other assumptions that we believe 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 our 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 consolidated financial statements.

Readers should understand that actual future results could differ from these estimates, assumptions, and judgments.

A quantitative sensitivity analysis is provided where that information is reasonably available, can be reliably estimated and provides material information to investors. The amounts used to assess sensitivity (i.e., 1%, 10%, etc.) are included to allow readers of this Annual Report on Form 10-K to understand a general cause and effect of changes in the estimates and do not represent our predictions of variability. For all of these estimates, it should be noted that future events rarely develop exactly as forecast, and estimates require regular review and adjustment. We believe the following critical accounting policies contain the most significant judgments and estimates used in the preparation of the consolidated financial statements:

REVENUE RECOGNITION. We ship 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. We recognize 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. Our distributor policy includes inventory price protection and SFSD programs common in the industry. The price protection policy protects the value of the distributors' inventory in the event we reduce our published selling price to distributors. This program allows the distributor to debit us for the difference between our list price and the lower authorized price for specific parts. We establish price protection reserves on specific parts residing in distributors' inventories in the period that the price protection is formally authorized by KEMET.

KEMET's SFSD program provides authorized distributors with the flexibility to meet marketplace prices by allowing them, upon a case-by-case pre-approved basis, to adjust their purchased inventory cost to correspond with current market demand. Requests for SFSD adjustments are considered on an individual basis, require a pre-approved cost adjustment quote from their local KEMET sales representative and apply only to a specific customer, part, a specified special price amount, a specified quantity, and is only valid for a specific period of time. To estimate potential SFSD adjustments corresponding with current period sales, KEMET records a sales reserve based on historical SFSD credits, distributor inventory levels, and certain accounting assumptions, all of which are reviewed quarterly. We believe this methodology enables us to make reliable estimates of future adjustments under the SFSD program. If the historical SFSD run rates used in our calculation were changed by 1% in fiscal year 2014, net sales would be impacted by \$0.9 million.

The establishment of these reserves is recognized as a component of the line item "Net sales" on the Consolidated Statements of Operations, while the associated reserves are included in the line item "Accounts receivable" on the Consolidated Balance Sheets. 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. **INVENTORIES.** Inventories are valued at the lower of cost or market. For most of the inventory, cost is determined under the first-in, first-out method. For tool crib, a component of our raw material inventory, cost is determined under the average cost method. The valuation of inventories requires us to make estimates. We also must assess the prices at which we believe the finished goods inventory can be sold compared to its cost. A sharp decrease in demand could adversely impact earnings as the reserve estimates could increase.

PENSION AND POST-RETIREMENT BENEFITS. Our management, with the assistance of actuarial firms, performs actuarial valuations of the fair values of our pension and post-retirement plans' benefit obligations. We make certain assumptions that have a significant effect on the calculated fair value of the obligations such as the:

- weighted-average discount rate—used to arrive at the net present value of the obligation;
- salary increases—used to calculate the impact future pay increases will have on post-retirement obligations; and
- medical cost inflation—used to calculate the impact future medical costs will have on post-retirement obligations.

We understand that these assumptions directly impact the actuarial valuation of the obligations recorded on the Consolidated Balance Sheets and the income or expense that flows through the Consolidated Statements of Operations.

We base our assumptions on either historical or market data that we consider reasonable. Variations in these assumptions could have a significant effect on the amounts reported in Consolidated Balance Sheets and the Consolidated Statements of Operations. The most critical assumption relates to the discount rate. A 25 basis point increase or decrease in the discount rate would result in changes to the projected benefit obligation of \$(1.6) million and \$1.8 million, respectively.

GOODWILL AND LONG-LIVED ASSETS. Goodwill, which represents the excess of purchase price over fair value of net assets acquired, and intangible assets with indefinite useful lives are no longer amortized but are tested for impairment at least on an annual basis. We perform our impairment test during the first quarter of each fiscal year and when otherwise warranted.

We evaluate our goodwill on a reporting unit basis. This requires us to estimate the fair value of the reporting units based on the future net cash flows expected to be generated. The impairment test involves a comparison of the fair value of each reporting unit, with the corresponding carrying amounts. If the reporting unit's carrying amount exceeds its fair value, then an indication exists that the reporting unit's goodwill may be impaired. The impairment to be recognized is measured by the amount by which the carrying value of the reporting unit's goodwill being measured exceeds its implied fair value. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the sum of the amounts assigned to identified net assets. As a result, the implied fair value of goodwill is generally the residual amount that results from subtracting the value of net assets including all tangible assets and identified intangible assets from the fair value of the reporting unit's fair value. We

determine the fair value of our reporting units using an income-based, discounted cash flow ("DCF") analysis, and market-based approaches (Guideline Publicly Traded Company Method and Guideline Transaction Method) which examine transactions in the marketplace involving the sale of the stocks of similar publicly-owned companies, or the sale of entire companies engaged in operations similar to KEMET. In addition to the above described reporting unit valuation techniques, our goodwill impairment assessment also considers our aggregate fair value based upon the value of our outstanding shares of common stock.

Long-lived assets and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset or group of assets may not be recoverable. A long-lived asset classified as held for sale is initially measured and reported at the lower of its carrying amount or fair value less cost to sell.

Long-lived assets to be disposed of other than by sale are classified as held and used until the long-lived asset is disposed of.

Tests for the recoverability of a long-lived asset to be held and used are performed by comparing the carrying amount of the long-lived asset to the sum of the estimated future undiscounted cash flows expected to be generated by the asset. In estimating the future undiscounted cash flows, we use future projections of cash flows directly associated with, and which are expected to arise as a direct result of, the use and eventual disposition of the assets. These assumptions include, among other estimates, periods of operation and projections of sales and cost of sales. Changes in any of these estimates could have a material effect on the estimated future undiscounted cash flows expected to be generated by the asset. If it is determined that the book value of a long-lived asset is not recoverable, an impairment loss would be calculated equal to the excess of the carrying amount of the long-lived asset over its fair value. The fair value is calculated as the discounted cash flows of the underlying assets.

In the first quarter of fiscal year 2013, due to reduced earnings and cash flows caused by macro-economic factors and excess capacity issues in our industry, the Company recorded a \$1.1 million goodwill impairment charge, which represented all of the goodwill related to the KEMET Foil reporting unit.

The Company completed its impairment test on goodwill and intangible assets with indefinite useful lives as of January 1, 2014 and concluded that goodwill and indefinite-lived assets were not impaired. A one percent increase or decrease in the discount rate used in the valuation would have resulted in changes in the fair value of \$(34.7) million and \$21.2 million, respectively.

INCOME TAXES. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates. Valuation allowances are recognized to reduce deferred tax assets to the amount that is more likely than not to be realized.

We believe that it is more likely than not that a portion of the deferred tax assets in various jurisdictions will not be realized, based on the scheduled reversal of deferred tax liabilities, the recent history of cumulative losses, and the insufficient evidence of projected future taxable income to overcome the loss history. We have provided a valuation allowance related to any benefits from income taxes resulting from the application of a statutory tax rate to the deferred tax assets. We continue to have net deferred tax assets (future tax benefits) in several jurisdictions which we expect to realize assuming, based on certain estimates and assumptions, sufficient taxable income can be generated to utilize these deferred tax benefits. If these estimates and related assumptions change in the future, we may be required to reduce the value of the deferred tax assets resulting in additional tax expense.

The accounting rules require that we recognize in our financial statements, the impact of a tax position, if that position is "more likely than not" of being sustained on audit, based on the technical merits of the position. Any accruals for estimated interest and penalties would be recorded as a component of income tax expense.

To the extent that the provision for income taxes changed by 1% of loss before income taxes, consolidated net loss would change by \$0.6 million in fiscal year 2014.

Results of Operations

Historically, revenues and earnings may or may not be representative of future operating results due to various economic and other factors. The following table sets forth the Consolidated Statements of Operations for the periods indicated (amounts in thousands):

	Fiscal Years Ended March 31,		
	2014	2013	2012
Net sales	\$ 833,666	\$ 823,903	\$ 924,052
Operating costs and expenses:			
Cost of sales	712,925	697,076	731,312
Selling, general and administrative expenses	95,856	107,620	106,534
Research and development	24,466	26,876	27,765
Restructuring charges	14,122	18,719	14,254
Write down of long-lived assets	4,476	7,582	15,786
Goodwill Impairment	—	1,092	—
Net loss on sales and disposals of assets	32	18	318
Operating (loss) income	(18,211)	(35,080)	28,083
Interest income	(195)	(139)	(175)
Interest expense	40,962	41,331	28,567
Other (income) expense, net	(2,681)	(2,295)	965
Loss from continuing operations before income taxes and equity loss from NEC TOKIN	(56,297)	(73,977)	(1,274)
Income tax expense	1,482	3,281	1,076
Loss from continuing operations before equity loss from NEC TOKIN	(57,779)	(77,258)	(2,350)
Equity loss from NEC TOKIN	(7,090)	(1,254)	—
Loss from continuing operations	(64,869)	(78,512)	(2,350)
Income (loss) from discontinued operations	(3,634)	(3,670)	9,042
Net income (loss)	\$(68,503)	\$(82,182)	\$6,692

Consolidated Comparison of Fiscal Year 2014 to Fiscal Year 2013

Net sales:

Net sales of \$833.7 million in fiscal year 2014 increased 1.2% from \$823.9 million in fiscal year 2013. Film and Electrolytic and Solid Capacitor sales increased by \$5.6 million and \$4.2 million, respectively. Capacitor unit sales volumes increased 11.0 % for fiscal year 2014 as compared to fiscal year 2013. Average selling prices for capacitors decreased 9.3% for fiscal year 2014 as compared to fiscal year 2013 due to an unfavorable product mix shift in Film and Electrolytic and a shift within Solid Capacitors to increased unit sales volumes of lower priced ceramic product line across all regions.

In fiscal years 2014 and 2013, net sales by region were as follows (dollars in millions):

	Fiscal Year 2014			Fiscal Year 2013		
	Net Sales	% of Total		Net Sales	% of Total	
Americas	\$262.9	31	% Americas	\$244.9	30	%
APAC	282.3	34	% APAC	294.5	36	%
EMEA	288.5	35	% EMEA	284.5	34	%
Total	\$833.7		Total	\$823.9		

In fiscal years 2014 and 2013, the percentages of net sales by channel to total net sales were as follows:

	Fiscal Year 2014			Fiscal Year 2013		
	Net Sales	% of Total		Net Sales	% of Total	
Distributors	\$377.0	45	% Distributors	\$376.9	46	%
EMS	139.4	17	% EMS	143.2	17	%
OEM	317.3	38	% OEM	303.8	37	%
Total	\$833.7		Total	\$823.9		

Gross margin:

Gross margin for the fiscal year ended March 31, 2014 of \$120.7 million (14.5% of net sales) decreased \$6.1 million or 4.8% from \$126.8 million (15.4% of net sales) in the prior fiscal year. The primary contributor to the gross margin decline was a \$10.5 million gross margin decrease in Solid Capacitors for the fiscal year 2014 compared to fiscal year 2013 corresponding with a decrease in average selling prices. These were partially offset by a \$4.4 million increase in Film and Electrolytic gross margin for the fiscal year 2014 compared to fiscal year 2013.

Selling, general and administrative expenses ("SG&A"):

SG&A expenses of \$95.9 million, or 11.5% of net sales for fiscal year 2014 decreased \$11.8 million or 10.9% compared to \$107.6 million, or 13.1% of net sales for fiscal year 2013. The decrease consists primarily of the following items: a \$5.1 million decrease in compensation expenses that resulted from headcount reductions, a \$3.5 million decrease in ERP integration costs, a \$1.3 million decrease in training and travel as part of overall cost saving initiatives, a \$1.2 million decrease in incentive compensation related to stock based compensation, a \$0.4 million decrease in Information Technology related to data transmission costs, a \$0.4 million decrease in charitable contributions, and a \$2.3 million decrease in acquisition fees related to our investment in NEC TOKIN. Partially offsetting these decreases was a \$2.5 million increase in depreciation expense.

Restructuring charges:

Restructuring charges of \$14.1 million in fiscal year 2014 decreased \$4.6 million or 24.6% from \$18.7 million in fiscal year 2013.

Restructuring charges in the fiscal year ended March 31, 2014 include personnel reduction costs of \$10.6 million and manufacturing relocation costs of \$3.6 million. The personnel reduction costs are comprised of the following: \$1.9 million related to the closure of a portion of our innovation center in the U.S.; \$1.2 million related to the reduction of the solid capacitor production workforce in Mexico; \$1.1 million related to the Company's initiative to reduce overhead; \$0.5 million in termination benefits associated with converting the Weymouth, United Kingdom manufacturing facility into a technology center; \$4.5 million related to headcount reductions of 126 employees in Evora, Portugal due to the relocation of certain Solid Capacitors manufacturing operations to Mexico; \$0.9 million related to a headcount reduction of 31 employees due to the consolidation of manufacturing facilities in Italy and \$0.4 million related to an additional Cassia Integrazione Guadagni Straordinaria ("CIGS") plan in Italy.

In addition to these personnel reduction costs, the Company incurred manufacturing relocation costs of \$3.6 million due to the consolidation of Film and Electrolytic manufacturing facilities within Italy and relocation of Film and Electrolytic manufacturing equipment to Evora, Portugal and Skopje, Macedonia and Solid Capacitors manufacturing equipment to Mexico.

The restructuring charges in fiscal year 2013 included termination benefits of \$6.1 million related to facility closures in Italy that commenced during fiscal year 2013 and charges of \$4.5 million that were incurred by the Company 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. In addition, we incurred \$1.7 million in personnel reduction costs primarily due to headcount reductions within Solid Capacitors' operations in Mexico. In addition to these personnel reduction costs, we incurred manufacturing relocation costs of \$1.9 million for relocation of equipment to China and Mexico.

Research and development:

R&D expenses of \$24.5 million, or 2.9% of net sales for fiscal year 2014 decreased \$2.4 million or 9.0% compared to \$26.9 million, or 3.3% of net sales for fiscal year 2013. The decrease is primarily a result of headcount reductions achieved by leveraging the technology and licensing agreement in place with NEC TOKIN.

Write down of long-lived assets:

The Company's restructuring of its Evora, Portugal manufacturing operations, is expected to be substantially complete by June 30, 2014. As a part of the ongoing restructuring activities, the Company has relocated certain Solid Capacitor manufacturing operations from the Evora, Portugal facility to a manufacturing facility in Mexico and the remaining Solid Capacitor manufacturing equipment in Portugal will be disposed. During fiscal year 2013, using an income approach to estimate the fair value of assets to be disposed, the Company incurred impairment charges totaling \$3.1 million related to Solid Capacitors. In fiscal year 2014 Solid Capacitors incurred \$3.9 million in additional impairment charges due to a decrease in forecasted revenues. In addition, during fiscal year 2014, the Company incurred impairment charges totaling \$0.6 million related to Film and Electrolytic related to manufacturing equipment in a facility in Italy.

Also in fiscal year 2013 and in connection with the consolidation of two Film and Electrolytic manufacturing facilities within Italy, we incurred impairment charges totaling \$4.2 million. Appraisals for these manufacturing facilities indicated there was a decrease in market value and, therefore, the carrying amounts of 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.

In addition, in fiscal year 2013 we incurred a \$0.3 million charge related to the write-off of a trademark which is no longer utilized.

Operating loss:

Operating loss for fiscal year 2014 of \$18.2 million improved \$16.9 million or 48.1% compared to an operating loss of \$35.1 million in fiscal year 2013. The improvement was primarily due to a \$11.8 million decrease in SG&A expenses, \$4.6 million decrease in restructuring charges, a \$3.1 million decrease in write down of long-lived assets, a \$2.4 million decrease in R&D expenses and the goodwill impairment of \$1.1 million in fiscal year 2013. These improvements were partially offset by a \$6.1 million decrease in gross margin.

Non-operating (income) expense, net:

Non-operating (income) expense, net was a net expense of \$38.1 million in fiscal year 2014 compared to a net expense of \$38.9 million in fiscal year 2013. The decrease is primarily attributable to a \$3.1 million increase in the value of the NEC TOKIN options recognized in fiscal year 2014 and a \$0.4 million decrease in interest expense. Partially offsetting these improvements was a \$0.8 million decrease in non-product scrap and reclaim income and a \$1.4 million charge related to the write off of a long-term note receivable.

Income taxes:

The effective income tax rate for fiscal year 2014 was (2.6)%, resulting in an income tax expense from continuing operations of \$1.5 million. This compares to an effective income tax rate of (4.4)% for fiscal year 2013 that resulted in an income tax expense of \$3.3 million. The fiscal year 2014 income tax expense is comprised of an income tax expense resulting from operations in certain foreign jurisdictions totaling \$2.8 million, \$0.3 million of state income tax and a \$1.7 million income tax benefit allocated from outside of continuing operations to continuing operations. No U.S. federal income tax benefit is recognized for the U.S. taxable loss for fiscal year 2014 due to a valuation allowance provided for U.S. net operating losses.

Equity loss from NEC TOKIN:

In fiscal year 2014 we incurred an equity loss from our investment in NEC TOKIN of \$7.1 million, compared to a loss of \$1.3 million in fiscal year 2013. The increased equity loss primarily relates to an impairment loss recorded by NEC TOKIN related to certain of its fixed assets.

Segment Comparison of Fiscal Year 2014 to Fiscal Year 2013:

The following table sets forth the operating income (loss) for each of our business segments for the fiscal years 2014 and 2013. The table also sets forth each of the segments' net sales as a percentage of total net sales and the operating income (loss) components as a percentage of total net sales (amounts in thousands, except percentages):

	For the Fiscal Years Ended				
	March 31, 2014		March 31, 2013		
	Amount	% to Total Sales	Amount	% to Total Sales	
Net sales					
Solid Capacitors	\$ 626,494	75.1	% \$ 622,305	75.5	%
Film and Electrolytic	207,172	24.9	% 201,598	24.5	%
Total	\$ 833,666	100.0	% \$ 823,903	100.0	%
Operating income (loss)					
Solid Capacitors	\$ 91,848		\$ 94,986		
Film and Electrolytic	(17,587)		(31,109)		
Corporate	(92,472)		(98,957)		
Total	\$ (18,211)	(2.2)%	\$ (35,080)	(4.3)%	

Solid Capacitors

The table below sets forth Net sales, Operating income and Operating income as a percentage of net sales for Solid Capacitors for fiscal years 2014 and 2013 (amounts in thousands, except percentages):

	For the Fiscal Years Ended				
	March 31, 2014		March 31, 2013		
	Amount	% to Net Sales	Amount	% to Net Sales	
Tantalum product line net sales	\$ 390,422		\$ 412,791		
Ceramic product line net sales	236,072		209,514		
Net sales	626,494		622,305		
Segment operating income	91,848	14.7	% 94,986	15.3	%

Net sales—Net sales of \$626.5 million in fiscal year 2014 increased \$4.2 million or 0.7% from \$622.3 million in fiscal year 2013. Ceramic product line net sales of \$236.1 million in fiscal year 2014 increased \$26.6 million or 12.7% from \$209.5 million in fiscal year 2013. Tantalum product line net sales of \$390.4 million in fiscal year 2014 decreased \$22.4 million or 5.4% from \$412.8 million in fiscal year 2013. Unit sales volume for fiscal year 2014 increased 11.4% compared to fiscal year 2013. Average selling prices decreased 9.6% in fiscal year 2014 compared to fiscal year 2013 primarily related to a change in product line sales mix driven by a shift to higher volumes of lower priced ceramic products across all regions.

Segment Operating Income—Segment operating income of \$91.8 million for fiscal year 2014 declined \$3.1 million or 3.3% from \$95.0 million for fiscal year 2013. The decrease in segment operating income is primarily attributable to the following: a decrease in gross margin of \$10.5 million, an increase in restructuring charges of \$0.8 million and an \$0.8 million increase in write down of long-lived assets. These were partially offset by a \$6.0 million decrease in SG&A expenses related to lower ERP Integration costs as well as a pension curtailment recognized in fiscal year 2013. In addition, we recognized a \$2.5 million decrease in R&D expenses and a \$0.5 million improvement on the gain on disposals of fixed assets.

Film and Electrolytic

The table below sets forth Net sales, Operating loss and Operating loss as a percentage of net sales for Film and Electrolytic for the fiscal years 2014 and 2013 (amounts in thousands, except percentages):

	For the Fiscal Years Ended			
	March 31, 2014		March 31, 2013	
	Amount	% to Net Sales	Amount	% to Net Sales
Net sales	\$ 207,172		\$ 201,598	
Segment operating loss	(17,587)	(8.5)%	(31,109)	(15.4)%

Net sales—Net sales of \$207.2 million in fiscal year 2014 increased \$5.6 million or 2.8% from \$201.6 million in fiscal year 2013. Capacitor unit sales volume for fiscal year 2014 increased 19.3% compared to fiscal year 2013 due to an overall increase in customer demand in APAC and EMEA. Capacitor sales were favorably impacted by \$4.2 million related to foreign exchange. These increases were partially offset by a decrease in capacitor average selling prices of 15.2% at comparable exchange rates for fiscal year 2014 compared to fiscal year 2013 due to an unfavorable shift in product line mix.

Segment Operating loss—Segment operating loss of \$17.6 million in fiscal year 2014 improved \$13.5 million or 43.5%, from \$31.1 million of segment operating loss in fiscal year 2013. The improvement was attributable to a \$3.7 million decrease in write down of long-lived assets, a \$4.0 million decrease in restructuring charges, a \$1.2 million decrease in SG&A expenses and a \$4.4 million improvement in gross margin. The improvement in gross margin is due to an increase in unit sales volume as well as reduced costs as a result of our restructuring efforts. In addition, a \$1.1 million goodwill impairment related to the KEMET Foil reporting unit was recognized in fiscal year 2013. These improvements were partially offset by a \$0.6 million increase in the loss on disposal of fixed assets and a \$0.3 million increase in R&D expenses.

Consolidated Comparison of Fiscal Year 2013 to Fiscal Year 2012

Net sales:

Net sales for fiscal year 2013 of \$823.9 million decreased \$100.1 million or 10.8% from \$924.1 million for fiscal year 2012. Film and Electrolytic and Solid Capacitor net sales decreased by \$91.7 million and \$8.5 million, respectively. Average selling prices for capacitors decreased 10.8% for fiscal year 2013 compared to fiscal year 2012 due to excess capacity in the market, a general softening of the markets and a shift in sales from higher priced products sold in EMEA to lower priced products sold in APAC.

In fiscal years 2013 and 2012, net sales by region were as follows (dollars in millions):

	Fiscal Year 2013			Fiscal Year 2012		
	Net Sales	% of Total		Net Sales	% of Total	
Americas	\$244.9	30	% Americas	\$259.0	28	%
APAC	294.5	36	% APAC	359.9	39	%
EMEA	284.5	34	% EMEA	305.2	33	%
Total	\$823.9		Total	\$924.1		

In fiscal years 2013 and 2012, the percentages of net sales by channel to total net sales were as follows:

	Fiscal Year 2013			Fiscal Year 2012		
	Net Sales	% of Total		Net Sales	% of Total	
Distributors	\$376.9	46	% Distributors	\$417.4	45	%
EMS	143.2	17	% EMS	148.2	16	%
OEM	303.8	37	% OEM	358.5	39	%
Total	\$823.9		Total	\$924.1		

Gross margin:

Gross margin for the fiscal year ended March 31, 2013 of \$126.8 million (15.4% of net sales) decreased \$65.9 million or 34.2% from \$192.7 million (20.9% of net sales) in fiscal year 2012. The primary contributor to the gross margin decline was a

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\$45.0 million gross margin decrease in Film and Electrolytic for the fiscal year 2013 compared to fiscal year 2012 corresponding with a decrease in unit sales volume of 30.7% leading to lower plant capacity utilization and lower efficiencies which created unfavorable fixed cost absorption. In addition, excess capacity in the market led to a decrease in average selling prices in Solid Capacitors which decreased gross margin. In addition, we incurred \$6.1 million of plant start-up costs in the year ended March 31, 2013 compared to \$3.6 million in the year ended March 31, 2012.

Selling, general and administrative expenses ("SG&A"):

SG&A expenses of \$107.6 million (13.1% of net sales) for fiscal year 2013 increased \$1.1 million or 1.0% compared to \$106.5 million (11.5% of net sales) for fiscal year 2012. The increase in SG&A expenses included a \$1.9 million increase in incentive compensation related to stock based compensation, an increase of \$3.1 million related to our investment in NEC TOKIN, a \$0.7 million increase in travel expenses, and a \$0.4 million increase in office rent. In addition, in fiscal year 2013, we incurred a \$1.1 million expense related to our investment to improve the health and educational facilities in the community of the Katanga Province of the Democratic Republic of the Congo. Partially offsetting these increases, were a \$3.3 million decrease in selling and incentive expenses consistent with the decrease in sales, a \$1.5 million decrease in human resources and information technology expenses due to cost savings initiatives, and a \$1.4 million decrease in marketing activities and projects.

Restructuring charges:

Restructuring charges of \$18.7 million in fiscal year 2013 increased \$4.5 million or 31.3% from \$14.3 million in fiscal year 2012.

Restructuring charges in the fiscal year ended March 31, 2013 included personnel reduction costs of \$16.4 million and manufacturing relocation costs of \$2.3 million. The personnel reduction costs were comprised of the following:

\$2.8 million in termination benefits associated with converting the Landsberg, Germany manufacturing facility into a technology center; \$2.9 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; \$0.5 million for headcount reductions at an innovation center; \$2.7 million for reductions in administrative overhead primarily in the Corporate headquarters and \$4.9 million for reductions in production workforce and administrative overhead across the entire Company.

In addition to these personnel reduction costs, we incurred manufacturing relocation costs of \$1.8 million for relocation of equipment to Bulgaria, China, Macedonia and Mexico and for the consolidation of manufacturing operations within Italy and \$0.6 million in lease termination costs related to the relocation of a sales office.

The restructuring charges in fiscal year 2012 included termination benefits of \$6.1 million related to facility closures in Italy that commenced during fiscal year 2013 and charges of \$4.5 million that were incurred by the Company 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. In addition, we incurred \$1.7 million in personnel reduction costs primarily due to headcount reductions within Solid Capacitors' operations in Mexico. In addition to these personnel reduction costs, we incurred manufacturing relocation costs of \$1.9 million for relocation of equipment to China and Mexico.

Research and development:

R&D expenses of \$26.9 million (3.3% of net sales) for fiscal year 2013 decreased \$0.9 million or 3.2% compared to \$27.8 million (3.0% of net sales) for fiscal year 2012. The decrease resulted from headcount reductions taken in fiscal year 2013 to align the R&D expenses within an acceptable percentage of net sales.

Write down of long-lived assets:

During fiscal year 2013 and corresponding with a restructuring of our Solid Capacitors operations in the Evora, Portugal manufacturing facility, we incurred impairment charges totaling \$3.1 million. Also in fiscal year 2013 and in connection with the consolidation of two Film and Electrolytic manufacturing facilities within Italy, we incurred impairment charges totaling \$4.2 million. Appraisals for these manufacturing facilities indicated there was a decrease

in market value and, therefore, the carrying amounts of 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.

In addition, in fiscal year 2013 we incurred a \$0.3 million charge related to the write-off of a trademark which is no longer utilized.

During fiscal year 2012, we incurred impairment charges of \$15.8 million related to certain Solid Capacitor equipment which was disposed of since the equipment could not meet customer demands for lower equivalent series resistance capacitors. The impairment amount of \$15.8 million was the carrying amount of the equipment less the estimated scrap value net of disposal costs. The impairment charge is recorded on the Consolidated Statements of Operations line item "Write down of long-lived assets" in fiscal year 2012.

Operating income:

Operating loss for fiscal year 2013 was \$35.1 million compared to operating income of \$28.1 million in the prior fiscal year. The decrease was primarily due to the \$65.9 million decrease in gross margin in fiscal year 2013 as compared to fiscal year 2012. Additionally, when comparing fiscal year 2013 to fiscal year 2012, restructuring charges increased \$4.5 million, SG&A expenses increased \$1.1 million and we incurred a goodwill impairment of \$1.1 million in fiscal year 2013. These increases were partially offset by an \$8.2 million decrease in write-down of long-lived assets, and a \$0.9 million decrease in research and development expenses. Also, during fiscal year 2013 we recognized less than \$0.1 million loss on disposal of assets compared to a \$0.3 million loss on sales and disposals of assets in fiscal year 2012.

Non-operating (income) expense, net:

Non-operating (income) expense, net was a net expense of \$38.9 million in fiscal year 2013 compared to a net expense of \$29.4 million in fiscal year 2012, representing an increase of \$9.5 million. The increase is attributable to a \$12.8 million increase in interest expense in fiscal year 2013 as compared to fiscal year 2012 primarily related to an increase in our 10.5% Senior Notes outstanding of approximately \$110.0 million at the end of fiscal year 2012 and \$15.0 million in April 2012. In addition, we recognized less than \$0.1 million of a loss on foreign currency translation in fiscal year 2013 as compared to a \$0.9 million loss on foreign currency translation in fiscal year 2012 primarily due to the change in the value of the Euro and Mexican Peso compared to the U.S. dollar.

Income taxes:

The effective income tax rate for fiscal year 2013 was (4.4)%, resulting in an income tax expense of \$3.3 million. This compares to an effective income tax rate of (84.5)% for fiscal year 2012 that resulted in an income tax expense of \$1.1 million. The fiscal year 2013 income tax expense was comprised of an income tax expense resulting from operations in certain foreign jurisdictions totaling \$2.7 million, \$0.7 million of state income tax expense and a \$0.1 million federal income tax benefit. No U.S. federal income tax benefit was recognized for the U.S. taxable loss for fiscal year 2013 due to a valuation allowance provided for U.S. net operating losses.

Equity loss from NEC TOKIN:

In fiscal year 2013 we incurred an equity loss from our investment in NEC TOKIN of \$1.3 million.

Segment Comparison of Fiscal Year 2013 to Fiscal Year 2012:

The following table sets forth the operating income (loss) for each of our business segments for the fiscal years 2013 and 2012. The table also sets forth each of the segments' net sales as a percentage of total net sales and the operating income (loss) components as a percentage of total net sales (amounts in thousands, except percentages):

	For the Fiscal Years Ended		Fiscal Year 2012		
	March 31, 2013				
	Amount	% to Total Sales	Amount	% to Total Sales	
Net sales					
Solid Capacitors	\$ 622,305	75.5	% \$ 630,762	68.3	%
Film and Electrolytic	201,598	24.5	% 293,290	31.7	%
Total	\$ 823,903	100.0	% \$ 924,052	100.0	%
Operating income (loss)					
Solid Capacitors	\$ 94,986		\$ 111,769		

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Film and Electrolytic	(31,109)	12,347		
Corporate	(98,957)	(96,033)	
Total	\$ (35,080) -4.3	% \$ 28,083	3.0	%

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Solid Capacitors

The table sets forth Net sales, Operating income and Operating income as a percentage of net sales for Solid Capacitors for the fiscal years 2013 and 2012 (amounts in thousands, except percentages):

	For the Fiscal Years Ended			
	March 31, 2013		March 31, 2012	
	Amount	% to Net Sales	Amount	% to Net Sales
Tantalum product line net sales	\$412,791		\$416,995	
Ceramic product line net sales	209,514		213,767	
Net sales	622,305		630,762	
Segment operating income	94,986	15.3	111,769	17.7

Net sales—Net sales decreased \$8.5 million or 1.3% during fiscal year 2013, compared to fiscal year 2012. Unit sales volume for fiscal year 2013 decreased 0.4% compared to fiscal year 2012. Average selling prices decreased 1.0% in fiscal year 2013 compared to fiscal year 2012 primarily due to a change in product line sales mix driven by a shift to higher priced polymer product line products.

Segment Operating Income—Segment operating income for fiscal year 2013 was \$95.0 million compared to operating income of \$111.8 million for fiscal year 2012. The \$16.8 million decrease in segment operating income in fiscal year 2013 compared to fiscal year 2012 is primarily attributable to the following: a decrease in gross margin of \$20.9 million, an increase in restructuring charges of \$6.2 million, an increase in SG&A expenses of \$2.7 million, and an increase in R&D expenses of \$0.2 million during fiscal year 2013 as compared to fiscal year 2012. These decreases were partially offset by a \$3.3 million write down of long-lived assets that was recorded in fiscal year 2013 compared to \$15.8 million write down in fiscal year 2012 and a \$0.2 million gain recognized on sales and disposals of assets in fiscal year 2013 compared to a \$0.3 million loss on sales and disposals of assets in fiscal year 2012.

Film and Electrolytic

The table sets forth Net sales, Operating income (loss) and Operating income (loss) as a percentage of net sales for Film and Electrolytic for the fiscal years 2013 and 2012 (amounts in thousands, except percentages):

	For the Fiscal Years Ended			
	March 31, 2013		March 31, 2012	
	Amount	% to Net Sales	Amount	% to Net Sales
Net sales	\$201,598		\$293,290	
Segment operating (loss) income	(31,109)	(15.4)%	12,347	4.2%

Net sales—Net sales decreased by \$91.7 million or 31.3% in fiscal year 2013, as compared to fiscal year 2012. Capacitor unit sales volume for fiscal year 2013 decreased 30.7% compared to fiscal year 2012 due to an overall decrease in customer demand seen across all regions and channels. Capacitor sales were unfavorably impacted by \$9.4 million related to foreign exchange. These decreases were partially offset by an increase in capacitor average selling prices of 4.1% at comparable exchange rates for fiscal year 2013 as compared to fiscal year 2012 due to a favorable shift in product line mix.

Segment Operating income (loss)—Segment operating loss was \$31.1 million in fiscal year 2013, as compared to \$12.3 million of segment operating income in fiscal year 2012. The \$43.5 million decline in segment operating results was attributable primarily to a \$45.0 million decrease in gross margin when comparing fiscal year 2013 to fiscal year 2012 and in fiscal year 2013 we recognized a \$4.2 million write down of long-lived assets, a goodwill impairment of \$1.1 million and a \$0.2 million loss on sales and disposals of assets which were not incurred in fiscal year 2012. These expense increases were partly offset by the following decreases in fiscal year 2013 as compared to fiscal year 2012: a \$3.5 million decrease in restructuring charges, a \$2.5 million decrease in SG&A expenses and a \$1.1 million decrease in R&D expenses.

Liquidity and Capital Resources

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

Issuance of 10.5% Senior Notes

On May 5, 2010, we completed the issuance of our 10.5% Senior Notes with an aggregate principal amount of \$230.0 million which resulted in net proceeds to the Company of \$222.2 million. The Company used a portion of the proceeds to repay all of its outstanding indebtedness under the Company's credit facility with K Financing, LLC, the Company's €60 million credit facility and €35 million credit facility with UniCredit Corporate Banking S.p.A. ("UniCredit") and the Company's term loan with a subsidiary of Vishay and 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 Company's 2.25% Convertible Senior Notes (the "Convertible Notes") and to pay costs incurred in connection with the issuance, the tender offer and the foregoing repayments.

The 10.5% Senior Notes were issued pursuant to a 10.5% Senior Notes Indenture, dated as of May 5, 2010, by and among us, our domestic restricted subsidiaries (the "Guarantors") and Wilmington Trust Company, as trustee (the "Trustee"). The 10.5% Senior Notes will mature on May 1, 2018, and bear interest at a stated rate of 10.5% per annum, payable semi-annually in cash in arrears on May 1 and November 1 of each year, beginning on November 1, 2010. The 10.5% Senior Notes are our senior obligations and are guaranteed by each of the Guarantors and secured by a first priority lien on 51% of the capital stock of certain of our foreign restricted subsidiaries.

The terms of the 10.5% Senior Notes Indenture, among other things, limit our ability and the ability of our restricted subsidiaries to (i) incur additional indebtedness or issue certain preferred stock; (ii) pay dividends on, or make distributions in respect of, our capital stock or repurchase our capital stock; (iii) make certain investments or other restricted payments; (iv) sell certain assets; (v) create liens or use assets as security in other transactions; (vi) enter into sale and leaseback transactions; (vii) merge, consolidate or transfer or dispose of substantially all assets; (viii) engage in certain transactions with affiliates; and (ix) designate subsidiaries as unrestricted subsidiaries. These covenants are subject to a number of important limitations and exceptions that are described in the 10.5% Senior Notes Indenture.

The 10.5% Senior Notes are redeemable, in whole or in part, at any time on or after May 1, 2014, at the redemption prices specified in the 10.5% Senior Notes Indenture. At any time prior to May 1, 2013, we had the option to redeem up to 35% of the aggregate principal amount of the 10.5% Senior Notes with the net cash proceeds from certain equity offerings at a redemption price equal to 110.5% of the principal amount thereof, together with accrued and unpaid interest, if any, to the redemption date. In addition, at any time prior to May 1, 2014, we may redeem the 10.5% Senior Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the 10.5% Senior Notes so redeemed, plus a "make whole" premium and together with accrued and unpaid interest, if any, to the redemption date.

Upon the occurrence of a change of control triggering event specified in the 10.5% Senior Notes Indenture, we must offer to purchase the 10.5% Senior Notes at a redemption price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase.

The 10.5% Senior Notes Indenture provides for customary events of default (subject in certain cases to customary grace and cure periods), which include nonpayment, breach of covenants in the 10.5% Senior Notes Indenture, payment defaults or acceleration of other indebtedness, a failure to pay certain judgments and certain events of bankruptcy and insolvency. The 10.5% Senior Notes Indenture also provides for events of default with respect to the collateral, which include default in the performance of (or repudiation, disaffirmation or judgment of unenforceability or assertion of unenforceability) by us or a Guarantor with respect to the provision of security documents under the 10.5% Senior Notes Indenture. These events of default are subject to a number of important qualifications, limitations

and exceptions that are described in the 10.5% Senior Notes Indenture. Generally, if an event of default occurs, the Trustee or holders of at least 25% in principal amount of the then outstanding 10.5% Senior Notes may declare the principal of and accrued but unpaid interest, including additional interest, on all the 10.5% Senior Notes to be due and payable.

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 issuance resulted in a debt premium of \$6.1 million which is being amortized over the term of the 10.5% Senior Notes. 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.

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 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 the 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 the Singapore facility can be used to issue letters of credit. Subsequent to March 31, 2014, the Loan and Security Agreement was amended and as a result the expiration was extended to December, 31, 2015. The principal features of the amendment to the Loan and Security Agreement (the "Amendment") are reflected in the description below.

Revolving loans may be used to pay fees and transaction expenses associated with the closing of the credit facilities, to pay obligations outstanding under the Loan and Security Agreement and for working capital and other lawful corporate purposes of KEC and KEMET Singapore. Borrowings under the U.S. and Singapore facilities are subject to a borrowing base. The borrowing base consists of:

in the case of the U.S. facility, (A) 85% of KEC's accounts receivable that satisfy certain eligibility criteria plus (B) the lesser of (i) \$6.0 million and (ii) (a) on or prior to agent's receipt of an updated inventory appraisal and agent's approval thereof, 40% of the value of Eligible Inventory (as defined in the agreement) and (b) upon agent's receipt of an updated Inventory Appraisal, 85% of the net orderly liquidation value of the Eligible Inventory (as defined in the agreement) plus (C) the lesser of \$5.1 million and 80% of the net orderly liquidation percentage of the appraised value of equipment that satisfies certain eligibility criteria, as reduced on the first day of each fiscal quarter occurring after April 30, 2014 in an amount equal to one-twentieth (1/20) of such appraised value less (D) certain reserves, including certain reserves imposed by the administrative agent in its permitted discretion; and

in the case of the Singapore facility, (A) 85% of KEMET Singapore's accounts receivable that satisfy certain eligibility criteria as further specified in the Amendment, less (B) certain reserves, including certain reserves imposed by the administrative agent in its permitted discretion.

Interest is payable on borrowings monthly at a rate equal to the London Interbank Offer Rate ("LIBOR") or the base rate, plus an applicable margin, as selected by the Borrower. Depending upon the fixed charge coverage ratio of KEMET Corporation and its subsidiaries on a consolidated basis as of the latest test date, the applicable margin under the U.S. facility varies between 2.50% and 3.00% for LIBOR advances and 1.50% and 2.00% for base rate advances, and under the Singapore facility varies between 2.75% and 3.25% for LIBOR advances and 1.75% and 2.25% for base rate advances.

The base rate is subject to a floor that is 100 basis points above LIBOR.

An unused line fee is payable monthly in an amount equal to a per annum rate equal to (a) 0.50%, if the average daily balance of Revolver Loans and stated amount of letters of credit was 50% or less of the Revolver Commitments during the preceding calendar month, or (b) 0.375%, if the average daily balance of Revolver Loans and stated amount of letters of credit was more than 50% of the Revolver Commitment during the preceding calendar month. A customary fee is also payable to the administrative agent on a quarterly basis.

KEC's ability to draw funds under the U.S. facility and KEMET Singapore's ability to draw funds under the Singapore facility are conditioned upon, among other matters:

- the absence of the existence of a Material Adverse Effect (as defined in the Loan and Security Agreement);
- the absence of the existence of a default or an event of default under the Loan and Security Agreement; and
- the representations and warranties made by KEC and KEMET Singapore in the Loan and Security Agreement continuing to be correct in all material respects.

The parent corporation of KEC—KEMET Corporation—and the Guarantors guarantee the U.S. facility obligations and the U.S. facility obligations are secured by a lien on substantially all of the assets of KEC and the Guarantors (other than

assets that secure the 10.5% Senior Notes). The collection accounts of the Borrowers and Guarantors are subject to a daily sweep into a concentration account and the concentration account will become subject to full cash dominion in favor of the administrative agent (i) upon an event of default, (ii) if for five consecutive business days, aggregate availability of all facilities has been less than the greater of (A) 15% of the aggregate revolver commitments at such time and (B) \$7.5 million, or (iii) if for five consecutive business days, availability of the U.S. facility has been less than \$3.75 million (each such event, a "Cash Dominion Trigger Event").

KEC and the Guarantors guarantee the Singapore facility obligations. In addition to the assets that secure the U.S. facility, the Singapore obligations are also secured by a pledge of 100% of the stock of KEMET Singapore and a security

interest in substantially all of KEMET Singapore's assets. As required by the Loan and Security Agreement, KEMET Singapore's bank accounts were transferred over to Bank of America and upon a Cash Dominion Trigger Event (as defined in the Loan and Security Agreement) will become subject to full cash dominion in favor of the administrative agent.

A fixed charge coverage ratio of at least 1.1:1.0 must be maintained as of the last day of each fiscal quarter ending immediately prior to or during any period in which any of the following occurs and is continuing until none of the following occurs for a period of at least forty-five consecutive days: (i) an event of default, (ii) aggregate availability of all facilities has been less than the greater of (A) 15% of the aggregate revolver commitments at such time and (B) \$7.5 million, or (iii) availability of the U.S. facility has been less than \$3.75 million. The fixed charge coverage ratio tests the EBITDA and fixed charges of KEMET Corporation and its subsidiaries on a consolidated basis.

In addition, the Loan and Security Agreement includes various covenants that, subject to exceptions, limit the ability of KEMET Corporation and its direct and indirect subsidiaries to, among other things: incur additional indebtedness; create liens on assets; make capital expenditures; engage in mergers, consolidations, liquidations and dissolutions; sell assets (including pursuant to sale leaseback transactions); pay dividends and distributions on or repurchase capital stock; make investments (including acquisitions), loans, or advances; prepay certain junior indebtedness; engage in certain transactions with affiliates; enter into restrictive agreements; amend material agreements governing certain junior indebtedness; and change its lines of business.

The Loan and Security Agreement includes certain customary representations and warranties, affirmative covenants and events of default, which are set forth in more detail in the Loan and Security Agreement. There were \$18.4 million and zero borrowings against the revolving line of credit as of March 31, 2014 and 2013, respectively. Based upon the March 31, 2014 financial statements, the Company's available borrowing capacity under the Loan and Security Agreement was \$7.1 million (after \$16.9 million used for letters of credit as described below).

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"). As of March 31, 2014 and 2013, the Company had \$20.4 million and \$24.0 million, respectively, outstanding due to the OEM. On a monthly basis starting in June 2013, (eight months following the receipt of the Advance Payment), the Company began repaying the OEM an amount equal to a percentage of the aggregate purchase price of the capacitors sold to the OEM the preceding month, not to exceed \$1.0 million per month. Pursuant to the terms of the Agreement, the percentage of the aggregate purchase price of capacitors sold to the OEM 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. In June 2015 (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, an irrevocable standby letter of credit in the amount of \$16.0 million was delivered to the OEM on October 8, 2012 and on October 22, 2012 the Company received the Advance Payment from the OEM.

In addition, in fiscal year 2014, the Company issued two letters of credit for EUR 1.1 million (\$1.5 million) and EUR 0.7 million (\$0.9 million) related to the construction of the new manufacturing location in Italy. The letter of credit for EUR 1.1 million (\$1.5 million) was cancelled in February 2014.

Short-term Liquidity

KEMET's total cash and restricted cash balance as of March 31, 2014 was \$71.4 million. Unrestricted cash and cash equivalents totaled \$57.9 million as of March 31, 2014, representing a decrease of \$38.0 million as compared to \$96.0 million as of March 31, 2013. Our net working capital (current assets less current liabilities) as of March 31, 2014 was

\$233.7 million compared to \$261.9 million of net working capital as of March 31, 2013. Cash and cash equivalents held by our foreign subsidiaries totaled \$35.1 million million and \$26.7 million at March 31, 2014 and March 31, 2013, respectively. Our operating income outside the U.S. is deemed to be permanently reinvested in foreign jurisdictions. As a result, we currently do not intend nor foresee a need to repatriate cash and cash equivalents held by foreign subsidiaries. If these funds are needed in the U.S. for our operations, we may be required to accrue U.S. taxes on the undistributed foreign earnings.

We have taken steps to improve our operating results by decreasing global headcount and vertically integrating our supply chain. Based on our current operating plans, we believe that existing cash and cash equivalents, cash provided by operations and cash from the revolving line of credit will continue to be sufficient to fund our operating requirements for the next twelve months, including \$39.0 million in interest payments, expected capital expenditures in the range of \$20.0 million to

\$25.0 million, \$6.3 million related to the Advance Payment discussed above, deferred acquisition payments of \$19.6 million, payments of \$6.2 million related to restructuring liabilities, and \$1.3 million in other debt principal payments.

Our cash and cash equivalents decreased by \$38.0 million during the year ended March 31, 2014, decreased \$114.5 million during the year ended March 31, 2013 and increased \$58.5 million during the year ended March 31, 2012 as follows (amounts in thousands):

	Fiscal Years Ended March 31,		
	2014	2013	2012
Net cash (used in) provided by operating activities			