

KEMET CORP  
Form 10-Q  
February 02, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
(Mark One)

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

For the quarterly period ended December 31, 2015

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 29681  
(Address of principal executive offices, zip code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant's common stock, par value \$0.01 per share, as of January 29, 2016 was 45,859,263.

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KEMET CORPORATION AND SUBSIDIARIES  
Form 10-Q for the Quarter ended December 31, 2015

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Exhibit 101

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PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

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## KEMET CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(Amounts in thousands, except per share data)

(Unaudited)

|  | December 31,<br>2015 | March 31, 2015 |
|--|----------------------|----------------|
| <b>ASSETS</b>  |                      |                |
| Current assets:  |                      |                |
| Cash and cash equivalents  | \$43,158             | \$56,362       |
| Accounts receivable, net   | 89,285               | 90,857         |
| Inventories, net   | 175,078              | 171,843        |
| Prepaid expenses and other   | 31,051               | 41,503         |
| Deferred income taxes  | 9,734                | 10,762         |
| Total current assets   | 348,306              | 371,327        |
| Property, plant and equipment, net of accumulated depreciation of \$810,373 and \$804,286 as of December 31, 2015 and March 31, 2015, respectively | 236,347              | 249,641        |
| Goodwill   | 40,294               | 35,584         |
| Intangible assets, net   | 33,571               | 33,282         |
| Investment in NEC TOKIN  | 35,795               | 45,016         |
| Deferred income taxes  | 4,398                | 5,111          |
| Other assets   | 8,264                | 12,831         |
| Total assets   | \$706,975            | \$752,792      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                      |                |
| Current liabilities:   |                      |                |
| Current portion of long-term debt  | \$5,000              | \$962          |
| Accounts payable   | 63,665               | 69,785         |
| Accrued expenses   | 44,529               | 60,456         |
| Income taxes payable and deferred income taxes   | 856                  | 1,017          |
| Total current liabilities  | 114,050              | 132,220        |
| Long-term debt, less current portion   | 389,887              | 390,409        |
| Other non-current obligations  | 70,921               | 57,131         |
| Deferred income taxes  | 7,707                | 8,350          |
| Stockholders' equity:  |                      |                |
| Preferred stock, par value \$0.01, authorized 10,000 shares, none issued   | —                    | —              |
| Common stock, par value \$0.01, authorized 175,000 shares, issued 46,508 shares at December 31, 2015 and March 31, 2015                            | 465                  | 465            |
| Additional paid-in capital   | 452,764              | 461,191        |
| Retained deficit   | (284,337)            | (245,881)      |
| Accumulated other comprehensive income   | (33,687)             | (28,796)       |
| Treasury stock, at cost (648 and 1,056 shares at December 31, 2015 and March 31, 2015, respectively)   | (10,795)             | (22,297)       |
| Total stockholders' equity   | 124,410              | 164,682        |
| Total liabilities and stockholders' equity   | \$706,975            | \$752,792      |

See accompanying notes to the unaudited condensed consolidated financial statements.

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

|  | Quarters Ended December 31, |           | Nine Month Periods Ended<br>December 31, |           |
|--|-----------------------------|-----------|--|-----------|
|  | 2015                        | 2014      | 2015                                     | 2014      |
| Net sales  | \$177,184                   | \$201,310 | \$550,897                                | \$629,484 |
| Operating costs and expenses:  |                             |           |  |           |
| Cost of sales  | 138,436                     | 156,842   | 429,630                                  | 506,304   |
| Selling, general and administrative expenses   | 22,278                      | 23,374    | 75,656                                   | 73,663    |
| Research and development   | 6,134                       | 6,303     | 18,560                                   | 19,230    |
| Restructuring charges  | 1,714                       | 6,063     | 3,561                                    | 9,580     |
| Net (gain) loss on sales and disposals of assets   | 129                         | (574)     | (233)                                    | (759)     |
| Total operating costs and expenses   | 168,691                     | 192,008   | 527,174                                  | 608,018   |
| Operating income (loss)  | 8,493                       | 9,302     | 23,723                                   | 21,466    |
| Non-operating (income) expense:  |                             |           |  |           |
| Interest income  | (4)                         | (5)       | (10)                                     | (11)      |
| Interest expense   | 9,852                       | 9,938     | 29,676                                   | 30,681    |
| Change in value of NEC TOKIN options   | (700)                       | (2,500)   | 26,300                                   | (13,200)  |
| Other (income) expense, net  | (1,320)                     | (1,201)   | (2,495)                                  | (1,629)   |
| Income (loss) from continuing operations before income taxes and equity income (loss) from NEC TOKIN                       | 665                         | 3,070     | (29,748)                                 | 5,625     |
| Income tax expense (benefit)   | 2,760                       | 1,359     | 3,950                                    | 5,224     |
| Income (loss) from continuing operations before equity income (loss) from NEC TOKIN  | (2,095)                     | 1,711     | (33,698)                                 | 401       |
| Equity income (loss) from NEC TOKIN  | (6,505)                     | 1,367     | (4,758)                                  | (76)      |
| Income (loss) from continuing operations   | (8,600)                     | 3,078     | (38,456)                                 | 325       |
| Income (loss) from discontinued operations, net of income tax expense (benefit) of \$0, \$41, \$0 and \$1,976 respectively | —                           | (164)     | —  | 5,379     |
| Net income (loss)  | \$(8,600)                   | \$2,914   | \$(38,456)                               | \$5,704   |
| Net income (loss) per basic share:   |                             |           |  |           |
| Net income (loss) from continuing operations   | \$(0.19)                    | \$0.07    | \$(0.84)                                 | \$0.01    |
| Net income (loss) from discontinued operations   | \$—                         | \$—       | \$—                                      | \$0.12    |
| Net income (loss)  | \$(0.19)                    | \$0.07    | \$(0.84)                                 | \$0.13    |
| Net income (loss) per diluted share:   |                             |           |  |           |
| Net income (loss) from continuing operations   | \$(0.19)                    | \$0.06    | \$(0.84)                                 | \$0.01    |
|  | \$—                         | \$—       | \$—                                      | \$0.10    |

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Net income (loss) from discontinued operations

|                   |          |           |          |           |
|-------------------|----------|-----------|----------|-----------|
| Net income (loss) | \$ (0.19 | ) \$ 0.06 | \$ (0.84 | ) \$ 0.11 |
|-------------------|----------|-----------|----------|-----------|

Weighted-average shares outstanding:

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | 46,081 | 45,407 | 45,953 | 45,360 |
| Diluted | 46,081 | 52,228 | 45,953 | 52,549 |

See accompanying notes to the unaudited condensed consolidated financial statements.

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## KEMET CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Statements of Comprehensive Income (Loss)

(Amounts in thousands)

(Unaudited)

|   | Quarters Ended December 31, |            | Nine Month Periods Ended<br>December 31, |             |   |
|---|-----------------------------|------------|--|-------------|---|
|   | 2015                        | 2014       | 2015                                     | 2014        |   |
| Net income (loss)   | \$ (8,600                   | ) \$ 2,914 | \$ (38,456                               | ) \$ 5,704  |   |
| Other comprehensive income (loss):                                  |                             |            |  |             |   |
| Foreign currency translation gains (losses)                         | (6,121                      | ) (5,743   | ) (4,722                                 | ) (20,502   | ) |
| Defined benefit pension plans, net of tax<br>impact                 | 6,910                       | 86         | 7,322                                    | 227         |   |
| Post-retirement plan adjustments                                    | 96                          | (36        | ) 17                                     | (140        | ) |
| Equity interest in NEC TOKIN's other<br>comprehensive income (loss) | 143                         | 2,615      | (4,463                                   | ) 6,088     |   |
| Foreign exchange contracts  | 672                         | —          | (3,045                                   | ) —         |   |
| Other comprehensive income (loss)                                   | 1,700                       | (3,078     | ) (4,891                                 | ) (14,327   | ) |
| Total comprehensive income (loss)                                   | \$ (6,900                   | ) \$ (164  | ) \$ (43,347                             | ) \$ (8,623 | ) |

See accompanying notes to the unaudited condensed consolidated financial statements.

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

|  | Nine Month Periods Ended<br>December 31, |             |
|--|--|-------------|
|  | 2015                                     | 2014        |
| Net income (loss)  | \$(38,456                                | ) \$5,704   |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |  |             |
| Gain on sale of discontinued operations  | —  | (5,644 )    |
| Net cash provided by (used in) operating activities of discontinued operations                     | —  | (679 )      |
| Depreciation and amortization  | 28,856                                   | 30,694      |
| Equity (income) loss from NEC TOKIN  | 4,758                                    | 76          |
| Non-cash debt and financing costs  | 649                                      | 1,570       |
| (Gain) loss on early extinguishment of debt  | —  | (1,003 )    |
| Stock-based compensation expense   | 3,761                                    | 3,184       |
| Long-term receivable write down  | 24                                       | 27          |
| Change in value of NEC TOKIN options   | 26,300                                   | (13,200 )   |
| Net (gain) loss on sales and disposals of assets   | (233                                     | ) (759 )    |
| Pension and other post-retirement benefits   | 652                                      | 87          |
| Change in deferred income taxes  | 735                                      | 1,276       |
| Change in operating assets   | 4,762                                    | (208 )      |
| Change in operating liabilities  | (32,891                                  | ) (24,732 ) |
| Other  | 526                                      | 337         |
| Net cash provided by (used in) operating activities  | (557                                     | ) (3,270 )  |
| Investing activities:  |  |             |
| Capital expenditures   | (14,120                                  | ) (17,474 ) |
| Acquisitions, net of cash received   | (2,892                                   | ) —         |
| Proceeds from sale of assets   | 898                                      | 4,540       |
| Change in restricted cash  | —  | 11,509      |
| Proceeds from sale of discontinued operations  | —  | 9,564       |
| Net cash provided by (used in) investing activities  | (16,114                                  | ) 8,139     |
| Financing activities:  |  |             |
| Proceeds from revolving line of credit   | 10,000                                   | 42,340      |
| Payments on revolving line of credit   | (5,500                                   | ) (14,342 ) |
| Deferred acquisition payments  | —  | (11,899 )   |
| Payments on long-term debt   | (481                                     | ) (21,733 ) |
| Purchase of treasury stock   | (691                                     | ) —         |
| Proceeds from exercise of stock options  | —  | 24          |
| Net cash provided by (used in) financing activities  | 3,328                                    | (5,610 )    |
| Net increase (decrease) in cash and cash equivalents   | (13,343                                  | ) (741 )    |
| Effect of foreign currency fluctuations on cash  | 139                                      | (1,606 )    |
| Cash and cash equivalents at beginning of fiscal period  | 56,362                                   | 57,929      |
| Cash and cash equivalents at end of fiscal period  | \$43,158                                 | \$55,582    |

See accompanying notes to the unaudited condensed consolidated financial statements.



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### Notes to Condensed Consolidated Financial Statements (Unaudited)

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

The condensed consolidated financial statements contained herein are unaudited and have been prepared from the books and records of KEMET Corporation and its subsidiaries (“KEMET” or the “Company”). In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q, and therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”). Although the Company believes the disclosures are adequate to make the information presented not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the audited financial statements and notes thereto included in the Company’s Form 10-K for the fiscal year ended March 31, 2015 (the “Company’s 2015 Annual Report”).

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. In consolidation, all significant intercompany amounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to current year presentation. Net sales and operating results for the quarter and nine month periods ended December 31, 2015 are not necessarily indicative of the results to be expected for the full year.

The Company’s significant accounting policies are presented in the Company’s 2015 Annual Report.

#### Use of Estimates and Assumptions

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

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

#### Recently Issued Accounting Pronouncements

##### New accounting standards adopted/issued

In November 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-17, Balance Sheet Classification of Deferred Taxes. The ASU requires all deferred tax assets and liabilities, and any related valuation allowance, to be classified as non-current on the balance sheet. The classification change for all deferred taxes as non-current simplifies entities’ processes as it eliminates the need to separately identify the net current and net non-current deferred tax asset or liability in each jurisdiction and allocate valuation allowances. ASU 2015-17 will be effective for interim and annual reporting periods beginning April 1, 2017. Early application is permitted.

In September 2015, the FASB issued ASU No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. The ASU requires that an acquirer recognize adjustments to provisional amounts recognized in a business combination in the reporting period in which the adjustment amounts are determined. It also requires disclosure of the adjustment recorded in current period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 eliminates the requirement to retrospectively revise comparative information for prior periods. ASU 2015-16 will be effective for interim and annual reporting periods beginning April 1, 2016. Early application is permitted. Upon adoption, the Company will apply the new standard to measurement period adjustments related to business acquisitions.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. The ASU requires an entity that uses first-in, first-out or average cost to measure its inventory at the lower of cost or net realizable value.  
Net

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realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 will be effective for interim and annual reporting periods beginning April 1, 2017. Early application is permitted. The Company is currently evaluating the impact of the adoption of ASU 2015-11 on its operating results and financial position.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The ASU specifies that debt issuance costs related to a note shall be reported in the balance sheet as a direct reduction from the face amount of the note. The ASU is effective for the Company for interim and annual periods beginning April 1, 2016. Early adoption is permitted. The ASU will require the Company to reclassify its capitalized debt issuance costs currently recorded as assets on the consolidated condensed balance sheets. The ASU will have no effect on the Company's results of operations or liquidity.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern. The new guidance is effective for the Company's fiscal year that begins on April 1, 2017 and interim periods within that fiscal year and requires management to assess if there is substantial doubt about an entity's ability to continue as a going concern for each annual and interim period. If conditions or events give rise to substantial doubt, disclosures are required. This new guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which supersedes existing accounting standards for revenue recognition and creates a single framework. The new guidance is effective for the Company's fiscal year that begins on April 1, 2018 and interim periods within that fiscal year and requires either a retrospective or a modified retrospective approach to adoption. The Company is currently evaluating the potential impact on its Consolidated Financial Statements and related disclosures, as well as the available transition methods. Early adoption is permitted, but not before Company's fiscal year that begins on April 1, 2017 (the original effective date of the ASU). We are currently in the process of assessing the impact the adoption of this guidance will have on our consolidated financial statements.

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

### Restricted Cash

A bank guarantee in the amount of €1.5 million (\$1.6 million) was issued by a European bank on behalf of the Company in August 2006 in conjunction with the establishment of a Value-Added Tax ("VAT") registration in The Netherlands. Accordingly, a deposit was placed with the European bank for €1.7 million (\$1.8 million). While the deposit is in KEMET's name, and KEMET receives all interest earned by this deposit, the deposit is pledged to the European bank, and the bank can use the funds if a valid claim against the bank guarantee is made. Restricted cash is included in the line item "Other assets" on the Condensed Consolidated Balance Sheets.

### Fair Value Measurement

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

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

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

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

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

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Assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 and March 31, 2015 are as follows (amounts in thousands):

|                                  | Carrying Value<br>December 31,<br>2015 | Fair Value<br>December 31,<br>2015 | Fair Value Measurement Using |             |             | Carrying Value<br>March 31,<br>2015 | Fair Value<br>March 31,<br>2015 | Fair Value Measurement Using |             |         |
|----------------------------------|--|------------------------------------|------------------------------|-------------|-------------|-------------------------------------|---------------------------------|------------------------------|-------------|---------|
|                                  |  |                                    | Level 1                      | Level 2 (2) | Level 3 (2) |                                     |                                 | Level 1                      | Level 2 (2) | Level 3 |
| Assets                           |  |                                    |                              |             |             |                                     |                                 |                              |             |         |
| (Liabilities):                   |  |                                    |                              |             |             |                                     |                                 |                              |             |         |
| Money markets<br>(1)             | \$ 738                                 | \$ 738                             | \$ 738                       | \$ —        | \$ —        | \$ 738                              | \$ 738                          | \$ 738                       | \$ —        | \$ —    |
| Total debt                       | (394,887 )                             | (342,487 )                         | (308,850 )                   | (33,637 )   | —           | (391,371 )                          | (391,283 )                      | (362,988 )                   | (28,295 )   | —       |
| NEC TOKIN<br>options,<br>net (3) | (20,600 )                              | (20,600 )                          | —                            | —           | (20,600 )   | 5,700                               | 5,700                           | —                            | —           | 5,700   |

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

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

See Note 6, Investment in NEC TOKIN, for a description of the NEC TOKIN options (of which the call options expired in the first quarter of fiscal year 2016). The value of the options depend on the enterprise value of NEC TOKIN Corporation and its forecasted EBITDA over the duration of the options. The options have been valued using option pricing methods in a Monte Carlo simulation.

The table below summarizes NEC TOKIN option valuation activity using significant unobservable inputs (Level 3) (amounts in thousands):

|                                      |             |
|--------------------------------------|-------------|
| March 31, 2015                       | \$5,700     |
| Change in value of NEC TOKIN options | (26,300 )   |
| December 31, 2015                    | \$(20,600 ) |

## Inventories

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

|                            | December 31,<br>2015 | March 31, 2015 |
|----------------------------|----------------------|----------------|
| Raw materials and supplies | \$81,953             | \$83,372       |
| Work in process            | 50,437               | 52,759         |
| Finished goods             | 59,673               | 53,211         |
|                            | 192,063              | 189,342        |
| Inventory reserves         | (16,985 )            | (17,499 )      |
|                            | \$175,078            | \$171,843      |

## Warrant

As of December 31, 2015 and March 31, 2015, 8.4 million shares were subject to the warrant (which expires June 30, 2019) held by K Equity, LLC.

## Revenue Recognition



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

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

KEMET's SFSD program provides authorized distributors with the flexibility to meet marketplace prices by allowing them, upon a pre-approved case-by-case 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

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from their local KEMET sales representative and apply only to a specific customer, part, specified special price amount, specified quantity, and are 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.

Most of the Company's distributors have the right to return to KEMET a certain portion of the purchased inventory, which, in general, does not exceed 6% of their purchases from the previous fiscal quarter. KEMET estimates future returns based on historical return patterns and records a corresponding allowance on the Condensed Consolidated Balance Sheets. The Company also offers volume based rebates on a case-by-case basis to certain customers in each of the Company's sales channels.

The establishment of sales allowances is recognized as a component of the line item "Net sales" on the Condensed Consolidated Statements of Operations, while the associated reserves are included in the line item "Accounts receivable, net" on the Condensed Consolidated Balance Sheets. 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 the Company's estimates.

The Company provides a limited warranty to customers that the Company's products meet certain specifications. The warranty period is generally limited to one year, and the Company's liability under the warranty is generally limited to a replacement of the product or refund of the purchase price of the product. Warranty costs as a percentage of net sales were less than 1.0% for the quarters and nine month periods ended December 31, 2015 and 2014. The Company recognizes warranty costs when they are both probable and reasonably estimable.

## Note 2. Discontinued Operations

The Film and Electrolytic business group ("Film and Electrolytic") completed the sale of its machinery division in April 2014, which resulted in a gain of \$5.6 million on the sale of the business (after income tax expense) partially offset by a loss from machinery operations of \$0.3 million during the nine month period ended December 31, 2014 resulting in net income from discontinued operations of \$5.4 million.

Net sales and operating income (loss) from the Company's discontinued operation for the quarters and nine month periods ended December 31, 2015 and 2014 were (amounts in thousands):

|                         | Quarters Ended December 31, |      | Nine Month Periods Ended December 31, |       |
|-------------------------|-----------------------------|------|---------------------------------------|-------|
|                         | 2015                        | 2014 | 2015                                  | 2014  |
| Net sales               | \$—                         | \$—  | \$—                                   | \$104 |
| Operating income (loss) | —                           | —    | —                                     | (266) |

## Note 3. Debt

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

|  | December 31,<br>2015 | March 31,<br>2015 |
|--|----------------------|-------------------|
| 10.5% Senior Notes, net of premium of \$1,906 and \$2,461 as of December 31, 2015 and March 31, 2015, respectively | \$356,906            | \$357,461         |
| Revolving line of credit   | 37,981               | 33,448            |
| Other  | —                    | 462               |
| Total debt   | 394,887              | 391,371           |

|                      |           |           |   |
|----------------------|-----------|-----------|---|
| Current maturities   | (5,000    | ) (962    | ) |
| Total long-term debt | \$389,887 | \$390,409 |   |

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The line item “Interest expense” on the Condensed Consolidated Statements of Operations for the quarters and nine month periods ended December 31, 2015 and 2014, consists of the following (amounts in thousands):

|   | Quarters Ended December 31, |         | Nine Month Periods Ended December 31, |          |
|---|-----------------------------|---------|---------------------------------------|----------|
|   | 2015                        | 2014    | 2015                                  | 2014     |
| Contractual interest expense                        | \$9,761                     | \$9,648 | \$29,332                              | \$29,212 |
| Capitalized interest                                | (163)                       | (82)    | (439)                                 | (237)    |
| Amortization of debt issuance costs                 | 348                         | 267     | 1,044                                 | 1,132    |
| Amortization of debt (premium) discount             | (188)                       | (108)   | (554)                                 | (234)    |
| Imputed interest on acquisition-related obligations | 52                          | 163     | 159                                   | 672      |
| Interest expense on capital lease                   | 42                          | 50      | 134                                   | 136      |
| Total interest expense                              | \$9,852                     | \$9,938 | \$29,676                              | \$30,681 |

## Revolving Line of Credit

The Company had the following activity for the nine month period ended December 31, 2015 and resulting balances under the revolving line of credit (amounts in millions, excluding percentages):

|                           | March 31,              | Nine Month Period Ended |            | December 31,           |          | Due Date          |
|---------------------------|------------------------|-------------------------|------------|------------------------|----------|-------------------|
|                           | 2015                   | December 31, 2015       | Repayments | 2015                   | Rate (1) |                   |
|                           | Outstanding Borrowings | Additional Borrowings   |            | Outstanding Borrowings | (2)      |                   |
| U.S. Facility (3)         | \$21.5                 | \$8.0                   | \$5.5      | \$24.0                 | 4.750 %  | December 19, 2019 |
| Singapore Facility        |                        |                         |            |                        |          |                   |
| Singapore Borrowing 1 (4) | 12.0                   | —                       | —          | 12.0                   | 3.000 %  | February 22, 2016 |
| Singapore Borrowing 2 (4) | —                      | 2.0                     | —          | 2.0                    | 3.125 %  | April 11, 2016    |
| Total Facilities          | \$33.5                 | \$10.0                  | \$5.5      | \$38.0                 |          |                   |

(1) For U.S. borrowings, Base Rate plus 1.50%, as defined in the Loan and Security Agreement dated September 30, 2010, as amended, by and among KEMET Electronics Corporation (“KEC”), KEMET Electronics Marketing (S) Pte. Ltd., KEMET Foil Manufacturing, LLC (“KEMET Foil”), KEMET Blue Powder Corporation (“KEMET Blue Powder”), The Forest Electric Company and the financial institutions party thereto (the “Loan and Security Agreement”).

(2) For Singapore borrowings, London Interbank Offer Rate (“LIBOR”), plus a spread of 2.50% as of December 31, 2015.

(3) The Company plans to repay a portion of the U.S. Facility within a year and has classified \$5.0 million as current portion of long-term debt as of December 31, 2015.

(4) The Company has the intent and ability to extend the due date on the Singapore borrowings beyond one year.

As of December 31, 2015, these were the only borrowings under the revolving line of credit, and the Company's available borrowing capacity under the Loan and Security Agreement was \$22.0 million. The borrowing capacity has increased due to an improvement in the fixed charged coverage ratio and an increase in the eligible accounts receivable collateral.

## 10.5% Senior Notes

As of December 31, 2015 and March 31, 2015, the Company had outstanding \$355 million in aggregate principal amount of the Company's 10.5% Senior Notes due May 1, 2018 (the "10.5% Senior Notes"). The Company had interest payable related to the 10.5% Senior Notes included in the line item "Accrued expenses" on its Condensed Consolidated balance sheets of \$6.2 million as of December 31, 2015 and March 31, 2015.

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## Note 4. Restructuring Charges

KEMET's various restructuring plans to make the Company more competitive by reducing excess capacity, relocating production to lower cost locations and eliminating unnecessary costs throughout the Company are nearing completion.

A summary of the expenses aggregated in the Condensed Consolidated Statements of Operations line item "Restructuring charges" in the quarters and nine month periods ended December 31, 2015 and 2014, is as follows (amounts in thousands):

|                                | Quarters Ended December 31, |         | Nine Month Periods Ended December 31, |         |
|--------------------------------|-----------------------------|---------|---------------------------------------|---------|
|                                | 2015                        | 2014    | 2015                                  | 2014    |
| Personnel reduction costs      | \$795                       | \$5,889 | \$1,905                               | \$7,183 |
| Manufacturing relocation costs | \$919                       | \$174   | \$1,656                               | \$2,397 |
| Total restructuring charges    | \$1,714                     | \$6,063 | \$3,561                               | \$9,580 |

## Quarter Ended December 31, 2015

The Company incurred \$1.7 million in restructuring charges in the quarter ended December 31, 2015 including \$0.8 million in personnel reduction costs and \$0.9 million in manufacturing relocation costs.

The personnel reduction costs of \$0.8 million are due primarily to \$0.5 million related to the consolidation of certain Solid Capacitor manufacturing in Victoria, Mexico, \$0.1 million for headcount reductions in Matamoros, Mexico related to the relocation of certain Solid Capacitor manufacturing from Matamoros, Mexico to Victoria, Mexico, and \$0.1 million for overhead reductions in North America and Europe.

The manufacturing relocation costs of \$0.9 million are due primarily to \$0.9 million related to transfers of Film and Electrolytic production lines to lower cost regions.

## Nine Month Period Ended December 31, 2015

The Company incurred \$3.6 million in restructuring charges in the nine month period ended December 31, 2015 including \$1.9 million of personnel reduction costs and \$1.7 million of manufacturing relocation costs.

The personnel reduction costs of \$1.9 million are comprised of the following: \$0.6 million related to a headcount reduction in Suzhou, China for the Film & Electrolytic production line transfer from Suzhou, China to Anting, China, \$0.9 million for headcount reductions in Matamoros, Mexico related to the relocation of certain Solid Capacitor manufacturing from Matamoros, Mexico to Victoria, Mexico, \$0.5 million related to the consolidation of certain Solid Capacitor manufacturing in Victoria, Mexico, \$0.4 million for planned headcount reductions in Europe (primarily Landsberg, Germany) and \$0.6 million for headcount reductions related to the outsourcing of the Company's information technology function and overhead reductions in North America and Europe. These personnel reduction costs were partially offset by a \$1.2 million reversal of a severance accrual in Italy. The Company originally recorded the accrual in the third quarter of fiscal year 2015 corresponding with a plan to reduce headcount by 50 employees. Under the plan, 24 employees were terminated. However, due to unexpected workforce attrition combined with achieving other cost reduction goals, the Company decided not to complete the remaining headcount reduction. Consequently, the Company reversed the remaining accrual during the second quarter of fiscal year 2016.

The Company also incurred \$1.7 million of manufacturing relocation costs primarily for transfers of Film and Electrolytic production lines to lower cost regions.

Quarter Ended December 31, 2014

The Company incurred \$6.1 million in restructuring charges in the quarter ended December 31, 2014 including \$5.9 million of personnel reduction costs due to the following: \$4.0 million related to headcount reductions in Europe (primarily Italy and Landsberg, Germany) corresponding with the relocation of certain production lines to lower cost regions, \$1.4 million for outsourcing of the Company's information technology function and overhead reductions in North America and Europe, and \$0.5 million related to the relocation of certain Solid Capacitor manufacturing from Matamoros, Mexico to Victoria, Mexico. The Company also incurred \$0.2 million of manufacturing relocation costs primarily due to the relocation of equipment to Suzhou, China and Skopje, Macedonia.

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Nine Month Period Ended December 31, 2014

The Company incurred \$9.6 million in restructuring charges in the nine month period ended December 31, 2014 including \$7.2 million of personnel reduction costs due to the following: \$5.2 million related to headcount reductions in Europe (primarily Italy and Landsberg, Germany) corresponding with the relocation of certain production lines to lower cost regions, \$1.4 million for outsourcing of the Company's information technology function and overhead reductions in North America and Europe, and \$0.6 million related to the relocation of certain Solid Capacitor manufacturing from Matamoros, Mexico to Victoria, Mexico. The remaining \$2.4 million of manufacturing relocation costs was comprised of \$1.1 million related to the relocation of equipment to Suzhou, China and Skopje, Macedonia and \$1.3 million due to the shut-down of the Tantalum production line in Evora, Portugal.

#### Reconciliation of restructuring liability

A reconciliation of the beginning and ending liability balances for restructuring charges included in the line items "Accrued expenses" and "Other non-current obligations" on the Condensed Consolidated Balance Sheets for the quarters and nine month periods ended December 31, 2015 and 2014 are as follows (amounts in thousands):

|                            | Quarter Ended December 31, 2015 |                              | Quarter Ended December 31, 2014 |                              |
|----------------------------|---------------------------------|------------------------------|---------------------------------|------------------------------|
|                            | Personnel<br>Reductions         | Manufacturing<br>Relocations | Personnel<br>Reductions         | Manufacturing<br>Relocations |
| Beginning of period        | \$2,279                         | \$—                          | \$3,026                         | \$—                          |
| Costs charged to expense   | 795                             | 919                          | 5,889                           | 174                          |
| Costs paid or settled      | (1,209)                         | (919)                        | (1,982)                         | (174)                        |
| Change in foreign exchange | (43)                            | —                            | (207)                           | —                            |
| End of period              | \$1,822                         | \$—                          | \$6,726                         | \$—                          |

  

|                            | Nine Month Period Ended<br>December 31, 2015 |                              | Nine Month Period Ended<br>December 31, 2014 |                              |
|----------------------------|--|------------------------------|--|------------------------------|
|                            | Personnel<br>Reductions                      | Manufacturing<br>Relocations | Personnel<br>Reductions                      | Manufacturing<br>Relocations |
| Beginning of period        | \$7,239                                      | \$—                          | \$6,217                                      | \$—                          |
| Costs charged to expense   | 1,905  | 1,656                        | 7,183  | 2,397                        |
| Costs paid or settled      | (7,492)                                      | (1,656)                      | (6,169)                                      | (2,397)                      |
| Change in foreign exchange | 170  | —                            | (505)  | —                            |
| End of period              | \$1,822                                      | \$—                          | \$6,726                                      | \$—                          |

#### Note 5. Comprehensive Income (Loss) and Accumulated Other Comprehensive Income

Changes in Accumulated Other Comprehensive Income (Loss) ("AOCI") for the quarters ended December 31, 2015 and 2014 include the following components (amounts in thousands):

|   | Foreign Currency<br>Translation (1) | Defined Benefit<br>Pension Plans,<br>Net of Tax (2) | Post-Retirement<br>Benefit Plans | Ownership Share of<br>Equity Method<br>Investees' Other<br>Comprehensive<br>Income (Loss) | Foreign<br>Exchange<br>Contracts | Net Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|---|-------------------------------------|---|----------------------------------|---|----------------------------------|--|
| Balance at September<br>30, 2015            | \$ (10,733)                         | \$ (19,951)   | \$ 1,080                         | \$ (3,069)  | \$ (2,714)                       | \$ (35,387)  |
| Other comprehensive<br>income (loss) before | (6,121)                             | 6,663   | —                                | 143   | (1,096)                          | (411)  |



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|                                      |            |              |            |           |             |              |
|--------------------------------------|------------|--------------|------------|-----------|-------------|--------------|
| reclassifications                    |            |              |            |           |             |              |
| Amounts reclassified<br>out of AOCI  | —          | 247          | 96         | —         | 1,768       | 2,111        |
| Other comprehensive<br>income (loss) | (6,121     | ) 6,910      | 96         | 143       | 672         | 1,700        |
| Balance at<br>December 31, 2015      | \$ (16,854 | ) \$ (13,041 | ) \$ 1,176 | \$ (2,926 | ) \$ (2,042 | ) \$ (33,687 |

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|  | Foreign Currency Translation (3) | Defined Benefit Pension Plans, Net of Tax (2) | Post-Retirement Benefit Plans | Ownership Share of Equity Method Investees' Other Comprehensive Income (Loss) | Foreign Exchange Contracts | Net Accumulated Other Comprehensive Income (Loss) |
|--|----------------------------------|---|-------------------------------|---|----------------------------|---|
| Balance at September 30, 2014                              | \$ 8,576                         | \$ (7,245 )                                   | \$ 1,360                      | \$ 4,244  | \$ —                       | \$ 6,935  |
| Other comprehensive income (loss) before reclassifications | (5,743 )                         | —   | —                             | 2,615   | —                          | (3,128 )  |
| Amounts reclassified out of AOCI                           | —                                | 86  | (36 )                         | —   | —                          | 50  |
| Other comprehensive income (loss)                          | (5,743 )                         | 86  | (36 )                         | 2,615   | —                          | (3,078 )  |
| Balance at December 31, 2014                               | 2,833                            | \$ (7,159 )                                   | \$ 1,324                      | \$ 6,859  | \$ —                       | \$ 3,857  |

Changes in AOCI for the nine month periods ended December 31, 2015 and 2014 include the following components (amounts in thousands):

|  | Foreign Currency Translation (1) | Defined Benefit Pension Plans, Net of Tax (2) | Post-Retirement Benefit Plans | Ownership Share of Equity Method Investees' Other Comprehensive Income (Loss) | Foreign Exchange Contracts | Net Accumulated Other Comprehensive Income (Loss) |
|--|----------------------------------|---|-------------------------------|---|----------------------------|---|
| Balance at March 31, 2015                                  | \$ (12,132 )                     | \$ (20,363 )                                  | \$ 1,159                      | \$ 1,537  | \$ 1,003                   | \$ (28,796 )                                      |
| Other comprehensive income (loss) before reclassifications | (4,722 )                         | 6,663   | —                             | (4,463 )  | (6,289 )                   | (8,811 )  |
| Amounts reclassified out of AOCI                           | —                                | 659   | 17                            | —   | 3,244                      | 3,920   |
| Other comprehensive income (loss)                          | (4,722 )                         | 7,322   | 17                            | (4,463 )  | (3,045 )                   | (4,891 )  |
| Balance at December 31, 2015                               | \$ (16,854 )                     | \$ (13,041 )                                  | \$ 1,176                      | \$ (2,926 )   | \$ (2,042 )                | \$ (33,687 )                                      |

|  | Foreign Currency Translation (3) | Defined Benefit Pension Plans, Net of Tax (2) | Post-Retirement Benefit Plans | Ownership Share of Equity Method Investees' Other Comprehensive Income (Loss) | Foreign Exchange Contracts | Net Accumulated Other Comprehensive Income (Loss) |
|--|----------------------------------|---|-------------------------------|---|----------------------------|---|
| Balance at March 31, 2014                                  | \$ 23,335                        | \$ (7,386 )                                   | \$ 1,464                      | \$ 771  | \$ —                       | \$ 18,184   |
| Other comprehensive income (loss) before reclassifications | (20,502 )                        | —   | —                             | 6,088   | —                          | (14,414 )   |
| Amounts reclassified out of AOCI                           | —                                | 227   | (140 )                        | —   | —                          | 87  |

|                                   |         |   |           |      |          |          |      |          |   |
|-----------------------------------|---------|---|-----------|------|----------|----------|------|----------|---|
| Other comprehensive income (loss) | (20,502 | ) | 227       | (140 | )        | 6,088    | —    | (14,327  | ) |
| Balance at December 31, 2014      | 2,833   |   | \$ (7,159 | )    | \$ 1,324 | \$ 6,859 | \$ — | \$ 3,857 |   |

Due primarily to the Company's valuation allowance on deferred tax assets, there were no significant deferred tax (1) effects associated with the cumulative currency translation gains and losses during the quarter and nine month periods ended December 31, 2015.

(2) Ending balance is net of tax of \$2.2 million as of December 31, 2015 and December 31, 2014.

(3) Due primarily to the Company's permanent re-investment assertion relating to foreign earnings, there were no significant deferred tax effects associated with the cumulative currency translation gains and losses during the quarter and nine month periods ended December 31, 2014. Subsequent to fiscal year 2014, the Company no longer asserts permanent re-investment of foreign earnings.

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## Note 6. Investment in NEC TOKIN

On March 12, 2012, KEC, a wholly owned subsidiary of the Company, entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with NEC TOKIN Corporation ("NEC TOKIN"), a manufacturer of tantalum capacitors, electro-magnetic, electro-mechanical and access devices, to acquire 51% of the common stock of NEC TOKIN (which represented a 34% economic interest, as calculated based on the number of common shares held by KEC, directly and indirectly, in proportion to the aggregate number of outstanding common and convertible preferred shares of NEC TOKIN as of such date) (the "Initial Purchase") from NEC Corporation ("NEC") of Japan. The transaction closed on February 1, 2013, at which time KEC paid a purchase price of \$50.0 million for new shares of common stock of NEC TOKIN (the "Initial Closing"). 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. The Company believes that the NEC TOKIN convertible preferred stock represents in-substance common stock of NEC TOKIN and, as a result, its method of calculating KEC's economic basis in NEC TOKIN is the appropriate basis on which to recognize its share of the earnings or loss of NEC TOKIN.

In connection with KEC's execution of 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 execution of the Stock Purchase Agreement and the Stockholders' Agreement, KEC entered into an Option Agreement (the "Option Agreement") with NEC, which was amended on August 29, 2014, whereby KEC had the right to 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 April 30, 2015. Upon providing such First Call Option notice, but not before April 1, 2015, KEC could also have exercised a second 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. The First and Second Call Options expired on April 30, 2015 without being exercised.

From April 1, 2015 through May 31, 2018, NEC may require KEC to purchase all outstanding capital stock of NEC TOKIN from its stockholders, primarily NEC (the "Put Option"), provided that KEC's payment of the Put Option price is permitted under the 10.5% Senior Notes and Loan and Security Agreement. However, in the event that KEC issues new debt securities principally to refinance its outstanding 10.5% senior notes due 2018 and its currently outstanding credit agreement, including amounts to pay related fees and expenses and to use for general corporate purposes ("Refinancing Notes"), prior to NEC's delivery of its notification of exercise of the Put Option, then the earliest date NEC may exercise the Put Option is automatically extended to the day immediately following the final scheduled maturity date of such Refinancing Notes, or in the event such Refinancing Notes are redeemed in full prior to such final scheduled maturity date, then on the day immediately following the date of such full redemption, but in any event beginning no later than November 1, 2019. If not previously exercised, the Put Option will expire on October 31, 2023.

The purchase price for the Put Option will be based on the greater of 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 could be modified in the event there is a disagreement between NEC and KEC under the Stockholders' Agreement.

The Company has marked these options to fair value and in the quarter and nine month periods ended December 31, 2015 recognized a \$0.7 million gain and a \$26.3 million loss, respectively, which was included on the line item "Change in value of the NEC TOKIN options" in the Condensed Consolidated Statement of Operations. The line item "Other non-current obligations" on the Condensed Consolidated Balance Sheets includes \$20.6 million as of December 31, 2015 and the line item "Other assets" on the Condensed Consolidated Balance Sheets includes \$5.7 million as of March 31, 2015, related to the respective fair value of the options. The option's valuation changed to a liability position during the nine month period ended December 31, 2015 due to the expiration of the First and Second Call Options on April 30, 2015 without being exercised.

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KEC's total investment in NEC TOKIN including the net call derivative described above on February 1, 2013, the closing date of the acquisition, was \$54.5 million which includes \$50 million cash consideration plus approximately \$4.5 million in transaction expenses (fees for legal, accounting, due diligence, investment banking and various other services necessary to complete the transactions). The Company has made an allocation of the aggregate purchase price, which was based upon estimates that the Company believes are reasonable.

Summarized financial information for NEC TOKIN follows (amounts in thousands):

|                         | December 31,<br>2015 | March 31,<br>2015 |
|-------------------------|----------------------|-------------------|
| Current assets          | \$227,489            | \$223,495         |
| Non-current assets      | 255,509              | 273,785           |
| Current liabilities     | 153,103              | 143,523           |
| Non-current liabilities | 296,759              | 296,873           |

|                       | Quarters Ended December 31, |            | Nine Month Periods Ended<br>December 31, |            |
|-----------------------|-----------------------------|------------|--|------------|
|                       | 2015                        | 2014       | 2015                                     | 2014       |
| Sales                 | \$ 111,594                  | \$ 119,841 | \$ 343,686                               | \$ 371,926 |
| Gross profit          | 24,610                      | 26,162     | 74,333                                   | 79,227     |
| Net income (loss) (1) | (17,867                     | ) 5,628    | (10,606                                  | ) 4,928    |

(1) The significant changes between the periods were due to the additional accrual of anti-trust litigation loss recorded during the quarter ended December 31, 2015 see discussion below.

A reconciliation between NEC TOKIN's net income (loss) and KEC's equity investment income (loss) follows (amounts in thousands):

|   | Quarters Ended December 31, |            | Nine Month Periods Ended<br>December 31, |          |   |
|---|-----------------------------|------------|--|----------|---|
|   | 2015                        | 2014       | 2015                                     | 2014     |   |
| NEC TOKIN net income (loss)                               | \$(17,867                   | ) \$ 5,628 | (10,606                                  | ) 4,928  |   |
| KEC's economic interest %                                 | 34                          | % 34       | % 34                                     | % 34     | % |
| Equity income (loss) from NEC TOKIN<br>before adjustments | (6,075                      | ) 1,914    | (3,606                                   | ) 1,676  |   |
| Adjustments:  |                             |            |  |          |   |
| Amortization and depreciation                             | (494                        | ) (547     | ) (1,118                                 | ) (1,752 | ) |
| Inventory profit elimination                              | 64                          | —          | (34                                      | ) —      |   |
| Equity income (loss) from NEC TOKIN                       | \$(6,505                    | ) \$ 1,367 | \$(4,758                                 | ) \$(76  | ) |

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A reconciliation between NEC TOKIN's net assets and KEC's investment in NEC TOKIN balance follows (amounts in thousands):

|   | December 31,<br>2015 | March 31,<br>2015 |   |
|---|----------------------|-------------------|---|
| Investment in NEC TOKIN                               | \$35,795             | \$45,016          |   |
| Purchase price accounting basis adjustments:          |                      |                   |   |
| Property, plant and equipment (1)                     | 3,210                | 3,334             |   |
| Technology (1)  | (9,802               | ) (10,889         | ) |
| Long-term debt (1)                                    | (2,056               | ) (2,707          | ) |
| Goodwill  | (7,050               | ) (7,082          | ) |
| Indemnity asset for legal investigation               | (8,500               | ) (8,500          | ) |
| Inventory profit elimination (2)                      | 242                  | 208               |   |
| Other   | (572                 | ) (39             | ) |
| KEC's 34% economic interest in NEC TOKIN's net assets | \$11,267             | \$19,341          |   |

(1) Amortized over the estimated lives .

(2) Adjusted each period for any activity.

As of December 31, 2015, KEC's maximum loss exposure as a result of its investments in NEC TOKIN is limited to the aggregate of the carrying value of the investment and any accounts receivable balance due from NEC TOKIN.

Summarized transactions between KEC and NEC TOKIN are as follows (amounts in thousands):

|                            | Quarters Ended December 31, |         | Nine Month Periods Ended<br>December 31, |         |
|----------------------------|-----------------------------|---------|--|---------|
|                            | 2015                        | 2014    | 2015                                     | 2014    |
| KEC's sales to NEC TOKIN   | \$5,020                     | \$3,736 | \$14,350                                 | \$9,624 |
| NEC TOKIN's sales to KEMET | 1,157                       | 1,077   | 4,747                                    | 2,194   |

|   | December 31,<br>2015 | March 31,<br>2015 |
|---|----------------------|-------------------|
| Accounts receivable                         | \$3,591              | \$3,344           |
| Accounts payable                            | 408                  | 765               |
| Management service agreement receivable (1) | 609                  | 572               |

(1) In accordance with the Stockholders' Agreement, KEC entered into a management services agreement with NEC TOKIN to provide services for which KEC is being reimbursed.

Beginning in March 2014, NEC TOKIN and certain of its subsidiaries received inquiries, requests for information and other communications from government authorities in China, the United States, the European Commission, Japan, South Korea Taiwan, Singapore and Brazil concerning alleged anti-competitive activities within the capacitor industry. The investigations are continuing at various stages. In addition, beginning in July 2014, NEC TOKIN and its subsidiary, NEC TOKIN America, Inc., have been named, along with more than 20 other capacitor manufacturers and subsidiaries, as defendants in purported antitrust class action suits by direct and indirect purchasers in the United States and Canada. As of March 31, 2015, NEC TOKIN recorded an accrual for approximately \$30.0 million based on its estimation of losses likely to result from certain of the investigations. Pursuant to the Stock Purchase Agreement, NEC is required to indemnify NEC TOKIN and/or KEC for any breaches by NEC TOKIN or NEC of certain representations, warranties and covenants in the Stock Purchase Agreement. NEC's aggregate liability for indemnification claims is limited to \$25.0 million. Accordingly, KEMET, under equity method accounting, has established an indemnity asset in the amount of \$8.5 million (based upon our 34% economic interest in NEC TOKIN).

However, pursuant to the Stock Purchase Agreement, claims arising out of fraud or criminal conduct are not limited by the \$25.0 million indemnification cap, and for such claims the claimant retains all remedies available in equity or at law.

On September 2, 2015, the United States Department of Justice announced a plea agreement with NEC TOKIN in which NEC TOKIN agreed to plead guilty to a one-count felony charge of unreasonable restraint of interstate and foreign trade

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and commerce in violation of Section 1 of the Sherman Act, and to pay a criminal fine of \$13.8 million. The plea agreement was approved by the United States District Court, Northern District of California, on January 21, 2016. The fine is payable over five years in six installments of \$2.3 million each, plus accrued interest, with the first payment due within 30 days of the court approval.

On December 9, 2015, the Taiwan Fair Trade Commission ("TFTC") publicly announced that NEC TOKIN would be fined NT\$1,218.2 million for violations of the Taiwan Fair Trade Act. Subsequently, the TFTC has indicated the fine will be reduced to NT\$609.1 million (approximately U.S. \$18.6 million). Under Taiwan law, validity of fine amounts can be contested via an administrative litigation process.

As of December 31, 2015, NEC TOKIN estimated a range of total losses and determined \$49.5 million is the best estimate of losses which may result from the ongoing investigations. However, the actual outcome of these investigations could differ from what has been accrued. In addition, NEC TOKIN cannot estimate total losses which may result from the civil litigation. During the quarter ended December 31, 2015, NEC TOKIN increased the estimated accrual to \$49.5 million. Included in the line item "Equity income (loss) from NEC TOKIN" on the Condensed Consolidated Statements of Operations is KEMET's share of this legal accrual based upon its 34% economic interest in NEC TOKIN.

## Note 7. Acquisitions

## IntelliData

On April 1, 2015, KEMET purchased 100% of the stock of IntelliData, Inc. "IntelliData", a Greenwood Village, Colorado-based developer of digital solutions supporting discovery, decision support, and the sales and marketing of electronic components. IntelliData had been a key vendor of KEMET for over 15 years and had provided critical software and support to allow the Company's sales team and customers to use real-time part number search and competitor cross references based on complex capacitor-specific specifications. The primary reason for the purchase of IntelliData was to gain more control over the direction of future iterations of the software and its functionality and to protect this critical link in the sales process from any potential unfavorable changes in IntelliData's business model in the future. The purchase price was \$6.0 million plus an additional \$0.1 million per a post-acquisition amendment for a total purchase price of \$6.1 million, as amended. KEMET paid \$3.0 million at closing, \$0.1 million on June 3, 2015, and \$3.0 million on January 4, 2016 per the amended agreement. The Company recorded goodwill of \$4.7 million and amortizable intangibles of \$1.8 million. The allocation of the purchase price to specific assets and liabilities was based on the relative fair value of all assets and liabilities. Factors contributing to the purchase price, which resulted in the goodwill, include the knowledge and expertise of the trained workforce as well as various trademarks. Pro forma results are not presented because the acquisition was not material to the consolidated financial statements.

The following table presents the allocations of the aggregate purchase price based on the estimated fair values of the assets and liabilities (amounts in thousands):

|                               | Fair Value |
|-------------------------------|------------|
| Cash                          | \$233      |
| Accounts receivable           | 10         |
| Other current assets          | 6          |
| Property, plant and equipment | 3          |
| Goodwill                      | 4,710      |
| Intangible assets             | 1,820      |
| Current liabilities           | (9         |
|                               | )          |

|                           |         |   |
|---------------------------|---------|---|
| Deferred income taxes     | (648    | ) |
| Total net assets acquired | \$6,125 |   |

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## Note 8. Goodwill and Intangible Assets

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

|   | December 31, 2015 |                          | March 31, 2015  |                          |
|---|-------------------|--------------------------|-----------------|--------------------------|
|   | Carrying Amount   | Accumulated Amortization | Carrying Amount | Accumulated Amortization |
| Indefinite Lived Intangible Assets:                                     |                   |                          |                 |                          |
| Trademarks  | \$7,206           | \$—                      | \$7,207         | \$—                      |
| Amortizing Intangibles:   |                   |                          |                 |                          |
| Purchased technology, customer relationships and patents (3 - 18 years) | 42,477            | 16,112                   | 40,489          | 14,414                   |
|   | \$49,683          | \$16,112                 | \$47,696        | \$14,414                 |

The changes in the carrying amount of goodwill for the nine month period ended December 31, 2015 are as follows (amounts in thousands):

|                                       | Corporate (1) | Solid Capacitors | Film and Electrolytic |
|---------------------------------------|---------------|------------------|-----------------------|
| Gross balance as of March 31, 2015    |               |                  |                       |
| Goodwill                              | \$—           | \$35,584         | \$1,092               |
| Accumulated impairment losses         | —             | —                | (1,092)               |
| Net balance as of March 31, 2015      | \$—           | \$35,584         | \$—                   |
| Goodwill acquired during the year     |               |                  |                       |
| Impairment charges                    | \$4,710       | \$—              | \$—                   |
|                                       | \$—           | \$—              | \$—                   |
| Gross balance as of December 31, 2015 |               |                  |                       |
| Goodwill                              | \$4,710       | \$35,584         | \$1,092               |
| Accumulated impairment losses         | —             | —                | (1,092)               |
| Net balance as of December 31, 2015   | \$4,710       | \$35,584         | \$—                   |

(1) Corporate goodwill established as a result of the IntelliData acquisition on April 1, 2015.

The Company's goodwill balances as of December 31, 2015 and March 31, 2015 were \$40.3 million and \$35.6 million, respectively. The Company completed its annual impairment test on goodwill and intangible assets with indefinite useful lives as of January 1, 2015 and concluded that goodwill and indefinite-lived assets were not impaired. The Company has initiated the analysis for the January 1, 2016 evaluation which will be completed in March 2016. Due to an indicator of possible impairment related to a decline in our stock price, the Company completed an interim impairment test on goodwill and indefinite-lived intangible assets as of December 31, 2015. Consistent with the policy described in the 2015 Form 10-K, the Company performed Step 1 of the goodwill impairment test using a discounted cash flow analysis to estimate the fair value of the reporting unit. As part of our goodwill impairment test, the Company conducted a review of the Company's reporting units. Recognizing that KEMET Blue Powder is now fully integrated as the primary supplier of tantalum powder to the tantalum business product line and almost entirely reliant on other facilities within the tantalum product line as both suppliers and customers, the Company used the tantalum product line as the reporting unit for goodwill impairment evaluation purposes. The Company also evaluated the indefinite-lived intangible assets, including trademarks with a carrying value of \$7.2 million, associated with the reporting unit for impairment as of December 31, 2015 and concluded goodwill and indefinite-lived assets were not

impaired nor were they at risk of failing step 1 of the impairment test as the ratios of fair value of the assets to carrying value were 1.7:1 and 9.6:1 for goodwill and trademarks, respectively. A one percent increase or decrease in the discount rate used in the goodwill valuation would have resulted in changes in the tantalum product line fair value of \$(51.5) million and \$65.2 million, respectively, and a one percent increase or decrease in the discount rate used in the indefinite-lived

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assets valuation would have resulted in changes in the trademark fair value of \$(7.9) million and \$10.0 million, respectively. Neither would have resulted in an impairment charge.

## Note 9. Segment and Geographic Information

The Company is organized into two business groups: Solid Capacitors and Film and Electrolytic. The business groups are responsible for their respective manufacturing sites as well as their respective research and development efforts. The Company does not allocate indirect Selling, general and administrative (“SG&A”) or shared Research and development (“R&D”) expenses to the business groups.

## Solid Capacitors

Operating in nine manufacturing sites in the United States, Mexico and China, Solid Capacitors 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 and has a product innovation center in the United States.

## Film and Electrolytic

Operating in ten manufacturing sites throughout Europe, Asia, and the United States, Film and Electrolytic primarily produces film, paper, and electrolytic capacitors which are sold globally. Film and Electrolytic also manufactures etched foils utilized as a core component in the manufacture of electrolytic capacitors. In addition, this business group has product innovation centers in the United Kingdom, Italy, Germany and Sweden.

The following table reflects each business group’s net sales, operating income (loss), depreciation and amortization expenses and sales by region for the quarters and nine month periods ended December 31, 2015 and 2014 (amounts in thousands):

|  | Quarters Ended December 31, |            | Nine Month Periods Ended<br>December 31, |            |
|--|-----------------------------|------------|--|------------|
|  | 2015                        | 2014       | 2015                                     | 2014       |
| Net sales:                             |                             |            |  |            |
| Solid Capacitors                       | \$ 135,300                  | \$ 152,785 | \$ 416,261                               | 475,594    |
| Film and Electrolytic                  | 41,884                      | 48,525     | 134,636                                  | 153,890    |
|  | \$ 177,184                  | \$ 201,310 | \$ 550,897                               | \$ 629,484 |
| Operating income (loss) (1):           |                             |            |  |            |
| Solid Capacitors                       | \$ 31,359                   | \$ 38,103  | \$ 95,371                                | \$ 106,223 |
| Film and Electrolytic                  | (1,770                      | ) (5,137   | ) 1,159                                  | (12,130    |
| Corporate                              | (21,096                     | ) (23,664  | ) (72,807                                | ) (72,627  |
|  | \$ 8,493                    | \$ 9,302   | \$ 23,723                                | \$ 21,466  |
| Depreciation and amortization expense: |                             |            |  |            |
| Solid Capacitors                       | \$ 5,293                    | \$ 5,014   | \$ 16,227                                | \$ 15,955  |
| Film and Electrolytic                  | 3,031                       | 3,321      | 8,901                                    | 10,339     |
| Corporate                              | 1,350                       | 1,385      | 3,728                                    | 4,400      |
|  | \$ 9,674                    | \$ 9,720   | \$ 28,856                                | \$ 30,694  |

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



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|                        | Quarters Ended December 31, |         | Nine Month Periods Ended December 31, |         |
|------------------------|-----------------------------|---------|---------------------------------------|---------|
|                        | 2015                        | 2014    | 2015                                  | 2014    |
| Restructuring charges: |                             |         |                                       |         |
| Solid Capacitors       | \$754                       | \$496   | \$1,556                               | \$1,895 |
| Film and Electrolytic  | 987                         | 4,496   | 1,524                                 | 6,485   |
| Corporate              | (27                         | ) 1,071 | 481                                   | 1,200   |
|                        | \$1,714                     | \$6,063 | \$3,561                               | \$9,580 |

|                                      | Quarters Ended December 31, |           | Nine Month Periods Ended December 31, |           |
|--------------------------------------|-----------------------------|-----------|---------------------------------------|-----------|
|                                      | 2015                        | 2014      | 2015                                  | 2014      |
| Sales by region:                     |                             |           |                                       |           |
| North and South America ("Americas") | \$56,411                    | \$63,703  | \$170,525                             | \$201,852 |
| Europe, Middle East, Africa ("EMEA") | 52,453                      | 67,356    | 173,468                               | 214,491   |
| Asia and Pacific Rim ("APAC")        | 68,320                      | 70,251    | 206,904                               | 213,141   |
|                                      | \$177,184                   | \$201,310 | \$550,897                             | \$629,484 |

The following table reflects each business group's total assets as of December 31, 2015 and March 31, 2015 (amounts in thousands):

|                       | December 31,<br>2015 | March 31, 2015 |
|-----------------------|----------------------|----------------|
| Total assets:         |                      |                |
| Solid Capacitors      | \$425,031            | \$469,823      |
| Film and Electrolytic | 226,606              | 218,858        |
| Corporate             | 55,338               | 64,111         |
|                       | \$706,975            | \$752,792      |

#### Note 10. Defined Benefit Pension and Other Postretirement Benefit Plans

The Company sponsors six defined benefit pension plans in Europe, one plan in Singapore and two plans in Mexico. In addition, the Company sponsors a post-retirement plan in the United States. Costs recognized for benefit plans are recorded using estimated amounts which may change as actual costs for the fiscal year are determined. In the third quarter ended December 31, 2015, the Company recognized a curtailment as a result of headcount reductions taken as we converted our Landsberg, Germany facility to an innovation center. The curtailment resulted in a \$6.7 million decrease in "Other non-current obligations" on the Condensed Consolidated Balance Sheet with the offset in line item "Accumulated other comprehensive income (loss)" on the Condensed Consolidated Balance Sheet.

The components of net periodic benefit (income) costs relating to the Company's pension and other postretirement benefit plans are as follows for the quarters ended December 31, 2015 and 2014 (amounts in thousands):

|                               | Pension                             |        | Post-retirement Benefit Plan        |       |
|-------------------------------|-------------------------------------|--------|-------------------------------------|-------|
|                               | Quarters Ended December 31,<br>2015 | 2014   | Quarters Ended December 31,<br>2015 | 2014  |
| Net service cost              | \$404                               | \$338  | \$—                                 | \$—   |
| Interest cost                 | 338                                 | 478    | 3                                   | 9     |
| Expected return on net assets | (105                                | ) (124 | ) —                                 | —     |
| Amortization:                 |                                     |        |                                     |       |
| Actuarial (gain) loss         | 197                                 | 81     | (64                                 | ) (36 |

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|   |       |       |       |         |
|---|-------|-------|-------|---------|
| Prior service cost                        | 15    | 4     | —     | —       |
| Total net periodic benefit (income) costs | \$849 | \$777 | \$(61 | ) \$(27 |

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The components of net periodic benefit (income) costs relating to the Company's pension and other postretirement benefit plans are as follows for the nine month periods ended December 31, 2015 and 2014 (amounts in thousands):

|   | Pension                                  |         | Post-retirement Benefit Plan             |          |
|---|--|---------|--|----------|
|   | Nine Month Periods Ended<br>December 31, |         | Nine Month Periods Ended<br>December 31, |          |
|   | 2015                                     | 2014    | 2015                                     | 2014     |
| Net service cost                          | \$1,514                                  | \$1,014 | \$—                                      | \$—      |
| Interest cost                             | 1,013                                    | 1,435   | 14                                       | 21       |
| Expected return on net assets             | (315                                     | ) (371  | ) —                                      | —        |
| Amortization:                             |  |         |  |          |
| Actuarial (gain) loss                     | 591                                      | 213     | (143                                     | ) (140   |
| Prior service cost                        | 44                                       | 13      | —  | —        |
| Total net periodic benefit (income) costs | \$2,847                                  | \$2,304 | \$(129                                   | ) \$(119 |

In fiscal year 2016, the Company expects to contribute up to \$1.5 million to the pension plans, \$0.9 million of which has been contributed as of December 31, 2015. For the postretirement benefit plan, the Company's policy is to pay benefits as costs are incurred.

## Note 11. Stock-based Compensation

The Company's stock-based compensation plans are broad-based, long-term retention programs intended to attract and retain talented employees and align stockholder and employee interests. At December 31, 2015, the Company had four stock option plans that reserved shares of common stock for issuance to executives and key employees: the 1992 Key Employee Stock Option Plan, the 1995 Executive Stock Option Plan, the 2004 Long-Term Equity Incentive Plan (collectively, the "Prior Plans") and the 2011 Omnibus Equity Incentive Plan (as amended by the 2014 Amendment and Restatement of the KEMET Corporation 2011 Omnibus Equity Incentive Plan) (the "2011 Incentive Plan"). Upon adoption and approval of the 2011 Incentive Plan, no further awards were permitted to be granted under the Company's prior plans. The 2011 Incentive Plan authorizes the Company to provide equity-based compensation in the form of: (1) stock options, including incentive stock options, entitling the optionee to favorable tax treatment under Section 422 of the Code; (2) stock appreciation rights; (3) restricted stock and restricted stock units; (4) other share-based awards; and (5) performance awards. Options issued under these plans vest within one to four years and expire ten years from the grant date. The Company grants restricted stock units to members of the Board of Directors, the Chief Executive Officer and key management. Once vested and settled, restricted stock units are converted into restricted stock. For members of the Board of Directors and senior personnel, such restricted stock cannot be sold until 90 days after termination of service with the Company, or until the individual achieves the targeted ownership under the Company's stock ownership guidelines, and only to the extent that such ownership level exceeds the target. Compensation expense is recognized over the respective vesting periods.

Historically, the Board of Directors of the Company has approved annual Long Term Incentive Plans ("LTIP") which cover two year periods and are primarily based upon the achievement of an Adjusted EBITDA target for the two-year period. At the time of the award, the individual plans entitle the participants to receive cash or restricted stock units, or a combination of both as determined by the Company's Board of Directors. The 2013/2014 LTIP, 2014/2015 LTIP, 2015/2016 LTIP, and 2016/2017 LTIP also awarded restricted stock units which vest over the course of three years from the anniversary of the establishment of the plan and are not subject to a performance metric. The Company assesses the likelihood of meeting the Adjusted EBITDA financial metric on a quarterly basis and adjusts compensation expense to match expectations. Any related liability is reflected in the line item "Accrued expenses" on the Condensed Consolidated Balance Sheets and any restricted stock unit commitment is reflected in the line item "Additional paid-in capital" on the Condensed Consolidated Balance Sheets.

On June 29, 2015, the Company granted 250,000 shares of restricted stock units ("RSUs") to the Chief Executive Officer. The restricted stock units have a grant date fair value of \$2.92 and vest as follows: 35,000 RSUs on March 31, 2017, 40,000 RSUs on March 31, 2018, and the balance of 175,000 RSUs on March 31, 2019. On July 30, 2015, the Company granted 100,000 shares of restricted stock units to a top executive. The RSUs have a grant date fair value of \$2.22 and vest as follows: 33,000 RSUs on July 30, 2016, 33,000 RSUs on July 30, 2017, and 34,000 RSUs on July 30, 2018. On July 30, 2015, the Company granted 70,000 shares of restricted stock units to the Board of Directors. The RSUs have a grant date fair value of \$2.22 and vest on July 30, 2016. On December 1, 2015, the Company granted 328,500 shares of restricted stock units to certain members of management. The RSUs have a grant date fair value of \$2.83 and vest as follows: 108,405 RSUs on December 1, 2016, 108,405 RSUs on December 1, 2017, and 111,690 RSUs on December 1, 2018.

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Restricted stock activity for the nine month period ended December 31, 2015 is as follows (amounts in thousands except fair value):

|  | Shares | Weighted-<br>average<br>Fair Value on<br>Grant Date |
|--|--------|---|
| Non-vested restricted stock at March 31, 2015    | 1,000  | \$4.57  |
| Granted  | 749    | 2.72  |
| Vested   | 247    | 4.37  |
| Forfeited  | 9      | 6.10  |
| Non-vested restricted stock at December 31, 2015 | 1,493  | 3.67  |

The compensation expense associated with stock-based compensation for the quarters ended December 31, 2015 and 2014 is recorded on the Condensed Consolidated Statements of Operations as follows (amounts in thousands):

|   | Quarter Ended December 31, 2015 |                     |       | Quarter Ended December 31, 2014 |                     |       |
|---|---------------------------------|---------------------|-------|---------------------------------|---------------------|-------|
|   | Stock<br>Options                | Restricted<br>Stock | LTIPs | Stock<br>Options                | Restricted<br>Stock | LTIPs |
|   | Cost of sales                   | \$11                | \$130 | \$127                           | \$36                | \$66  |
| Selling, general and<br>administrative expenses | 11                              | 340                 | 474   | 69                              | 230                 | 409   |
| Research and development                        | 1                               | 6                   | 54    | 3                               | 1                   | 96    |
| Total   | \$23                            | \$476               | \$655 | \$108                           | \$297               | \$827 |

The compensation expense associated with stock-based compensation for the nine month periods ended December 31, 2015 and 2014 is recorded on the Condensed Consolidated Statements of Operations as follows (amounts in thousands):

|   | Nine Month Period Ended December 31,<br>2015 |                     |         | Nine Month Period Ended December 31,<br>2014 |                     |         |
|---|--|---------------------|---------|--|---------------------|---------|
|   | Stock<br>Options                             | Restricted<br>Stock | LTIPs   | Stock<br>Options                             | Restricted<br>Stock | LTIPs   |
|   | Cost of sales                                | \$72                | \$444   | \$624  | \$205               | \$110   |
| Selling, general and<br>administrative expenses | 79   | 1,033               | 1,365   | 270  | 474                 | 1,059   |
| Research and development                        | 4  | 17                  | 123     | 12   | 1                   | 257     |
| Total   | \$155  | \$1,494             | \$2,112 | \$487  | \$585               | \$2,112 |

In the "Operating activities" section of the Condensed Consolidated Statements of Cash Flows, stock-based compensation expense was treated as an adjustment to Net income (loss) for the quarters and nine month periods ended December 31, 2015, and 2014. No stock options were exercised in the nine month period ended December 31, 2015 and approximately six thousand stock options were exercised in the nine month period ended December 31, 2014.

## Note 12. Income Taxes

During the quarter ended December 31, 2015, the Company recognized \$2.8 million of income tax expense from continuing operations which is comprised of \$2.8 million of income tax expense related to foreign operations. Income tax expense for the nine month period ended December 31, 2015 was \$4.0 million which is comprised of \$4.4 million related to income taxes for foreign operations, a \$0.6 million federal income tax benefit due to the reduction in the U.S. valuation allowance associated with the acquisition of IntelliData, and \$0.2 million of state income tax expense.

During the quarter ended December 31, 2014, the Company incurred \$1.4 million of income tax expense which is comprised of \$0.8 million related to income taxes from continuing foreign operations and \$0.6 million of income tax expense related to an uncertain tax position in a foreign jurisdiction. Income tax expense for the nine month period ended December 31, 2014 was \$5.2 million which is comprised of \$4.3 million related to income taxes from continuing foreign operations, \$0.8 million of income tax expense related to an uncertain tax position in a foreign jurisdiction and \$0.1 million of state income tax expense. In addition, the Company incurred \$0.1 million and \$2.0 million of income tax expense related to the net income (loss) from discontinued operations for the quarter and nine month periods ended December 31, 2014, respectively.

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There was no U.S. federal income tax benefit from net operating losses for the quarter and nine month periods ended December 31, 2015 and 2014 due to a valuation allowance recorded on deferred tax assets.

## Note 13. Basic and Diluted Net Income (Loss) Per Common Share

The following table presents basic earnings per share ("EPS") and diluted EPS (amounts in thousands, except per share data):

|  | Quarters Ended December 31, |          | Nine Month Periods Ended December 31, |          |
|--|-----------------------------|----------|---------------------------------------|----------|
|  | 2015                        | 2014     | 2015                                  | 2014     |
| Numerator:   |                             |          |                                       |          |
| Income (loss) from continuing operations   | \$ (8,600 )                 | \$ 3,078 | \$ (38,456 )                          | \$ 325   |
| Income (loss) from discontinued operations, net of income tax expense (benefit) of \$0, \$41, \$0 and \$1,976 respectively | —                           | (164 )   | —                                     | 5,379    |
| Net income (loss)  | \$ (8,600 )                 | \$ 2,914 | \$ (38,456 )                          | \$ 5,704 |
| Denominator:   |                             |          |                                       |          |
| Weighted-average shares outstanding:   |                             |          |                                       |          |
| Basic  | 46,081                      | 45,407   | 45,953                                | 45,360   |
| Assumed conversion of employee stock grants  | —                           | 493      | —                                     | 550      |
| Assumed conversion of warrants   | —                           | 6,328    | —                                     | 6,639    |
| Diluted  | 46,081                      | 52,228   | 45,953                                | 52,549   |
| Net income (loss) per basic share:   |                             |          |                                       |          |
| Income (loss) from continuing operations   | \$ (0.19 )                  | \$ 0.07  | \$ (0.84 )                            | \$ 0.01  |
| Income (loss) from discontinued operations   | \$ —                        | \$ —     | \$ —                                  | \$ 0.12  |
| Net income (loss)  | \$ (0.19 )                  | \$ 0.07  | \$ (0.84 )                            | \$ 0.13  |
| Net income (loss) per diluted share:   |                             |          |                                       |          |
| Income (loss) from continuing operations   | \$ (0.19 )                  | \$ 0.06  | \$ (0.84 )                            | \$ 0.01  |
| Income (loss) from discontinued operations   | \$ —                        | \$ —     | \$ —                                  | \$ 0.10  |
| Net income (loss)  | \$ (0.19 )                  | \$ 0.06  | \$ (0.84 )                            | \$ 0.11  |

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

|   | Quarters Ended December 31, |       | Nine Month Periods Ended December 31, |       |
|---|-----------------------------|-------|---------------------------------------|-------|
|   | 2015                        | 2014  | 2015                                  | 2014  |
| Assumed conversion of employee stock grants | 3,257                       | 1,433 | 3,247                                 | 1,012 |
| Assumed conversion of warrants              | 5,168                       | —     | 5,261                                 | —     |

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## Note 14: Derivatives

In fiscal year 2015, the Company began using certain derivative instruments (i.e., foreign exchange contracts) to reduce exposure to the volatility of foreign currencies impacting revenues and the costs of its products.

The balance sheet classifications and fair value of derivative instruments as of December 31, 2015 are as follows (amounts in thousands):

|                            | Fair Value of Derivative Instruments |                |                       |                |
|----------------------------|--------------------------------------|----------------|-----------------------|----------------|
|                            | Asset Derivatives                    |                | Liability Derivatives |                |
|                            | Balance Sheet Caption                | Fair Value (1) | Balance Sheet Caption | Fair Value (1) |
| Foreign exchange contracts | Prepaid and other assets             | \$—            | Accrued expenses      | \$2,042        |

(1) Fair Value measured using Level 2 inputs by adjusting the market spot rate by forward points, based on the date of the contract. The spot rates and forward points used are based on an average rate from an actively traded market. Unrealized gains and losses associated with the change in value of these financial instruments are recorded in AOCI. The pre-tax impact on AOCI related to the change in value of these financial instruments is as follows (amounts in thousands):

|  | Three Month Period<br>Ended December 31,<br>2015 | Nine Month Period<br>Ended December 31,<br>2015 |
|--|--|---|
| Beginning of fiscal period   | \$ (2,714  | ) \$ 1,003                                      |
| Current fiscal period unrealized gain (loss) related to the change in value of the financial instruments | (1,096   | ) (6,289  |
| Reclassifications to net income of previously deferred (gains) losses                                    | 1,768  | 3,244   |
| Net change in AOCI related to financial instruments  | 672  | (3,045  |
| End of fiscal period   | \$ (2,042  | ) \$ (2,042                                     |

Changes in the derivatives' fair values are deferred and recorded as a component of AOCI until the underlying transaction is settled and recorded to the income statement. When the hedged item affects income, gains or losses are reclassified from AOCI to the Consolidated Statement of Operations as Net sales for foreign exchange contracts to sell euros, and as Cost of sales for foreign exchange contracts to purchase Mexican pesos and Japanese yen. Any ineffectiveness, if material, in the Company's hedging relationships is recognized immediately as a loss, within the same income statement accounts as described above; to date, there has been no ineffectiveness. Changes in derivative balances impact the line items "Prepaid and other assets" and "Accrued Expenses" on the Consolidated Balance Sheets and Statements of Cash Flows.

The impacts on the Consolidated Statement of Operations for the three and nine month periods ended December 31, 2015 are as follows (amounts in thousands):

## Impact of Foreign Exchange Contracts on Condensed Consolidated Statement of Operations

| Statement Caption                  | Three Month Period<br>Ended December 31,<br>2015 | Nine Month Period<br>Ended December 31,<br>2015 |
|------------------------------------|--|---|
| Net Sales                          | \$—  | \$(789  |
| Operating costs and expenses:      |  |   |
| Cost of sales                      | \$ 1,768   | \$ 2,455  |
| Total operating costs and expenses | \$ 1,768   | \$ 2,455  |
| Operating income (loss)            | \$(1,768   | ) \$(3,244                                      |



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### Hedging Foreign Currencies

Certain operating expenses at the Company's Mexican facilities are paid in Mexican pesos. In order to hedge a portion of these forecasted cash flows, the Company purchases foreign exchange contracts, with terms generally less than twelve months, to buy Mexican pesos for periods and amounts consistent with underlying cash flow exposures. These contracts are designated as cash flow hedges at inception and monitored for effectiveness on a routine basis. There were \$35.0 million in peso contracts (notional value) outstanding at December 31, 2015.

Certain expenditures at the Company's Mexican facilities are paid in Japanese yen. In order to hedge a portion of these forecasted cash flows, the Company purchases foreign exchange contracts, with terms generally less than six months, to buy Japanese yen for periods and amounts consistent with underlying cash flow exposures. These contracts are designated as cash flow hedges at inception and monitored for effectiveness on a routine basis. There were \$3.0 million in yen contracts (notional value) outstanding at December 31, 2015.

Certain sales are made in euros. In order to hedge a portion of these forecasted cash flows, management purchases foreign exchange contracts, with terms generally less than six months, to sell euros for periods and amounts consistent with the related underlying cash flow exposures. These contracts are designated hedges at inception and monitored for effectiveness on a routine basis. There were no euro contracts outstanding at December 31, 2015, as the euro hedge program has ended.

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

### Note 15. Concentrations of Risks

The Company sells to customers globally and, as the Company generally does not require collateral from its customers, on a monthly basis the Company evaluates customer account balances in order to assess the Company's financial risks of collection. One customer, TTI, Inc., an electronics distributor, accounted for over 10% of the Company's net sales in the quarters and nine month periods ended December 31, 2015 and 2014. There were no accounts receivable balances from any customer exceeding 10% of gross accounts receivable as of December 31, 2015 and March 31, 2015.

Electronics distributors are an important distribution channel in the electronics industry and accounted for 41% and 44% of the Company's net sales in the nine month periods ended December 31, 2015 and 2014, respectively. As a result of the Company's concentration of sales to electronics distributors, the Company may experience fluctuations in the Company's operating results as electronics distributors experience fluctuations in end-market demand and/or adjust their inventory stocking levels.

### Note 16. Condensed Consolidating Financial Statements

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

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





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Condensed Consolidating Balance Sheet  
 December 31, 2015  
 (Unaudited)

|   | Parent    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Reclassifications<br>and Eliminations | Consolidated |
|---|-----------|---------------------------|-------------------------------|---------------------------------------|--------------|
| <b>ASSETS</b>                                     |           |                           |                               |                                       |              |
| Current assets:                                   |           |                           |                               |                                       |              |
| Cash and cash equivalents                         | \$640     | \$18,643                  | \$23,875                      | \$—                                   | \$43,158     |
| Accounts receivable, net                          | —         | 34,009                    | 55,276                        | —                                     | 89,285       |
| Intercompany receivable                           | 320,070   | 436,045                   | 174,539                       | (930,654)                             | —            |
| Inventories, net                                  | —         | 119,665                   | 55,413                        | —                                     | 175,078      |
| Prepaid expenses and other                        | 3,325     | 17,114                    | 13,576                        | (2,964)                               | 31,051       |
| Deferred income taxes                             | —         | 4,335                     | 5,399                         | —                                     | 9,734        |
| Total current assets                              | 324,035   | 629,811                   | 328,078                       | (933,618)                             | 348,306      |
| Property and equipment, net                       | 267       | 95,496                    | 140,584                       | —                                     | 236,347      |
| Goodwill  | —         | 40,294                    | —                             | —                                     | 40,294       |
| Intangible assets, net                            | —         | 27,643                    | 5,928                         | —                                     | 33,571       |
| Investment in NEC TOKIN                           | —         | 35,795                    | —                             | —                                     | 35,795       |
| Investments in subsidiaries                       | 387,852   | 429,723                   | 30,285                        | (847,860)                             | —            |
| Deferred income taxes                             | —         | 816                       | 3,582                         | —                                     | 4,398        |
| Other assets                                      | 3,094     | 4,559                     | 611                           | —                                     | 8,264        |
| Long-term intercompany receivable                 | 64,547    | 39,616                    | 1,088                         | (105,251)                             | —            |
| Total assets                                      | \$779,795 | \$1,303,753               | \$510,156                     | \$(1,886,729)                         | \$706,975    |
| <b>LIABILITIES AND<br/>STOCKHOLDERS' EQUITY</b>   |           |                           |                               |                                       |              |
| Current liabilities:                              |           |                           |                               |                                       |              |
| Current portion of long-term debt                 | \$—       | \$5,000                   | \$—                           | \$—                                   | \$5,000      |
| Accounts payable                                  | —         | 34,386                    | 29,279                        | —                                     | 63,665       |
| Intercompany payable                              | 290,533   | 565,412                   | 74,709                        | (930,654)                             | —            |
| Accrued expenses                                  | 7,946     | 15,661                    | 20,922                        | —                                     | 44,529       |
| Income taxes payable and deferred<br>income taxes | —         | 3,020                     | 800                           | (2,964)                               | 856          |
| Total current liabilities                         | 298,479   | 623,479                   | 125,710                       | (933,618)                             | 114,050      |
| Long-term debt, less current portion              | 356,906   | 18,981                    | 14,000                        | —                                     | 389,887      |
| Other non-current obligations                     | —         | 23,546                    | 47,375                        | —                                     | 70,921       |
| Deferred income taxes                             | —         | 6,577                     | 1,130                         | —                                     | 7,707        |
| Long-term intercompany payable                    | —         | 64,547                    | 40,704                        | (105,251)                             | —            |
| Stockholders' equity                              | 124,410   | 566,623                   | 281,237                       | (847,860)                             | 124,410      |
| Total liabilities and stockholders' equity        | \$779,795 | \$1,303,753               | \$510,156                     | \$(1,886,729)                         | \$706,975    |

Table of ContentsCondensed Consolidating Balance Sheet (1)  
March 31, 2015

|   | Parent    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Reclassifications<br>and Eliminations | Consolidated |
|---|-----------|---------------------------|-------------------------------|---------------------------------------|--------------|
| <b>ASSETS</b>                                     |           |                           |                               |                                       |              |
| Current assets:                                   |           |                           |                               |                                       |              |
| Cash and cash equivalents                         | \$640     | \$33,094                  | \$ 22,628                     | \$ —                                  | \$56,362     |
| Accounts receivable, net                          | —         | 35,535                    | 55,322                        | —                                     | 90,857       |
| Intercompany receivable                           | 321,233   | 403,557                   | 195,518                       | (920,308 )                            | —            |
| Inventories, net                                  | —         | 119,221                   | 52,622                        | —                                     | 171,843      |
| Prepaid expenses and other                        | 3,191     | 21,134                    | 20,164                        | (2,986 )                              | 41,503       |
| Deferred income taxes                             | —         | 5,031                     | 5,731                         | —                                     | 10,762       |
| Total current assets                              | 325,064   | 617,572                   | 351,985                       | (923,294 )                            | 371,327      |
| Property and equipment, net                       | 293       | 100,844                   | 148,504                       | —                                     | 249,641      |
| Goodwill  | —         | 35,584                    | —                             | —                                     | 35,584       |
| Intangible assets, net                            | —         | 26,998                    | 6,284                         | —                                     | 33,282       |
| Investment in NEC TOKIN                           | —         | 45,016                    | —                             | —                                     | 45,016       |
| Investments in subsidiaries                       | 401,062   | 423,737                   | 30,285                        | (855,084 )                            | —            |
| Deferred income taxes                             | —         | 971                       | 4,140                         | —                                     | 5,111        |
| Other assets                                      | 4,088     | 7,824                     | 919                           | —                                     | 12,831       |
| Long-term intercompany receivable                 | 63,788    | 39,151                    | 1,088                         | (104,027 )                            | —            |
| Total assets                                      | \$794,295 | \$1,297,697               | \$ 543,205                    | \$ (1,882,405 )                       | \$752,792    |
| <b>LIABILITIES AND<br/>STOCKHOLDERS' EQUITY</b>   |           |                           |                               |                                       |              |
| Current liabilities:                              |           |                           |                               |                                       |              |
| Current portion of long-term debt                 | \$—       | \$500                     | \$ 462                        | \$ —                                  | \$962        |
| Accounts payable                                  | 47        | 36,565                    | 33,173                        | —                                     | 69,785       |
| Intercompany payable                              | 254,852   | 578,318                   | 87,138                        | (920,308 )                            | —            |
| Accrued expenses                                  | 17,253    | 16,644                    | 26,559                        | —                                     | 60,456       |
| Income taxes payable and deferred<br>income taxes | —         | 2,928                     | 1,075                         | (2,986 )                              | 1,017        |
| Total current liabilities                         | 272,152   | 634,955                   | 148,407                       | (923,294 )                            | 132,220      |
| Long-term debt, less current portion              | 357,461   | 20,948                    | 12,000                        | —                                     | 390,409      |
| Other non-current obligations                     | —         | 2,987                     | 54,144                        | —                                     | 57,131       |
| Deferred income taxes                             | —         | 7,272                     | 1,078                         | —                                     | 8,350        |
| Long-term intercompany payable                    | —         | 63,789                    | 40,238                        | (104,027 )                            | —            |
| Stockholders' equity                              | 164,682   | 567,746                   | 287,338                       | (855,084 )                            | 164,682      |
| Total liabilities and stockholders' equity        | \$794,295 | \$1,297,697               | \$ 543,205                    | \$ (1,882,405 )                       | \$752,792    |

(1) Derived from audited financial statements.

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Condensed Consolidating Statement of Operations  
 For the Quarter Ended December 31, 2015  
 (Unaudited)

|   | Parent     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Reclassifications<br>and Eliminations | Consolidated |
|---|------------|---------------------------|-------------------------------|---------------------------------------|--------------|
| Net sales   | \$—        | \$211,268                 | \$170,531                     | \$ (204,615 )                         | \$ 177,184   |
| Operating costs and expenses:   |            |                           |                               |                                       |              |
| Cost of sales   | 232        | 173,368                   | 156,669                       | (191,833 )                            | 138,436      |
| Selling, general and administrative<br>expenses   | 8,306      | 16,207                    | 10,547                        | (12,782 )                             | 22,278       |
| Research and development  | 79         | 4,232                     | 1,823                         | —                                     | 6,134        |
| Restructuring charges   | —          | 726                       | 988                           | —                                     | 1,714        |
| Net (gain) loss on sales and disposals of<br>assets                                       | —          | (348 )                    | 477                           | —                                     | 129          |
| Total operating costs and expenses  | 8,617      | 194,185                   | 170,504                       | (204,615 )                            | 168,691      |
| Operating income (loss)   | (8,617 )   | 17,083                    | 27                            | —                                     | 8,493        |
| Non-operating (income) expense:   |            |                           |                               |                                       |              |
| Interest income   | —          | —                         | (4 )                          | —                                     | (4 )         |
| Interest expense  | 9,461      | 267                       | 124                           | —                                     | 9,852        |
| Change in value of NEC TOKIN options  | —          | (700 )                    | —                             | —                                     | (700 )       |
| Other (income) expense, net   | (7,931 )   | 7,997                     | (1,386 )                      | —                                     | (1,320 )     |
| Equity in earnings of subsidiaries  | (1,547 )   | —                         | —                             | 1,547                                 | —            |
| Income (loss) from continuing operations<br>before income taxes and equity income         | (8,600 )   | 9,519                     | 1,293                         | (1,547 )                              | 665          |
| (loss) from NEC TOKIN   | —          | 44                        | 2,716                         | —                                     | 2,760        |
| Income (loss) from continuing operations<br>before equity income (loss) from NEC<br>TOKIN | (8,600 )   | 9,475                     | (1,423 )                      | (1,547 )                              | (2,095 )     |
| Equity income (loss) from NEC TOKIN   | —          | (6,505 )                  | —                             | —                                     | (6,505 )     |
| Income (loss) from continuing operations  | (8,600 )   | 2,970                     | (1,423 )                      | (1,547 )                              | (8,600 )     |
| Income (loss) from discontinued operations  | —          | —                         | —                             | —                                     | —            |
| Net income (loss)   | \$(8,600 ) | \$2,970                   | \$(1,423 )                    | \$(1,547 )                            | \$(8,600 )   |

Condensed Consolidating Statements of Comprehensive Income (Loss)  
 Quarter Ended December 31, 2015  
 (Unaudited)

|                             |             |         |       |            |            |
|-----------------------------|-------------|---------|-------|------------|------------|
| Comprehensive income (loss) | \$(10,474 ) | \$4,604 | \$517 | \$(1,547 ) | \$(6,900 ) |
|-----------------------------|-------------|---------|-------|------------|------------|

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Condensed Consolidating Statement of Operations  
 For the Quarter Ended December 31, 2014  
 (Unaudited)

|   | Parent    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Reclassifications<br>and Eliminations | Consolidated |
|---|-----------|---------------------------|-------------------------------|---------------------------------------|--------------|
| Net sales   | \$85      | \$242,498                 | \$188,122                     | \$ (229,395 )                         | \$ 201,310   |
| Operating costs and expenses:   |           |                           |                               |                                       |              |
| Cost of sales   | 687       | 192,305                   | 179,437                       | (215,587 )                            | 156,842      |
| Selling, general and administrative<br>expenses   | 7,193     | 18,562                    | 11,427                        | (13,808 )                             | 23,374       |
| Research and development  | 149       | 4,321                     | 1,833                         | —                                     | 6,303        |
| Restructuring charges   | —         | 1,133                     | 4,930                         | —                                     | 6,063        |
| Net (gain) loss on sales and disposals of<br>assets                                       | —         | (144 )                    | (430 )                        | —                                     | (574 )       |
| Total operating costs and expenses  | 8,029     | 216,177                   | 197,197                       | (229,395 )                            | 192,008      |
| Operating income (loss)   | (7,944 )  | 26,321                    | (9,075 )                      | —                                     | 9,302        |
| Non-operating (income) expense:   |           |                           |                               |                                       |              |
| Interest income   | —         | —                         | (5 )                          | —                                     | (5 )         |
| Interest expense  | 9,631     | 39                        | 268                           | —                                     | 9,938        |
| Change in value of NEC TOKIN options  | —         | (2,500 )                  | —                             | —                                     | (2,500 )     |
| Other (income) expense, net   | (7,373 )  | 8,435                     | (2,263 )                      | —                                     | (1,201 )     |
| Equity in earnings of subsidiaries  | (13,116 ) | —                         | —                             | 13,116                                | —            |
| Income (loss) from continuing operations<br>before income taxes and equity income         | 2,914     | 20,347                    | (7,075 )                      | (13,116 )                             | 3,070        |
| (loss) from NEC TOKIN   | —         | 57                        | 1,302                         | —                                     | 1,359        |
| Income (loss) from continuing operations<br>before equity income (loss) from NEC<br>TOKIN | 2,914     | 20,290                    | (8,377 )                      | (13,116 )                             | 1,711        |
| Equity income (loss) from NEC TOKIN   | —         | 1,367                     | —                             | —                                     | 1,367        |
| Income (loss) from continuing operations  | 2,914     | 21,657                    | (8,377 )                      | (13,116 )                             | 3,078        |
| Income (loss) from discontinued operations  | —         | (2 )                      | (162 )                        | —                                     | (164 )       |
| Net income (loss)   | \$2,914   | \$21,655                  | \$ (8,539 )                   | \$ (13,116 )                          | \$ 2,914     |

Condensed Consolidating Statements of Comprehensive Income (Loss)  
 For the Quarter Ended December 31, 2014  
 (Unaudited)

|                             |       |          |              |              |           |
|-----------------------------|-------|----------|--------------|--------------|-----------|
| Comprehensive income (loss) | \$293 | \$24,794 | \$ (12,135 ) | \$ (13,116 ) | \$ (164 ) |
|-----------------------------|-------|----------|--------------|--------------|-----------|

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Condensed Consolidating Statement of Operations  
 For the Nine Month Period Ended December 31, 2015  
 (Unaudited)

|   | Parent      | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Reclassifications<br>and Eliminations | Consolidated |
|---|-------------|---------------------------|-------------------------------|---------------------------------------|--------------|
| Net sales   | \$—         | \$655,808                 | \$ 527,604                    | \$ (632,515 )                         | \$550,897    |
| Operating costs and expenses:   |             |                           |                               |                                       |              |
| Cost of sales   | 931         | 528,352                   | 490,621                       | (590,274 )                            | 429,630      |
| Selling, general and administrative<br>expenses   | 27,028      | 56,197                    | 34,672                        | (42,241 )                             | 75,656       |
| Research and development  | 26          | 12,834                    | 5,700                         | —                                     | 18,560       |
| Restructuring charges   | —           | 2,182                     | 1,379                         | —                                     | 3,561        |
| Net (gain) loss on sales and disposals<br>of assets   | (7 )        | (1,101 )                  | 875                           | —                                     | (233 )       |
| Total operating costs and expenses  | 27,978      | 598,464                   | 533,247                       | (632,515 )                            | 527,174      |
| Operating income (loss)   | (27,978 )   | 57,344                    | (5,643 )                      | —                                     | 23,723       |
| Non-operating (income) expense:   |             |                           |                               |                                       |              |
| Interest income   | —           | —                         | (10 )                         | —                                     | (10 )        |
| Interest expense  | 28,395      | 865                       | 416                           | —                                     | 29,676       |
| Change in value of NEC TOKIN<br>options   | —           | 26,300                    | —                             | —                                     | 26,300       |
| Other (income) expense, net   | (25,484 )   | 25,065                    | (2,076 )                      | —                                     | (2,495 )     |
| Equity in earnings of subsidiaries  | 7,567       | —                         | —                             | (7,567 )                              | —            |
| Income (loss) from continuing<br>operations before income taxes and<br>equity income (loss) from NEC<br>TOKIN | (38,456 )   | 5,114                     | (3,973 )                      | 7,567                                 | (29,748 )    |
| Income tax expense (benefit)  | —           | (320 )                    | 4,270                         | —                                     | 3,950        |
| Income (loss) from continuing<br>operations before equity income (loss)<br>from NEC TOKIN                     | (38,456 )   | 5,434                     | (8,243 )                      | 7,567                                 | (33,698 )    |
| Equity income (loss) from NEC<br>TOKIN  | —           | (4,758 )                  | —                             | —                                     | (4,758 )     |
| Income (loss) from continuing<br>operations   | (38,456 )   | 676                       | (8,243 )                      | 7,567                                 | (38,456 )    |
| Income (loss) from discontinued<br>operations   | —           | —                         | —                             | —                                     | —            |
| Net income (loss)   | \$(38,456 ) | \$676                     | \$(8,243 )                    | \$ 7,567                              | \$(38,456 )  |

Condensed Consolidating Statements of Comprehensive Income (Loss)  
 For the Nine Month Period Ended December 31, 2015  
 (Unaudited)

|                             |             |            |            |         |             |
|-----------------------------|-------------|------------|------------|---------|-------------|
| Comprehensive income (loss) | \$(37,698 ) | \$(7,109 ) | \$(6,107 ) | \$7,567 | \$(43,347 ) |
|-----------------------------|-------------|------------|------------|---------|-------------|

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Condensed Consolidating Statement of Operations  
 For the Nine Month Period Ended December 31, 2014  
 (Unaudited)

|   | Parent    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Reclassifications<br>and Eliminations | Consolidated |
|---|-----------|---------------------------|-------------------------------|---------------------------------------|--------------|
| Net sales   | \$ 195    | \$ 748,094                | \$ 588,324                    | \$ (707,129 )                         | \$ 629,484   |
| Operating costs and expenses:   |           |                           |                               |                                       |              |
| Cost of sales   | 1,712     | 626,305                   | 540,184                       | (661,897 )                            | 506,304      |
| Selling, general and administrative<br>expenses   | 31,338    | 50,785                    | 36,772                        | (45,232 )                             | 73,663       |
| Research and development  | 355       | 12,918                    | 5,957                         | —                                     | 19,230       |
| Restructuring charges   | —         | 1,695                     | 7,885                         | —                                     | 9,580        |
| Net (gain) loss on sales and disposals<br>of assets   | (9 )      | ) 86                      | (836 )                        | —                                     | (759 )       |
| Total operating costs and expenses  | 33,396    | 691,789                   | 589,962                       | (707,129 )                            | 608,018      |
| Operating income (loss)   | (33,201 ) | ) 56,305                  | (1,638 )                      | —                                     | 21,466       |
| Non-operating (income) expense:   |           |                           |                               |                                       |              |
| Interest income   | —         | —                         | (11 )                         | —                                     | (11 )        |
| Interest expense  | 29,156    | 702                       | 823                           | —                                     | 30,681       |
| Change in value of NEC TOKIN<br>options   | —         | (13,200 )                 | —                             | —                                     | (13,200 )    |
| Other (income) expense, net   | (31,175 ) | ) 35,934                  | (6,388 )                      | —                                     | (1,629 )     |
| Equity in earnings of subsidiaries  | (36,886 ) | ) —                       | —                             | 36,886                                | —            |
| Income (loss) from continuing<br>operations before income taxes and<br>equity income (loss) from NEC<br>TOKIN | 5,704     | 32,869                    | 3,938                         | (36,886 )                             | 5,625        |
| Income tax expense (benefit)  | —         | 290                       | 4,934                         | —                                     | 5,224        |
| Income (loss) from continuing<br>operations before equity income (loss)<br>from NEC TOKIN                     | 5,704     | 32,579                    | (996 )                        | (36,886 )                             | 401          |
| Equity income (loss) from NEC<br>TOKIN  | —         | (76 )                     | —                             | —                                     | (76 )        |
| Income (loss) from continuing<br>operations   | 5,704     | 32,503                    | (996 )                        | (36,886 )                             | 325          |
| Income (loss) from discontinued<br>operations   | —         | 102                       | 5,277                         | —                                     | 5,379        |
| Net income (loss)   | \$ 5,704  | \$ 32,605                 | \$ 4,281                      | \$ (36,886 )                          | \$ 5,704     |

Condensed Consolidating Statements of Comprehensive Income (Loss)  
 For the Nine Month Period Ended December 31, 2014  
 (Unaudited)

|                             |             |             |             |              |               |
|-----------------------------|-------------|-------------|-------------|--------------|---------------|
| Comprehensive income (loss) | \$ (4,061 ) | ) \$ 40,644 | \$ (8,320 ) | \$ (36,886 ) | ) \$ (8,623 ) |
|-----------------------------|-------------|-------------|-------------|--------------|---------------|

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Condensed  
Consolidating Statement of Cash Flows  
For the Nine Month Period Ended December 31, 2015  
(Unaudited)

|   | Parent | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Reclassifications<br>and Eliminations | Consolidated |
|---|--------|---------------------------|-------------------------------|---------------------------------------|--------------|
| Sources (uses) of cash and cash equivalents             |        |                           |                               |                                       |              |
| Net cash provided by (used in) operating activities     | \$691  | \$(8,085)                 | ) \$6,837                     | \$ —                                  | \$(557)      |
| Investing activities:                                   |        |                           |                               |                                       |              |
| Capital expenditures                                    | —      | (6,221)                   | ) (7,899)                     | —                                     | (14,120)     |
| Proceeds from sale of assets                            | —      | 247                       | ) 651                         | —                                     | 898          |
| Acquisitions, net of cash received                      | —      | (2,892)                   | ) —                           | —                                     | (2,892)      |
| Net cash used in investing activities                   | —      | (8,866)                   | ) (7,248)                     | —                                     | (16,114)     |
| Financing activities:                                   |        |                           |                               |                                       |              |
| Proceeds from revolving line of credit                  | —      | 8,000                     | ) 2,000                       | —                                     | 10,000       |
| Payments of revolving line of credit                    | —      | (5,500)                   | ) —                           | —                                     | (5,500)      |
| Payments of long-term debt                              | —      | —                         | ) (481)                       | —                                     | (481)        |
| Purchase of treasury stock                              | (691)  | ) —                       | —                             | —                                     | (691)        |
| Net cash provided by (used in) financing activities     | (691)  | ) 2,500                   | 1,519                         | —                                     | 3,328        |
| Net increase (decrease) in cash and cash equivalents    | —      | (14,451)                  | ) 1,108                       | —                                     | (13,343)     |
| Effect of foreign currency fluctuations on cash         | —      | —                         | ) 139                         | —                                     | 139          |
| Cash and cash equivalents at beginning of fiscal period | 640    | 33,094                    | ) 22,628                      | —                                     | 56,362       |
| Cash and cash equivalents at end of fiscal period       | \$640  | \$18,643                  | ) \$23,875                    | \$ —                                  | \$43,158     |



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Condensed Consolidating Statements of Cash Flows  
 For the Nine Month Period Ended December 31, 2014  
 (Unaudited)

|   | Parent    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Reclassifications<br>and Eliminations | Consolidated |
|---|-----------|---------------------------|-------------------------------|---------------------------------------|--------------|
| Sources (uses) of cash and cash equivalents             |           |                           |                               |                                       |              |
| Net cash provided by (used in) operating activities     | \$31,316  | \$(18,502 )               | \$(16,084 )                   | \$ —                                  | \$(3,270 )   |
| Investing activities:                                   |           |                           |                               |                                       |              |
| Capital expenditures                                    | —         | (9,542 )                  | (7,932 )                      | —                                     | (17,474 )    |
| Change in restricted cash                               | —         | 11,509                    | —                             | —                                     | 11,509       |
| Proceeds from sale of assets                            | —         | 2,274                     | 2,266                         | —                                     | 4,540        |
| Proceeds from sale of discontinued operations           | —         | —                         | 9,564                         | —                                     | 9,564        |
| Net cash used in investing activities                   | —         | 4,241                     | 3,898                         | —                                     | 8,139        |
| Financing activities:                                   |           |                           |                               |                                       |              |
| Proceeds from revolving line of credit                  | —         | 37,340                    | 5,000                         | —                                     | 42,340       |
| Payments of revolving line of credit                    | —         | (14,342 )                 | —                             | —                                     | (14,342 )    |
| Deferred acquisition payments                           | (10,899 ) | (1,000 )                  | —                             | —                                     | (11,899 )    |
| Payments of long-term debt                              | (20,417 ) | —                         | (1,316 )                      | —                                     | (21,733 )    |
| Proceeds from exercise of stock options                 | 24        | —                         | —                             | —                                     | 24           |
| Net cash provided by (used in) financing activities     | (31,292 ) | 21,998                    | 3,684                         | —                                     | (5,610 )     |
| Net increase (decrease) in cash and cash equivalents    | 24        | 7,737                     | (8,502 )                      | —                                     | (741 )       |
| Effect of foreign currency fluctuations on cash         | —         | (1 )                      | (1,605 )                      | —                                     | (1,606 )     |
| Cash and cash equivalents at beginning of fiscal period | 616       | 22,200                    | 35,113                        | —                                     | 57,929       |
| Cash and cash equivalents at end of fiscal period       | \$640     | \$29,936                  | \$25,006                      | \$ —                                  | \$55,582     |

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

This report contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from those expressed in, or implied by, our forward-looking statements. Words such as “expects,” “anticipates,” “believes,” “estimates” or other similar expressions and future or conditional verbs such as “will,” “should,” “would” and “could” are intended to identify such forward-looking statements. Readers of this report should not rely solely on the forward-looking statements and should consider all uncertainties and risks throughout this report as well as those discussed under Part I, Item 1A Risk Factors, of the Company’s 2015 Annual Report. The statements are representative only as of the date they are made, and we undertook no obligation to update any forward-looking statement.

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

Factors that may cause actual outcomes 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 plans; (ix) equity method investment in NEC TOKIN exposes us to a variety of risks; (x) possible acquisition of NEC TOKIN may not achieve all of the anticipated results; (xi) acquisitions and other strategic transactions expose us to a variety of risks; (xii) our business could be negatively impacted by increased regulatory scrutiny and litigation; (xiii) inability to attract, train and retain effective employees and management; (xiv) inability to develop innovative products to maintain customer relationships and offset potential price erosion in older products; (xv) exposure to claims alleging product defects; (xvi) the impact of laws and regulations that apply to our business, including those relating to environmental matters; (xvii) the impact of international laws relating to trade, export controls and foreign corrupt practices; (xviii) volatility of financial and credit markets affecting our access to capital; (xix) the need to reduce the total costs of our products to remain competitive; (xx) potential limitation on the use of net operating losses to offset possible future taxable income; (xxi) restrictions in our debt agreements that limit our flexibility in operating our business; (xxii) failure of our information technology systems to function properly or our failure to control unauthorized access to our systems may cause business disruptions; (xxiii) 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; and (xxiv) fluctuation in distributor sales could adversely affect our results of operations.

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

Accounting Policies and Estimates

The following discussion and analysis of financial condition and results of operations are based on the unaudited condensed consolidated financial statements included herein. Our significant accounting policies are described in Note 1 to the consolidated financial statements in our 2015 Annual Report. Our critical accounting policies are described under the caption "Critical Accounting Policies" in Item 7 of our 2015 Annual Report.

#### Goodwill

The Company's goodwill balances as of December 31, 2015 and March 31, 2015 were \$40.3 million and \$35.6 million, respectively. The Company completed its annual impairment test on goodwill and intangible assets with indefinite useful lives as of January 1, 2015 and concluded that goodwill and indefinite-lived assets were not impaired. We have initiated the analysis for the January 1, 2016 evaluation which will be completed in March 2016. Due to an indicator of possible

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impairment related to a decline in our stock price, the Company completed an interim impairment test on goodwill and indefinite-lived intangible assets as of December 31, 2015. Consistent with the policy described in the 2015 Form 10-K, the Company performed Step 1 of the goodwill impairment test using a discounted cash flow analysis to estimate the fair value of the reporting unit. As part of our goodwill impairment test, we conducted a review of the Company's reporting units. Recognizing that KEMET Blue Powder is now fully integrated as the primary supplier of tantalum powder to the tantalum business product line and almost entirely reliant on other facilities within the tantalum product line as both suppliers and customers, we used the tantalum product line as the reporting unit for goodwill impairment evaluation purposes. The Company also evaluated the indefinite-lived intangible assets, including trademarks with a carrying value of \$7.2 million, for impairment as of December 31, 2015 and concluded goodwill and indefinite-lived assets were not impaired nor were they at risk of failing step 1 of the impairment test as the ratios of fair value of the assets to carrying value were 1.7:1 and 9.6:1 for goodwill and trademarks, respectively. A one percent increase or decrease in the discount rate used in the goodwill valuation would have resulted in changes in the tantalum product line fair value of \$(51.5) million and \$65.2 million, respectively, and a one percent increase or decrease in the discount rate used in the indefinite-lived assets valuation would have resulted in changes in the trademark fair value of \$(7.9) million and \$10.0 million, respectively. Neither would have resulted in an impairment charge.

### Long-Lived Assets

The decline in KEMET's stock price is also a potential indication the carrying amount of certain long-lived asset groups might not be fully recoverable. Therefore, the Company tested long-lived assets for each of our reporting units for impairment as of December 31, 2015 and concluded that they were not impaired. 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 net undiscounted cash flows expected to be generated by the asset group. 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 hypothetical disposal (salvage value) of the asset group. These assumptions primarily include the average asset useful life and projections of sales and cost of sales over these asset lives. The Company will monitor the Film and Electrolytic long-lived assets in future periods as material changes in certain assumptions could have a material effect on the estimated future undiscounted cash flows expected to be generated by the asset. This, in turn, could result in Film and Electrolytic not passing step 1 of the impairment test which would require the Company to perform a discounted cash flow analysis to determine the impairment amount (if any).

### Business Overview

KEMET is a leading global manufacturer of a wide variety of capacitors. Capacitors are fundamental components of most electronic circuits and are found in communication systems, data processing equipment, personal computers, cellular phones, automotive electronic systems, defense and aerospace systems, consumer electronics, power management systems and many other electronic devices and systems. Capacitors are typically used to filter out interference, smooth the output of power supplies, block the flow of direct current while allowing alternating current to pass and for many other purposes.

Manufacturing a broad line of tantalum, multilayer ceramic, solid and electrolytic aluminum and film and paper capacitors, KEMET's product line consists of nearly 5 million distinct part configurations distinguished by various attributes, such as dielectric (or insulating) material, configuration, encapsulation, capacitance level and tolerance, operating temperature, performance characteristics and packaging. Because 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 their needs independent of application and end use.

KEMET operates nineteen production facilities in Europe, North America, and Asia, and employs approximately 8,800 employees worldwide. Commodity manufacturing has been substantially relocated to our lower-cost manufacturing facilities in Mexico, China and Europe. Production remaining in the United States focuses primarily on early-stage manufacturing of new products and specialty products for which customers are predominantly located in North America.

Our products are sold into a wide range of different end markets, including computing, industrial, telecommunications, transportation, consumer, defense and healthcare across all geographic regions. No single end market industry accounted for more than 30% of net sales although, one customer, a distributor, accounted for more than 10% of net sales in the nine month period ended December 31, 2015. During the nine month period ended December 31, 2015 we introduced 22,570 new products of which 734 were first to market. In addition, we continue to focus on specialty products which accounted for 41.8% of our revenue over this period.

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We believe the long-term demand for capacitors 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 are organized into two business groups: Solid Capacitors business group (“Solid Capacitors”) and the Film and Electrolytic business group (“Film and Electrolytic”). The business groups are responsible for their respective manufacturing sites as well as all related research and development efforts. Sales, marketing and corporate finance functions are shared by each of the business groups.

## Recent Developments and Trends

The following items are reflected in the financial statements for the quarter and nine month periods ended December 31, 2015:

### Acquisition

On April 1, 2015 KEMET purchased IntelliData, Inc. (“IntelliData”), a Greenwood Village, Colorado-based developer of digital solutions supporting discovery, decision support, and the sales and marketing of electronic components. As a KEMET vendor since 2000, IntelliData provided a variety of content automation and delivery tools and services. IntelliData was founded in 1999 by electronics industry executives. IntelliData's database and software products supported more than 560 electronic component manufacturers, delivering power and efficiency to design/selection, decision support, sales and marketing. The purchase price was \$6.0 million plus an additional \$0.1 million per a post-acquisition amendment. The Company recorded goodwill of \$4.7 million and amortizable intangibles of \$1.8 million.

### Equity Investment

In the quarter ended December 31, 2015 we incurred an equity loss related to our 34% economic interest in NEC TOKIN of \$6.5 million primarily due to a \$6.7 million increase in accrued antitrust fines as described in Note 6, “Investment in NEC TOKIN.”

KEC's First and Second Call Options (as defined in Note 6, "Investment in NEC TOKIN") to purchase additional capital stock of NEC TOKIN expired on April 30, 2015 without being exercised. From April 1, 2015 through May 31, 2018, NEC Corporation of Japan may exercise its Put Option, provided that KEC's payment of the Put Option price is permitted under the 10.5% Senior Notes and Loan and Security Agreement. The Company has marked these options to fair value and in the quarter and nine month periods ended December 31, 2015 recognized a \$0.7 million gain and a \$26.3 million loss, respectively, which was included on the line item “Change in Value of the NEC TOKIN options” in the Condensed Consolidated Statement of Operations. The line item "Other non-current obligations" on the Condensed Consolidated Balance Sheets includes \$20.6 million as of December 31, 2015 related to the Put Option.

### Restructuring

KEMET's various restructuring plans to make the Company more competitive by reducing excess capacity, relocating production to lower cost locations and eliminating unnecessary costs throughout the Company are nearing completion. We incurred \$3.6 million in restructuring charges in the nine month period ended December 31, 2015 including \$1.9 million of personnel reduction costs and \$1.7 million of manufacturing relocation costs. The personnel reduction costs are comprised of the following: \$0.6 million related a headcount reduction in Suzhou, China for the Film & Electrolytic production line transfer from Suzhou, China to Anting, China, \$0.9 million for headcount reductions in Matamoros, Mexico related to the relocation of certain Solid Capacitor manufacturing from Matamoros, Mexico to Victoria, Mexico, \$0.4 million for planned headcount reductions in Europe (primarily Landsberg, Germany) and \$0.6

million for headcount reductions related to the outsourcing of the Company's information technology function and overhead reductions in North America and Europe. These personnel reduction costs were partially offset by a \$1.2 million reversal of a severance accrual in Italy. The Company originally recorded the accrual in the third quarter of fiscal year 2015 corresponding with a plan to reduce headcount by 50 employees. Under the plan, 24 employees were terminated. However, due to unexpected workforce attrition combined with achieving other cost reduction goals, the Company decided not to complete the remaining headcount reduction. Consequently, the Company reversed the remaining accrual during the second quarter of fiscal year 2016.

During the quarter ended December 31,2015 we converted our Landsberg, Germany facility to an innovation center.

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## Outlook

For the fourth quarter of fiscal year 2016, we expect net sales to be within the \$180 million to \$185 million range, gross margin as a percentage of net sales to reflect an improvement of approximately 50 to 100 basis points and SG&A expense in the range of \$21.5 million to \$22.5 million.

## CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

Consolidated Comparison of the quarter ended December 31, 2015 with the quarter ended December 31, 2014

The following table sets forth the Condensed Consolidated Statements of Operations for the periods indicated (amounts in thousands):

|   | Quarters Ended December 31, |                        |            |                        |    |
|---|-----------------------------|------------------------|------------|------------------------|----|
|   | 2015                        | % to<br>Total<br>Sales | 2014       | % to<br>Total<br>Sales |    |
| Net sales   | \$ 177,184                  |                        | \$ 201,310 |                        |    |
| Gross margin  | 38,748                      | 21.9                   | % 44,468   | 22.1                   | %  |
| Selling, general and administrative expenses  | 22,278                      | 12.6                   | % 23,374   | 11.6                   | %  |
| Research and development  | 6,134                       | 3.5                    | % 6,303    | 3.1                    | %  |
| Restructuring charges   | 1,714                       | 1.0                    | % 6,063    | 3.0                    | %  |
| Net (gain) loss on sales and disposals of assets  | 129                         | 0.1                    | % (574     | ) (0.3                 | )% |
| Operating income (loss)   | 8,493                       | 4.8                    | % 9,302    | 4.6                    | %  |
| Interest income   | (4                          | ) n.m.                 | (5         | ) n.m.                 |    |
| Interest expense  | 9,852                       | 5.6                    | % 9,938    | 4.9                    | %  |
| Change in value of NEC TOKIN options  | (700                        | ) (0.4                 | )% (2,500  | ) (1.2                 | )% |
| Other (income) expense, net   | (1,320                      | ) (0.7                 | )% (1,201  | ) (0.6                 | )% |
| Income (loss) from continuing operations before income taxes and equity income (loss) from NEC TOKIN          | 665                         | 0.4                    | % 3,070    | 1.5                    | %  |
| Income tax expense (benefit)  | 2,760                       | 1.6                    | % 1,359    | 0.7                    | %  |
| Income (loss) from continuing operations before equity income (loss) from NEC TOKIN                           | (2,095                      | ) (1.2                 | )% 1,711   | 0.8                    | %  |
| Equity income (loss) from NEC TOKIN   | (6,505                      | ) (3.7                 | )% 1,367   | 0.7                    | %  |
| Income (loss) from continuing operations  | (8,600                      | ) (4.9                 | )% 3,078   | 1.5                    | %  |
| Income (loss) from discontinued operations, net of income tax expense (benefit) of \$0 and \$41, respectively | —                           | n.m.                   | (164       | ) (0.1                 | )% |
| Net income (loss)   | \$(8,600                    | ) (4.9                 | )% \$2,914 | 1.4                    | %  |

n.m. - not meaningful

## Net Sales

Net sales for the quarter ended December 31, 2015 of \$177.2 million decreased \$24.1 million or 12.0% from \$201.3 million for the quarter ended December 31, 2014. Solid Capacitors and Film and Electrolytic net sales decreased \$17.5 million and \$6.6 million, respectively. The decrease for Solid Capacitors primarily related to a decrease in net sales in the Americas and EMEA regions from the OEM and distributor channels. In addition, Solid Capacitor net sales were unfavorably impacted by \$2.3 million from foreign currency exchange primarily due to the change in the value of the Euro compared to the U.S. dollar for the quarter ended December 31, 2015 compared to the quarter ended December 31, 2014. For Film and Electrolytic, the decrease in net sales was unfavorably impacted by \$3.8 million



from foreign currency exchange primarily due to the change in the value of the Euro compared to the U.S. dollar for the quarter ended December 31, 2015 compared to the quarter ended December 31, 2014. In addition Film and Electrolytic net sales were unfavorably impacted by declining volumes in the EMEA and Asia and the Pacific Rim ("APAC") regions.

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The following table reflects the percentage of net sales by region for the quarters ended December 31, 2015 and 2014:

|          | Quarters Ended December 31, |       |   |
|----------|-----------------------------|-------|---|
|          | 2015                        | 2014  |   |
| Americas | 32                          | % 32  | % |
| EMEA     | 30                          | % 33  | % |
| APAC     | 38                          | % 35  | % |
|          | 100                         | % 100 | % |

The following table reflects the percentage of net sales by channel for the quarters ended December 31, 2015 and 2014:

|  | Quarters Ended December 31, |       |   |
|--|-----------------------------|-------|---|
|  | 2015                        | 2014  |   |
| Distributors   | 40                          | % 44  | % |
| Electronics Manufacturing Services Providers ("EMS") | 22                          | % 19  | % |
| Original Equipment Manufacturers ("OEM")             | 38                          | % 37  | % |
|  | 100                         | % 100 | % |

## Gross Margin

Gross margin for the quarter ended December 31, 2015 of \$38.7 million (21.9% of net sales) decreased \$5.7 million or 12.9% from \$44.5 million (22.1% of net sales) for the quarter ended December 31, 2014. Solid Capacitors gross margin decreased \$6.2 million or 14.3% primarily due to a decrease in net sales. Despite the decrease in net sales, the corresponding decrease in gross margin was partially offset by variable margin improvement due to our restructuring efforts, cost reduction activities, vertical integration, the favorable foreign currency impact to raw material costs, and manufacturing process improvements as a result of our partnership with NEC TOKIN. Film and Electrolytic gross margin increased \$0.5 million or 45.7% due to headcount reductions and manufacturing relocations previously completed as part of our restructuring plan and cost reduction actions across all plants.

## Selling, general and administrative expenses ("SG&amp;A")

SG&A expenses of \$22.3 million (12.6% of net sales) for the quarter ended December 31, 2015 decreased \$1.1 million or 4.7% from \$23.4 million (11.6% of net sales) for the quarter ended December 31, 2014. The decrease is attributable primarily to the following items: a \$1.0 million decrease in payroll, commissions, and related expenses and benefits; a \$0.6 million decrease related to the change in the allocation of IT and other costs between SG&A and cost of goods sold following an internal usage study; a \$0.5 million decrease in ERP integration and technology transition costs; a \$0.4 million decrease in software expense; a \$0.2 million decrease in travel expenses; a \$0.2 million decrease in advertising and promotions; a \$0.2 million decrease in director fees; and a \$0.2 million decrease in bank charges. Partially offsetting these decreases was a \$1.2 million increase in legal expenses, a \$0.4 million increase in professional fees, a \$0.3 million increase in office and equipment rental expense, a \$0.2 million increase in staff development and training expenses, and a \$0.2 million increase in consulting and contractor expenses.

## Research and development ("R&amp;D")

R&D expenses of \$6.1 million (3.5% of net sales) for the quarter ended December 31, 2015 decreased \$0.2 million or 2.7% compared to \$6.3 million (3.1% of net sales) for the quarter ended December 31, 2014.

## Restructuring charges

Restructuring charges of \$1.7 million for the quarter ended December 31, 2015 decreased \$4.3 million or 71.7% from \$6.1 million for the quarter ended December 31, 2014.

The Company incurred \$1.7 million in restructuring charges in the quarter ended December 31, 2015 including \$0.8 million in personnel reduction costs and \$0.9 million in manufacturing relocation costs. The personnel reduction costs of \$0.8 million are due primarily to \$0.7 million related to the consolidation and relocation of certain Solid Capacitor manufacturing in

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Victoria and Matamoros, Mexico, and \$0.1 million for overhead reductions in North America and Europe. The manufacturing relocation costs of \$0.9 million are due primarily to transfers of Film and Electrolytic production lines to lower cost regions.

The Company incurred \$6.1 million in restructuring charges in the quarter ended December 31, 2014 including \$5.9 million of personnel reduction costs due to the following: \$4.0 million related to headcount reductions in Europe (primarily Italy and Landsberg, Germany) corresponding with the relocation of certain production lines to lower cost regions, \$1.4 million for outsourcing of the Company's information technology function and overhead reductions in North America and Europe, and \$0.5 million related to the relocation of certain Solid Capacitor manufacturing from Matamoros, Mexico to Victoria, Mexico. The Company also incurred \$0.2 million of manufacturing relocation costs primarily due to the relocation of equipment to Suzhou, China and Skopje, Macedonia.

### Operating income (loss)

Operating income of \$8.5 million for the quarter ended December 31, 2015 decreased \$0.8 million from operating income of \$9.3 million for the quarter ended December 31, 2014. The decrease in operating income was primarily attributable to a \$5.7 million decrease in gross margin and a \$0.7 decrease in the gain on sales and disposals of assets. These declines in operating income were partially offset by the following: a \$4.3 million decrease in restructuring charges, a \$1.1 million decrease in SG&A expenses and a \$0.2 million decrease in R&D expenses.

### Non-operating (income) expense, net

Non-operating (income) expense, net was a net expense of \$7.8 million for the quarter ended December 31, 2015 compared to a net expense of \$6.2 million for the quarter ended December 31, 2014. The change is primarily attributable to a \$0.7 million gain from the change in value of the NEC TOKIN options during the quarter ended December 31, 2015 compared to a \$2.5 million gain from the change in value of the NEC TOKIN options during the quarter ended December 31, 2014. During the quarter ended December 31, 2015, we recognized a \$1.0 million foreign currency exchange gain compared to a \$1.3 million foreign currency exchange gain for the quarter ended December 31, 2014, which was due primarily to the change in the value of the Euro and Mexican Peso compared to the U.S. dollar. Additionally, in the quarter ended December 31, 2014 we had recognized \$1.1 million in professional charges related to financing activities which was largely offset by a \$1.0 million gain recognized from the extinguishment of our Advance Payment from OEM debt.

### Income taxes

Income tax expense from continuing operations of \$2.8 million for the quarter ended December 31, 2015 increased \$1.4 million compared to income tax expense from continuing operations of \$1.4 million for the quarter ended December 31, 2014. During the quarter ended December 31, 2015, the income tax expense from continuing operations was comprised of a \$2.8 million income tax expense from foreign operations. During the quarter ended December 31, 2014, the Company incurred \$1.4 million which is comprised of a \$0.8 million charge related to income taxes from continuing foreign operations and \$0.6 million of income tax expense related to an uncertain tax position in a foreign jurisdiction.

There was no U.S. federal income tax benefit from net operating losses for the quarters ended December 31, 2015 and 2014 due to a valuation allowance recorded on deferred tax assets.

### Equity income (loss) from NEC TOKIN

Equity loss related to our 34% economic interest in NEC TOKIN of \$6.5 million for the quarter ended December 31, 2015 reflects a \$7.9 million unfavorable change compared to equity income of \$1.4 million for the quarter ended December 31, 2014. The change is comprised of the following: a \$6.7 million increase in accrued antitrust fines and a \$2.3 million unfavorable change in the foreign exchange rates. In addition, there was a receipt of \$0.2 million from a legal settlement in Hong Kong for the quarter ended December 31, 2014 and no similar receipt in the quarter ended December 31, 2015. Partially offsetting these unfavorable items were: a \$0.1 million improvement in gross margin, a \$0.1 million decrease in legal expenses relating to antitrust lawsuits and a \$0.1 million decrease in step up basis adjustments. In addition, a \$1.0 million increase in income tax benefit, which included a \$0.4 million decrease in deferred tax liability and a \$0.6 million tax penalty charged in Vietnam for the quarter ended December 31, 2014, whereas no such charges were incurred during the quarter ended December 31, 2015.

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## Discontinued operations

Loss from discontinued operations was \$0.2 million for the quarter ended December 31, 2014 and related to the sale of the machinery division in April 2014. There was no activity related to discontinued operations in the quarter ended December 31, 2015.

## Business Groups Comparison of the Quarter Ended December 31, 2015 with the Quarter Ended December 31, 2014

The following table reflects each business group's net sales and operating income (loss), for the quarters ended December 31, 2015 and 2014 (amounts in thousands):

|                          | Quarters Ended December 31, |           |
|--------------------------|-----------------------------|-----------|
|                          | 2015                        | 2014      |
| Net sales:               |                             |           |
| Solid Capacitors         | \$135,300                   | \$152,785 |
| Film and Electrolytic    | 41,884                      | 48,525    |
| Total                    | \$177,184                   | \$201,310 |
| Operating income (loss): |                             |           |
| Solid Capacitors         | \$31,359                    | \$38,103  |
| Film and Electrolytic    | (1,770)                     | (5,137)   |
| Corporate                | (21,096)                    | (23,664)  |
| Total                    | \$8,493                     | \$9,302   |

## Solid Capacitors

The following table sets forth net sales, operating income (loss), and operating income (loss) as a percentage of net sales for our Solid Capacitors business group for the quarters ended December 31, 2015 and 2014 (amounts in thousands, except percentages):

|  | Quarters Ended December 31, |                |           |                |
|--|-----------------------------|----------------|-----------|----------------|
|  | 2015                        |                | 2014      |                |
|  | Amount                      | % to Net Sales | Amount    | % to Net Sales |
| Tantalum product line net sales          | \$82,979                    |                | \$92,257  |                |
| Ceramic product line net sales           | 52,321                      |                | 60,528    |                |
| Solid Capacitors net sales               | \$135,300                   |                | \$152,785 |                |
| Solid Capacitors operating income (loss) | \$31,359                    | 23.2%          | \$38,103  | 24.9%          |

## Net sales

Solid Capacitors net sales of \$135.3 million for the quarter ended December 31, 2015 decreased \$17.5 million or 11.4% from \$152.8 million for the quarter ended December 31, 2014. The decrease primarily related to a decrease in unit sales volumes, typical erosion in market prices and changes in product line and channel mix in North America and South America ("Americas") and Europe, Middle East and Africa ("EMEA"). The decrease in net sales included a \$2.3 million unfavorable impact from foreign currency exchange due primarily to the change in the value of the Euro compared to the U.S. dollar.

The overall Solid Capacitors net sales decrease was driven primarily by decrease in net sales in the Americas and EMEA regions:

|  | Quarters Ended December 31, |      | Change in Net Sales |
|--|-----------------------------|------|---------------------|
|  | 2015                        | 2014 |                     |

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|                           |         |         |          |   |
|---------------------------|---------|---------|----------|---|
| Americas                  | \$50.5  | \$58.3  | \$(7.8)  | ) |
| EMEA                      | 27.5    | 36.2    | (8.7)    | ) |
| APAC                      | 57.3    | 58.3    | (1.0)    | ) |
| Solid Capacitor net sales | \$135.3 | \$152.8 | \$(17.5) | ) |

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The Americas and EMEA decreases are comprised of decreases in distribution channel for certain Tantalum and Ceramic commercial and specialty products.

## Segment operating income (loss)

Segment operating income of \$31.4 million for the quarter ended December 31, 2015 decreased \$6.7 million or 17.7% from \$38.1 million in the quarter ended December 31, 2014. The decrease in operating income is primarily a result of a \$6.2 million decrease in gross margin, a \$0.3 million increase in restructuring charges and a \$0.3 million increase in SG&A charges. Despite the decrease in sales, the gross margin impact was limited due to significant cost improvements driven by vertical integration, the favorable foreign currency impact to manufacturing costs, and manufacturing improvements as a result of our partnership with NEC TOKIN.

## Film and Electrolytic

The following table sets forth net sales, operating income (loss) and operating income (loss) as a percentage of net sales for our Film and Electrolytic business group for the quarters ended December 31, 2015 and 2014 (amounts in thousands, except percentages):

|                         | Quarters Ended December 31, |                | 2014      |                |    |
|-------------------------|-----------------------------|----------------|-----------|----------------|----|
|                         | 2015                        |                | 2014      |                |    |
|                         | Amount                      | % to Net Sales | Amount    | % to Net Sales |    |
| Net sales               | \$41,884                    |                | \$48,525  |                |    |
| Operating income (loss) | (1,770                      | ) (4.2         | )% (5,137 | ) (10.6        | )% |

## Net sales

Film and Electrolytic net sales of \$41.9 million for the quarter ended December 31, 2015 decreased \$6.6 million or 13.7% from \$48.5 million for the quarter ended December 31, 2014. The decrease in net sales included a \$3.8 million unfavorable impact from foreign currency exchange due primarily to the change in the value of the Euro compared to the U.S. dollar. Excluding the foreign exchange impact, net sales decreased by \$2.8 million primarily due to a decrease in unit sales volumes in the EMEA and APAC regions. The decrease was partially offset by improving net sales in the Americas region.

## Segment operating income (loss)

Segment operating loss of \$1.8 million for the quarter ended December 31, 2015 improved \$3.4 million from a loss of \$5.1 million in the quarter ended December 31, 2014 and operating loss as a percentage of net sales improved 640 basis points. The improvement in segment operating loss was driven by an improvement in gross margin achieved through headcount reductions and manufacturing relocations previously completed as part of our restructuring plan and cost reduction actions across all plants. In addition, restructuring charges decreased \$3.5 million. Partially offsetting this improvement was a \$0.3 million loss on disposal of fixed assets incurred in the quarter ended December 31, 2015 compared to a \$0.6 million gain on disposal of fixed assets incurred in the quarter ended December 31, 2014.



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Consolidated Comparison of the Nine Month Period Ended December 31, 2015 with the Nine Month Period Ended December 31, 2014

The following table sets forth the Condensed Consolidated Statements of Operations for the nine month periods ended December 31, 2015 and 2014 (amounts in thousands):

|  | Nine Month Periods Ended December 31, |                        |            |                        |    |    |
|--|---------------------------------------|------------------------|------------|------------------------|----|----|
|  | 2015                                  | % to<br>Total<br>Sales | 2014       | % to<br>Total<br>Sales |    |    |
| Net sales  | \$550,897                             |                        | \$629,484  |                        |    |    |
| Gross margin   | 121,267                               | 22.0                   | % 123,180  | 19.6                   |    | %  |
| Selling, general and administrative expenses   | 75,656                                | 13.7                   | % 73,663   | 11.7                   |    | %  |
| Research and development   | 18,560                                | 3.4                    | % 19,230   | 3.1                    |    | %  |
| Restructuring charges  | 3,561                                 | 0.6                    | % 9,580    | 1.5                    |    | %  |
| Net (gain) loss on sales and disposals of assets   | (233                                  | ) n.m.                 | (759       | ) (0.1                 | )% | )% |
| Operating income (loss)  | 23,723                                | 4.3                    | % 21,466   | 3.4                    |    | %  |
| Interest income  | (10                                   | ) n.m.                 | (11        | ) n.m.                 |    |    |
| Interest expense   | 29,676                                | 5.4                    | % 30,681   | 4.9                    |    | %  |
| Change in value of NEC TOKIN options   | 26,300                                | 4.8                    | % (13,200  | ) (2.1                 | )% | )% |
| Other (income) expense, net  | (2,495                                | ) (0.5                 | )% (1,629  | ) (0.3                 | )% | )% |
| Income (loss) from continuing operations before income taxes and equity income from NEC TOKIN                    | (29,748                               | ) (5.4                 | )% 5,625   | 0.9                    |    | %  |
| Income tax expense   | 3,950                                 | 0.7                    | % 5,224    | 0.8                    |    | %  |
| Income (loss) from continuing operations before equity income (loss) from NEC TOKIN                              | (33,698                               | ) (6.1                 | )% 401     | 0.1                    |    | %  |
| Equity income (loss) from NEC TOKIN  | (4,758                                | ) (0.9                 | )% (76     | ) n.m.                 |    |    |
| Income (loss) from continuing operations   | (38,456                               | ) (7.0                 | )% 325     | 0.1                    |    | %  |
| Income (loss) from discontinued operations, net of income tax expense (benefit) of \$0 and \$1,976, respectively | —                                     | n.m.                   | 5,379      | 0.9                    |    | %  |
| Net income (loss)  | \$(38,456                             | ) (7.0                 | )% \$5,704 | 0.9                    |    | %  |

n.m. - not meaningful

#### Net Sales

Net sales of \$550.9 million for the nine month period ended December 31, 2015 decreased \$78.6 million or 12.5% from \$629.5 million for the nine month period ended December 31, 2014. Solid Capacitors net sales decreased \$59.3 million driven by a decrease in net sales in the Americas and EMEA regions from the OEM and distributor channels which we believe is due to a general softening of the markets and distributor inventory corrections. In addition, Solid Capacitor net sales were unfavorably impacted by \$11.4 million from foreign currency exchange primarily due to the change in the value of the Euro compared to the U.S. dollar. Film & Electrolytic net sales decreased \$19.3 million driven primarily by an unfavorable impact of \$17.4 million from foreign currency exchange due mainly to the change in the value of the Euro compared to the U.S. dollar. In addition, net sales decreased in the APAC and Americas regions which was partially offset by improved net sales in the EMEA region.

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The following table reflects the percentage of net sales by region for the nine month periods ended December 31, 2015 and 2014:

|          | Nine Month Periods Ended December 31, |       |   |
|----------|---------------------------------------|-------|---|
|          | 2015                                  | 2014  |   |
| Americas | 31                                    | % 32  | % |
| EMEA     | 31                                    | % 34  | % |
| APAC     | 38                                    | % 34  | % |
|          | 100                                   | % 100 | % |

The following table reflects the percentage of net sales by channel for the nine month periods ended December 31, 2015 and 2014:

|              | Nine Month Periods Ended December 31, |       |   |
|--------------|---------------------------------------|-------|---|
|              | 2015                                  | 2014  |   |
| Distributors | 41                                    | % 44  | % |
| EMS          | 22                                    | % 18  | % |
| OEM          | 37                                    | % 38  | % |
|              | 100                                   | % 100 | % |

## Gross Margin

Gross margin of \$121.3 million (22.0% of net sales) for the nine month period ended December 31, 2015 decreased \$1.9 million or 1.6% from \$123.2 million (19.6% of net sales) for the nine month period ended December 31, 2014 and gross margin as a percentage of net sales improved 240 basis points. The primary contributor to the decrease was a decrease in Solid Capacitor gross margin of \$10.1 million primarily due to the decrease in net sales. Despite the decrease in net sales, the gross margin decrease for Solid Capacitors was partially mitigated by variable margin improvement due to our restructuring efforts, cost reduction activities, vertical integration, the favorable foreign currency impact to manufacturing costs, and manufacturing process improvements as a result of our partnership with NEC TOKIN. This decrease was partially offset by an improvement in gross margin for Film and Electrolytic of \$8.2 million driven by the headcount reductions and manufacturing relocations previously completed as part of our restructuring plan and cost reduction actions across all plants.

## Selling, General and Administrative Expenses

SG&A expenses of \$75.7 million (13.7% of net sales) for the nine month period ended December 31, 2015 increased \$2.0 million or 2.7% compared to \$73.7 million (11.7% of net sales) for the nine month period ended December 31, 2014. The increase consists primarily of the following items: a \$2.8 million increase in ERP integration and technology transition costs; a \$2.6 million increase in legal expenses primarily related to ongoing antitrust lawsuits; a \$1.9 million increase in consulting and contractor expenses; and a \$0.7 million increase in non-income-related taxes. These increases were partially offset by a \$1.5 million decrease in software-related expenses, a \$1.4 million decrease related to the change in the allocation of IT and other costs between SG&A and cost of goods sold following an internal usage study, a \$0.8 million decrease in professional fees, a \$0.7 million decrease in payroll, commissions, and related expenses and benefits, a \$0.7 million decrease in depreciation expense, a \$0.4 million decrease in director fees, and a \$0.4 million decrease in certain ongoing costs related to our acquisition of a 34% economic interest in NEC TOKIN's net assets.

## Research and Development

R&D expenses of \$18.6 million (3.4% of net sales) for the nine month period ended December 31, 2015 decreased \$0.7 million or 3.5% compared to \$19.2 million (3.1% of net sales) for the nine month period ended December 31, 2014.

#### Restructuring Charges

Restructuring charges of \$3.6 million for the nine month period ended December 31, 2015 decreased \$6.0 million or 62.8% from \$9.6 million for the nine month period ended December 31, 2014.

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Restructuring charges in the nine month period ended December 31, 2015 included \$1.9 million of personnel reduction costs and \$1.7 million of manufacturing relocation costs.

The personnel reduction costs of \$1.9 million are comprised of the following: \$1.4 million related to the consolidation and relocation of certain Solid Capacitor manufacturing in Victoria and Matamoros, Mexico, \$0.6 million related to a headcount reduction in Suzhou, China for the Film & Electrolytic production line transfer from Suzhou, China to Anting, China, \$0.6 million for headcount reductions related to the outsourcing of the Company's information technology function and overhead reductions in North America and Europe, and \$0.4 million for planned headcount reductions in Europe (primarily Landsberg, Germany). These personnel reduction costs were partially offset by a \$1.2 million reversal of a severance accrual in Italy. The Company originally recorded the accrual in the third quarter of fiscal year 2015 corresponding with a plan to reduce headcount by 50 employees. Under the plan, 24 employees were terminated. However, due to unexpected workforce attrition combined with achieving other cost reduction goals, the Company decided not to complete the remaining headcount reduction. Consequently, the Company reversed the remaining accrual during the second quarter of fiscal year 2016

The Company also incurred \$1.7 million of manufacturing relocation costs primarily for transfers of Film and Electrolytic production lines to lower cost regions

The Company incurred \$9.6 million in restructuring charges in the nine month period ended December 31, 2014 including \$7.2 million of personnel reduction costs due to the following: \$5.2 million related to headcount reductions in Europe (primarily Italy and Landsberg, Germany) corresponding with the relocation of certain production lines to lower cost regions, \$1.4 million for outsourcing of the Company's information technology function and overhead reductions in North America and Europe, and \$0.6 million related to the relocation of certain Solid Capacitor manufacturing from Matamoros, Mexico to Victoria, Mexico. The remaining \$2.4 million of manufacturing relocation costs was comprised of \$1.1 million related to the relocation of equipment to Suzhou, China and Skopje, Macedonia and \$1.3 million due to the shut-down of the Tantalum production line in Evora, Portugal.

Operating Income (Loss)

KEMET's operating income of \$23.7 million for the nine month period ended December 31, 2015, improved \$2.3 million from the operating income of \$21.5 million for the nine month period ended December 31, 2014. The improvement is attributable primarily to a \$6.0 million decrease in restructuring charges and a \$0.7 million decrease in R&D expenses. These improvements were partially offset by a \$2.0 million increase in SG&A expense, a \$1.9 million decrease in gross margin and a \$0.5 million decrease in the gain on disposal of fixed assets.

Non-operating (Income) Expense, net

Non-operating (income) expense, net was an expense of \$53.5 million for the nine month period ended December 31, 2015, compared to an expense of \$15.8 million for the nine month period ended December 31, 2014. The increase is primarily due to the recognition of a \$26.3 million decrease in the value of the NEC TOKIN options for the nine month period ended December 31, 2015 compared to a \$13.2 million increase in the value of the NEC TOKIN options for the nine month period ended December 31, 2014. Partially offsetting this increase was a \$3.2 million foreign currency exchange gain during the nine month period ended December 31, 2015 compared to a \$2.1 million foreign currency exchange gain for the nine month period ended December 31, 2014, which was primarily due to the change in the value of the Euro and Mexican Peso compared to the U.S. dollar. Interest expense decreased \$1.0 million for the nine month period ended December 31, 2015 from the nine month period ended December 31, 2014, which was primarily due to a decrease in imputed interest on acquisition-related obligations. Additionally, during the nine month period ended December 31, 2014 we had recognized \$1.1 million in professional charges related to financing activities which was largely offset by a \$1.0 million gain recognized from the extinguishment of our Advance

Payment from OEM debt.

#### Income Taxes

Income tax expense of \$4.0 million for the nine month period ended December 31, 2015 was comprised of \$4.4 million related to income taxes for foreign operations, a \$0.6 million federal income tax benefit from the acquisition of IntelliData and \$0.2 million of state income tax expense. Income tax expense of \$5.2 million for the nine month period ended December 31, 2014 was comprised of \$4.3 million related to income taxes for continuing foreign operations, a \$0.8 million income tax expense related to uncertain tax positions in a foreign jurisdiction and \$0.1 million of state income tax expense.

There was no U.S. federal income tax benefit from net operating losses for the nine month periods ended December 31, 2015 and 2014 due to a valuation allowance on deferred tax assets.

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## Equity Income (Loss) from NEC TOKIN

Equity loss related to our 34% economic interest in NEC TOKIN increased by \$4.7 million to a \$4.8 million equity loss for the nine month period ended December 31, 2015 compared to a \$0.1 million equity loss for the nine month period ended December 31, 2014. The change is comprised of the following: a \$6.7 million increase in accrued antitrust fines, a \$2.4 million unfavorable change in the foreign exchange rates and a \$0.3 million increase in legal expenses relating to antitrust lawsuits. In addition, there was a \$1.4 million gain on sale of an operating division was recorded for the quarter ended December 31, 2014, and no similar transaction in the quarter ended December 31, 2015. Partially offsetting these unfavorable items were: a \$1.8 million improvement in gross margin, \$1.2 million decrease in business restructuring expenses, a \$0.7 million decrease in step up basis adjustments, a \$0.6 million increase of gain from lawsuit settlements, a \$0.2 million decrease in R&D expense, a \$0.2 million refund from customs duty in the United States of America and a \$0.2 million decrease in loss on disposed fixed assets. In addition, there was a \$1.1 million increase in income tax benefit, which included a \$0.5 million decrease in deferred tax liability and a \$0.6 million tax penalty charged in Vietnam for the quarter ended December 31, 2014, whereas no such charges were incurred during the quarter ended December 31, 2015. The improvement in gross margin was driven primarily by sales mix improvement, improvements in manufacturing efficiencies, and a reduction of personnel costs.

## Discontinued Operations

Film and Electrolytic completed the sale of its machinery division in April 2014, which resulted in a gain of \$5.6 million on the sale of the business (after income tax expense), which was partially offset by a loss from machinery operations of \$0.3 million during the nine month period ended December 31, 2014, resulting in net income from discontinued operations of \$5.4 million. There was no activity related to discontinued operations in the nine month period ended December 31, 2015.

## Business Groups Comparison of the Nine Month Period Ended December 31, 2015 with the Nine Month Period Ended December 31, 2014

The following table reflects each business group's net sales and operating income (loss) for the nine month periods ended December 31, 2015 and 2014 (amounts in thousands):

|                          | Nine Month Periods Ended<br>December 31, |           |
|--------------------------|--|-----------|
|                          | 2015                                     | 2014      |
| Net sales:               |  |           |
| Solid Capacitors         | \$416,261                                | \$475,594 |
| Film and Electrolytic    | 134,636                                  | 153,890   |
| Total                    | \$550,897                                | \$629,484 |
| Operating income (loss): |  |           |
| Solid Capacitors         | \$95,371                                 | \$106,223 |
| Film and Electrolytic    | 1,159                                    | (12,130)  |
| Corporate                | (72,807)                                 | (72,627)  |
| Total                    | \$23,723                                 | \$21,466  |

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## Solid Capacitors

The following table sets forth net sales, operating income and operating income as a percentage of net sales for our Solid Capacitors business group for the nine month periods ended December 31, 2015 and 2014 (amounts in thousands, except percentages):

|  | Nine Month Periods Ended December 31, |                |             |                |   |  |
|--|---------------------------------------|----------------|-------------|----------------|---|--|
|  | 2015                                  |                | 2014        |                |   |  |
|  | Amount                                | % to Net Sales | Amount      | % to Net Sales |   |  |
| Tantalum product line net sales          | \$255,430                             |                | \$289,044   |                |   |  |
| Ceramic product line net sales           | 160,831                               |                | 186,550     |                |   |  |
| Solid Capacitors net sales               | \$416,261                             |                | \$475,594   |                |   |  |
| Solid Capacitors operating income (loss) | \$95,371                              | 22.9           | % \$106,223 | 22.3           | % |  |

## Net Sales

Solid Capacitors net sales of \$416.3 million for the nine month period ended December 31, 2015 decreased \$59.3 million or 12.5% from \$475.6 million for the nine month period ended December 31, 2014. Tantalum product line net sales of \$255.4 million for the nine month period ended December 31, 2015, decreased \$33.6 million or 11.6% from \$289.0 million for the nine month period ended December 31, 2014. Ceramic net sales of \$160.8 million for the nine month period ended December 31, 2015 decreased \$25.7 million or 13.8% from \$186.6 million for the nine month period ended December 31, 2014. Included in the decrease in net sales was an unfavorable impact of \$11.4 million from foreign currency exchange primarily due to the change in the value of the Euro compared to the U.S. dollar.

The overall Solid Capacitors net sales decrease was driven primarily by a decrease in net sales in the Americas and EMEA regions due to a decline in unit volumes, typical market price erosion and changes in product line and channel mix:

|                            | Nine Month Periods Ended |         | Change in Net Sales |
|----------------------------|--------------------------|---------|---------------------|
|                            | December 31,             |         |                     |
|                            | 2015                     | 2014    |                     |
| Americas                   | \$153.9                  | \$184.7 | \$(30.8 )           |
| EMEA                       | 88.5                     | 114.9   | (26.4 )             |
| APAC                       | 173.9                    | 176.0   | (2.1 )              |
| Solid Capacitors net sales | \$416.3                  | \$475.6 | \$(59.3 )           |

The Americas and EMEA decreases are comprised of decreases in both the OEM and distribution channels for certain Tantalum and Ceramic commercial and specialty products.

## Segment Operating Income (Loss)

Segment operating income of \$95.4 million for the nine month period ended December 31, 2015 decreased \$10.9 million or 10.2% from \$106.2 million for the nine month period ended December 31, 2014, however operating income as a percentage of net sales improved 60 basis points. The decrease in operating income was attributable primarily to a decrease in gross margin of \$10.1 million and a \$1.0 million increase in SG&A expenses, which were partially offset by a \$0.3 million decrease in restructuring charges. Despite the \$59.3 million decrease in net sales, our gross margin only decreased \$10.1 million due to vertical integration, the favorable foreign currency impact to manufacturing costs, and manufacturing process improvements as a result of our partnership with NEC TOKIN.





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## Film and Electrolytic

The following table sets forth net sales, operating income (loss) and operating income (loss) as a percentage of net sales for our Film and Electrolytic business group for the nine month periods ended December 31, 2015 and 2014 (amounts in thousands, except percentages):

|                         | Nine Month Periods Ended December 31, |                |            |                |
|-------------------------|---------------------------------------|----------------|------------|----------------|
|                         | 2015                                  |                | 2014       |                |
|                         | Amount                                | % to Net Sales | Amount     | % to Net Sales |
| Net sales               | \$ 134,636                            |                | \$ 153,890 |                |
| Operating income (loss) | 1,159                                 | 0.9            | % (12,130  | ) (7.9 )%      |

## Net Sales

Film and Electrolytic net sales of \$134.6 million for the nine month period ended December 31, 2015 decreased \$19.3 million or 12.5% from \$153.9 million for the nine month period ended December 31, 2014. The decrease in net sales included a \$17.4 million unfavorable impact from foreign currency exchange primarily due to the change in the value of the Euro compared to the U.S. dollar. Excluding the foreign exchange impact, net sales decreased by \$1.9 million primarily driven by decreased net sales in the APAC and Americas regions partially offset by the improved net sales in the EMEA region.

## Segment Operating Income (Loss)

Segment operating income of \$1.2 million for the nine month period ended December 31, 2015, improved \$13.3 million from a segment operating loss of \$12.1 million for the nine month period ended December 31, 2014 and operating income as a percentage of net sales improved 880 basis points. The improvement in segment operating income was primarily attributable to an \$8.2 million improvement in gross margin driven by the headcount reductions and manufacturing relocations previously completed as part of our restructuring plan and cost reduction actions across all plants. In addition we achieved the following improvements: a \$5.0 million decrease in restructuring charges, a \$0.5 million decrease in SG&A expenses and a \$0.2 million decrease in R&D expenses. These improvements were partially offset by a \$0.6 million decrease in the gain on disposal of fixed assets.

## Liquidity and Capital Resources

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

## 10.5% Senior Notes

As of December 31, 2015 and March 31, 2015, we had outstanding \$355.0 million in aggregate principal amount of the Company's 10.5% Senior Notes due May 1, 2018 (the "10.5% Senior Notes").

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## Revolving Line of Credit

As of December 31, 2015, the Company had the following activity and resulting balances under its revolving line of credit (amounts in millions, excluding percentages):

|                           | As of March 31,<br>2015   | Nine Month Period<br>Ended December 31,<br>2015 |            | As of December 31, 2015   |                 |                      |
|---------------------------|---------------------------|---|------------|---------------------------|-----------------|----------------------|
|                           | Outstanding<br>Borrowings | Additional<br>Borrowings                        | Repayments | Outstanding<br>Borrowings | Rate (1)<br>(2) | Due Date             |
| U.S. Facility (3)         | \$21.5                    | \$8.0   | \$5.5      | \$24.0                    | 4.750 %         | December 19,<br>2019 |
| Singapore Facility        |                           |   |            |                           |                 |                      |
| Singapore Borrowing 1 (4) | 12.0                      | —   | —          | 12.0                      | 3.000 %         | February 22,<br>2016 |
| Singapore Borrowing 2 (4) | —                         | 2.0   | —          | 2.0                       | 3.125 %         | April 11, 2016       |
| Total Facilities          | \$33.5                    | \$10.0  | \$5.5      | \$38.0                    |                 |                      |

(1) For U.S. borrowings, Base Rate plus 1.50%, as defined in the Loan and Security Agreement dated September 30, 2010, as amended, by and among KEC, KEMET Electronics Marketing (S) Pte. Ltd., KEMET Foil Manufacturing, LLC (“KEMET Foil”), KEMET Blue Powder Corporation (“KEMET Blue Powder”), The Forest Electric Company and the financial institutions party thereto (the “Loan and Security Agreement”).

(2) For Singapore borrowings, London Interbank Offer Rate (“LIBOR”), plus a spread of 2.50% as of December 31, 2015.

(3) The Company plans to repay a portion of the U.S. Facility within a year and has classified \$5.0 million as current portion of long-term debt as of December 31, 2015.

(4) The Company has the intent and ability to extend the due date on the Singapore borrowings beyond one year. These were the only borrowings under the revolving line of credit as of December 31, 2015.

## Short-term Liquidity

Unrestricted cash and cash equivalents as of December 31, 2015 of \$43.2 million decreased \$13.2 million from \$56.4 million as of March 31, 2015. Our net working capital (current assets less current liabilities) as of December 31, 2015 was \$234.3 million compared to \$239.1 million as of March 31, 2015. Cash and cash equivalents held by our foreign subsidiaries totaled \$23.9 million and \$22.6 million at December 31, 2015 and March 31, 2015, respectively. Our operating income outside the U.S. is no longer deemed to be permanently reinvested in foreign jurisdictions. As a result, we set up a deferred tax liability as of March 31, 2015 on the undistributed foreign earnings which was offset by a reduction in the valuation allowance on our deferred tax assets. However, we currently do not intend nor foresee a need to repatriate cash and cash equivalents held by foreign subsidiaries. If these funds are needed for our operations in the U.S., we may be required to accrue U.S. withholding taxes on the distributed foreign earnings.

Our current restructuring activities to improve our cost structure by relocating headcount to lower cost areas and vertically integrating our supply chain are nearing completion and we expect these efforts to be reflected as an improvement to our operating cash flows in future periods. Based on our current operating plans, we believe domestic cash and cash equivalents are sufficient to fund our operating requirements for the next twelve months, including \$38.6 million in interest payments, \$15.0 million to \$20.0 million in expected capital expenditures, \$3.0 million in deferred acquisition payments, \$1.8 million in restructuring payments, and \$5.0 million in debt principal payments. As of December 31, 2015, our borrowing capacity under the revolving line of credit was \$22.0 million. The revolving line of credit expires on December 19, 2019. The borrowing capacity has increased due to an improvement in the fixed charge coverage ratio and an increase in the eligible accounts receivable collateral.

Should we require more capital than is generated by our operations or available through our revolving line of credit, we could attempt to raise capital through debt issuances or the sale of certain non-core assets. However, due to market conditions beyond our control, there can be no assurance that we would be able to complete such an offering or sale transaction. The incurrence of additional debt may result in increased interest expense.

Cash and cash equivalents decreased \$13.2 million for the nine month period ended December 31, 2015, as compared with a decrease of \$2.3 million during the nine month period ended December 31, 2014.

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

|  | Nine Month Periods Ended |             |
|--|--------------------------|-------------|
|  | December 31,             |             |
|  | 2015                     | 2014        |
| Net cash provided by (used in) operating activities  | \$ (557                  | ) \$ (3,270 |
| Net cash provided by (used in) investing activities  | (16,114                  | ) 8,139     |
| Net cash provided by (used in) financing activities  | 3,328                    | (5,610      |
| Effect of foreign currency fluctuations on cash      | 139                      | (1,606      |
| Net increase (decrease) in cash and cash equivalents | \$ (13,204               | ) \$ (2,347 |

## Operating

Cash used in operating activities in the nine month period ended December 31, 2015 of \$0.6 million decreased \$2.7 million compared to cash used in operating activities of \$3.3 million in the nine month period ended December 31, 2014. This favorable change in operating cash was primarily a result of a \$6.8 million decrease in prepaid expenses and other current assets (due to the collection of value-added tax) during the nine month period ended December 31, 2015 compared to a \$2.9 million increase in the nine month period ended December 31, 2014.

Also contributing to the positive changes in cash was a \$5.9 million increase in operating cash flows in the nine month period ended December 31, 2015 compared to the nine month period ended December 31, 2014 (changes in net income (loss) adjusted for the change in: depreciation and amortization, net (gain) loss on the sale of our discontinued operations, net cash provided by (used in) operating activities of our discontinued operations, equity (income) loss from NEC TOKIN, amortization of debt and financing costs, stock based compensation expense, change in value of NEC TOKIN options, net (gain) loss on sales and disposals of assets, pension and other post-retirement benefits, deferred income taxes, and long-term receivable write down).

Partially offsetting the positive changes above were changes in operating liabilities that resulted in an \$8.2 million decrease in cash during the nine month period ended December 31, 2015 when compared to the nine month period ended December 31, 2014. Additionally, the decrease in accounts receivable during nine month period ended December 31, 2015 provided \$1.3 million in cash whereas during the nine month period ended December 31, 2014, the decrease in accounts receivable generated \$7.4 million in cash.

## Investing

Cash used in investing activities in the nine month period ended December 31, 2015 of \$16.1 million reflects a \$24.3 million change compared to cash provided by investing activities of \$8.1 million in the nine month period ended December 31, 2014.

Cash used in investing activities during the nine month period ended December 31, 2015 include capital expenditures of \$14.1 million primarily related to expanding capacity at our manufacturing facilities in Suzhou, China; Pontecchio, Italy; Gränna, Sweden; and Evora, Portugal as well as information technology projects in Simpsonville, South Carolina. We also paid \$2.9 million related to our acquisition of IntelliData and received \$0.9 million in proceeds from the sale of assets.

In comparison, cash provided by investing activities during the nine month period ended December 31, 2014 included \$9.6 million from the sale of discontinued operations, \$4.5 million from the sale of other assets, and \$11.5 million from restricted cash related to an agreement we had with an original equipment manufacturer, and were offset by \$17.5 million used for capital expenditures primarily related to expanding capacity at our manufacturing facilities in Simpsonville, South Carolina; Gränna, Sweden; Suzhou, China; and completion of our manufacturing facility in Pontecchio, Italy.

Financing

Cash provided by financing activities in the nine month period ended December 31, 2015 of \$3.3 million reflects a \$8.9 million change from cash used in financing activities of \$5.6 million in the nine month period ended December 31, 2014, primarily due to a decrease in deferred acquisition payments.

During the nine month period ended December 31, 2015, we received \$4.5 million in net proceeds under the Loan and Security Agreement, while spending \$0.5 million for foreign subsidiary debt payments and \$0.7 million for the purchase of treasury stock.

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In comparison, during the nine month period ended December 31, 2014, we received \$28.0 million in net proceeds under the Loan and Security Agreement while making \$21.7 million in long-term debt payments and also making deferred acquisition payments of \$11.9 million related to the KEMET Foil and KEMET Blue Powder Corporation acquisitions.

## Commitments

With the exception of the IntelliData acquisition, for which we paid a commitment of \$3.0 million on January 4, 2016, our commitments have not materially changed from those disclosed in the Company's 2015 Annual Report.

## Non-U.S. Generally Accepted Accounting Principles ("GAAP") Financial Measures

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

The following table provides reconciliation from U.S. GAAP Gross margin to Non-U.S. GAAP Adjusted gross margin (amounts in thousands):

|                                  | Quarters Ended December 31, |           | Nine Month Periods Ended<br>December 31, |           |   |
|----------------------------------|-----------------------------|-----------|--|-----------|---|
|                                  | 2015                        | 2014      | 2015                                     | 2014      |   |
| Net sales                        | \$177,184                   | \$201,310 | \$550,897                                | \$629,484 |   |
| Cost of sales                    | \$138,436                   | \$156,842 | \$429,630                                | \$506,304 |   |
| Gross margin                     | \$38,748                    | \$44,468  | \$121,267                                | \$123,180 |   |
| Adjustments:                     |                             |           |  |           |   |
| Plant start-up costs             | 160                         | 1,144     | 542                                      | 3,905     |   |
| Stock-based compensation expense | 268                         | 424       | 1,140                                    | 1,111     |   |
| Plant shut-down costs            | 231                         | —         | 231                                      | 889       |   |
| Inventory revaluation            | —                           | (927      | ) —                                      | 928       |   |
| Adjusted gross margin            | \$39,407                    | \$45,109  | \$123,180                                | \$130,013 |   |
|                                  | 22.2                        | % 22.4    | % 22.4                                   | % 20.7    | % |

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Non-U.S. GAAP Adjusted operating income (loss) is calculated as follows (amounts in thousands):

|   | Quarters Ended December 31, |          | Nine Month Periods Ended<br>December 31, |          |
|---|-----------------------------|----------|--|----------|
|   | 2015                        | 2014     | 2015                                     | 2014     |
| Operating income (loss)                           | \$8,493                     | \$9,302  | \$23,723                                 | \$21,466 |
| Adjustments:                                      |                             |          |  |          |
| Restructuring charges                             | 1,714                       | 6,063    | 3,561                                    | 9,580    |
| Inventory revaluation                             | —                           | (927)    | ) —                                      | 928      |
| Net (gain) loss on sales and disposals of assets  | 129                         | (574)    | ) (233)                                  | ) (759)  |
| Stock-based compensation expense                  | 1,154                       | 1,232    | 3,761                                    | 3,184    |
| Legal expenses related to antitrust class actions | 1,300                       | 409      | 2,559                                    | 409      |
| ERP integration/IT transition costs               | 167                         | 671      | 4,818                                    | 1,975    |
| Plant start-up costs                              | 160                         | 1,144    | 542                                      | 3,905    |
| Plant shut-down costs                             | 231                         | —        | 231                                      | 889      |
| Pension plan adjustment                           | —                           | —        | 312                                      | —        |
| NEC TOKIN investment-related expenses             | 225                         | 485      | 635                                      | 1,552    |
| Adjusted operating income (loss)                  | \$13,573                    | \$17,805 | \$39,909                                 | \$43,129 |

Non-U.S. GAAP Adjusted net income (loss) is calculated as follows (amounts in thousands):

|   | Quarters Ended December 31, |           | Nine Month Periods Ended<br>December 31, |           |
|---|-----------------------------|-----------|--|-----------|
|   | 2015                        | 2014      | 2015                                     | 2014      |
| Net income (loss)                                 | \$(8,600)                   | ) \$2,914 | \$(38,456)                               | ) \$5,704 |
| Adjustments:                                      |                             |           |  |           |
| Restructuring charges                             | 1,714                       | 6,063     | 3,561                                    | 9,580     |
| Equity (income) loss from NEC TOKIN               | 6,505                       | (1,367)   | ) 4,758                                  | 76        |
| Inventory revaluation                             | —                           | (927)     | ) —                                      | 928       |
| Net (gain) loss on sales and disposals of assets  | 129                         | (574)     | ) (233)                                  | ) (759)   |
| Stock-based compensation expense                  | 1,154                       | 1,232     | 3,761                                    | 3,184     |
| Legal expenses related to antitrust class actions | 1,300                       | 409       | 2,559                                    | 409       |
| (Gain) loss on early extinguishment of debt       | —                           | (1,003)   | ) —                                      | (1,003)   |
| Offering Memorandum Fees                          | —                           | 1,142     | —  | 1,142     |
| ERP integration/IT transition costs               | 167                         | 671       | 4,818                                    | 1,975     |
| Change in value of NEC TOKIN options              | (700)                       | ) (2,500) | ) 26,300                                 | (13,200)  |
| Plant start-up costs                              | 160                         | 1,144     | 542                                      | 3,905     |
| Plant shut-down costs                             | 231                         | —         | 231                                      | 889       |
| Net foreign exchange (gain) loss                  | (1,036)                     | ) (1,257) | ) (3,158)                                | ) (2,081) |
| NEC TOKIN investment-related expenses             | 225                         | 485       | 635                                      | 1,552     |
| (Income) loss from discontinued operations        | —                           | 164       | —  | (5,379)   |
| Amortization included in interest expense         | 212                         | 322       | 649                                      | 1,570     |
| Pension plan adjustment                           | —                           | —         | 312                                      | —         |
| Income tax effect of pension curtailment          | 720                         | —         | 720                                      | —         |
| Income tax effect of non-GAAP adjustments (1)     | (10)                        | ) 37      | 106                                      | 64        |
| Adjusted net income (loss)                        | \$2,171                     | \$6,955   | \$7,105                                  | \$8,556   |

(1) The income tax effect of the excluded items is calculated by applying the applicable jurisdictional income tax rate, considering the deferred tax valuation for each applicable jurisdiction.





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Non-U.S. GAAP Adjusted EBITDA is calculated as follows (amounts in thousands):

|   | Quarters Ended December 31, |           | Nine Month Periods Ended December 31, |           |
|---|-----------------------------|-----------|---------------------------------------|-----------|
|   | 2015                        | 2014      | 2015                                  | 2014      |
| Net income (loss)                                 | \$(8,600                    | ) \$2,914 | \$(38,456                             | ) \$5,704 |
| Adjustments:                                      |                             |           |                                       |           |
| Interest expense, net                             | 9,848                       | 9,933     | 29,666                                | 30,670    |
| Income tax expense (benefit)                      | 2,760                       | 1,359     | 3,950                                 | 5,224     |
| Depreciation and amortization                     | 9,674                       | 9,720     | 28,856                                | 30,694    |
| Restructuring charges                             | 1,714                       | 6,063     | 3,561                                 | 9,580     |
| Legal expenses related to antitrust class actions | 1,300                       | 409       | 2,559                                 | 409       |
| Equity (income) loss from NEC TOKIN               | 6,505                       | (1,367    | ) 4,758                               | 76        |
| Inventory revaluation                             | —                           | (927      | ) —                                   | 928       |
| Net (gain) loss on sales and disposals of assets  | 129                         | (574      | ) (233                                | ) (759    |
| Stock-based compensation expense                  | 1,154                       | 1,232     | 3,761                                 | 3,184     |
| (Gain) loss on early extinguishment of debt       | —                           | (1,003    | ) —                                   | (1,003    |
| Offering Memorandum Fees                          | —                           | 1,142     | —                                     | 1,142     |
| ERP integration/IT transition costs               | 167                         | 671       | 4,818                                 | 1,975     |
| Change in value of NEC TOKIN options              | (700                        | ) (2,500  | ) 26,300                              | (13,200   |
| Plant start-up costs                              | 160                         | 1,144     | 542                                   | 3,905     |
| Plant shut-down costs                             | 231                         | —         | 231                                   | 889       |
| Net foreign exchange (gain) loss                  | (1,036                      | ) (1,257  | ) (3,158                              | ) (2,081  |
| NEC TOKIN investment-related expenses             | 225                         | 485       | 635                                   | 1,552     |
| Pension plan adjustment                           | —                           | —         | 312                                   | —         |
| (Income) loss from discontinued operations        | —                           | 164       | —                                     | (5,379    |
| Adjusted EBITDA                                   | \$23,531                    | \$27,608  | 68,102                                | 73,510    |

Adjusted gross margin represents net sales less cost of sales excluding adjustments which are outlined in the quantitative reconciliation provided above. Management uses Adjusted gross margin to facilitate our analysis and understanding of our business operations and believes that Adjusted gross margin is useful to investors because it provides a supplemental way to understand the underlying operating performance of the Company. Adjusted gross margin should not be considered as an alternative to gross margin or any other performance measure derived in accordance with U.S. GAAP.

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

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

Adjusted EBITDA represents net income (loss) before interest expense, net, income tax expense (benefit), and depreciation and amortization expense, excluding adjustments which are outlined in the quantitative reconciliation provided above. We present Adjusted EBITDA as a supplemental measure of our performance and ability to service debt. We also present Adjusted EBITDA because we believe this measure is frequently used by securities analysts, investors and other

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interested parties in the evaluation of companies in our industry. Adjusted EBITDA is also used as a measure to determine incentive compensation.

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

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

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

- it does not reflect our cash expenditures, future requirements for capital expenditures or contractual commitments;
  - it does not reflect changes in, or cash requirements for, our working capital needs;
  - it does not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments on our debt;
  - although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and our Adjusted EBITDA measure does not reflect any cash requirements for such replacements;
  - it is not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;
  - it does not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations;
  - it does not reflect limitations on or costs related to transferring earnings from our subsidiaries to us;
  - and
- other companies in our industry may calculate this measure differently than we do, limiting its usefulness as a comparative measure.

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

## Off-Balance Sheet Arrangements

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

## Impact of Recently Issued Accounting Standards

New accounting standards adopted/issued

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-17, Balance Sheet Classification of Deferred Taxes. The ASU requires all deferred tax assets and liabilities, and any related valuation allowance, to be classified as non-current on the balance sheet. The classification change for all deferred taxes as non-current simplifies entities' processes as it eliminates the need to separately identify the net current and net non-current deferred tax asset or liability in each jurisdiction and allocate valuation allowances. ASU 2015-17 will be effective for interim and annual reporting periods beginning April 1, 2017. Early application is permitted.

In September 2015, the FASB issued ASU No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. The ASU requires that an acquirer recognize adjustments to provisional amounts recognized in a business

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combination in the reporting period in which the adjustment amounts are determined. It also requires disclosure of the adjustment recorded in current period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 eliminates the requirement to retrospectively revise comparative information for prior periods. ASU 2015-16 will be effective for interim and annual reporting periods beginning April 1, 2016. Early application is permitted. Upon adoption, the Company will apply the new standard to measurement period adjustments related to business acquisitions.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. The ASU requires an entity that uses first-in, first-out or average cost to measure its inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 will be effective for interim and annual reporting periods beginning April 1, 2017. Early application is permitted. The Company is currently evaluating the impact of the adoption of ASU 2015-11 on its operating results and financial position.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The ASU specifies that debt issuance costs related to a note shall be reported in the balance sheet as a direct reduction from the face amount of the note. The ASU is effective for the Company for interim and annual periods beginning after April 1, 2016. Early adoption is permitted. The ASU will require the Company to reclassify its capitalized debt issuance costs currently recorded as assets on the consolidated condensed balance sheets. The ASU will have no effect on the Company's results of operations or liquidity.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern. The new guidance is effective for the Company's fiscal year that begins on April 1, 2017 and interim periods within that fiscal year and requires management to assess if there is substantial doubt about an entity's ability to continue as a going concern for each annual and interim period. If conditions or events give rise to substantial doubt, disclosures are required. This new guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which supersedes existing accounting standards for revenue recognition and creates a single framework. The new guidance is effective for the Company's fiscal year that begins on April 1, 2018 and interim periods within that fiscal year and requires either a retrospective or a modified retrospective approach to adoption. The Company is currently evaluating the potential impact on its Consolidated Financial Statements and related disclosures, as well as the available transition methods. Early adoption is permitted, but not before Company's fiscal year that begins on April 1, 2017 (the original effective date of the ASU). We are currently in the process of assessing the impact the adoption of this guidance will have on our consolidated financial statements.

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

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

There have been no material changes regarding the Company's market risk position from the information included in the Company's 2015 Annual Report.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

As of December 31, 2015, an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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Changes in Internal Control over Financial Reporting

There has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II—OTHER INFORMATION

## Item 1. Legal Proceedings

“Item 3. Legal Proceedings” of our 2015 Annual Report includes a discussion of our legal proceedings. There have been no material changes from the Company's legal proceedings described in our 2015 Annual Report. For an update on certain legal matters concerning NEC TOKIN, our equity method investee, see Note 6, “Investment in NEC TOKIN.”

## Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A Risk Factors, of the Company's 2015 Annual Report.

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

The following table provides information relating to our purchase of shares of our common stock during the quarter ended December 31, 2015 (amounts in thousands, except per share price):

| Periods                                   | (a) Total Number of Shares Purchased (1) | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Programs | (d) Maximum Number of Shares that may yet be Purchased Under the Programs |
|---|--|----------------------------------|---|---|
| October 1 to October 31, 2015             | —  | —                                | —   | —   |
| November 1 to November 30, 2015           | —  | —                                | —   | —   |
| December 1 to December 31, 2015           | 41                                       | \$2.83                           | —   | —   |
| Total for Quarter Ended December 31, 2015 | 41                                       | \$2.83                           |   |   |

(1) Represents shares withheld by the Company upon vesting of restricted stock to pay taxes due. The Company does not currently have a publicly announced share repurchase plan or program.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

None.

## Item 6. Exhibits

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

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



Exhibit 32.1 Section 1350 Certification - Principal Executive Officer

Exhibit 32.2 Section 1350 Certification - Principal Financial Officer

Exhibit 101 The following financial information from KEMET Corporation's Quarterly Report on Form 10-Q for the quarter ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations for the quarters and nine month periods ended December 31, 2015 and 2014, (ii) Condensed Consolidated Balance Sheets at December 31, 2015 and March 31, 2015, (iii) Condensed Consolidated

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Statements of Cash Flows for the nine month periods ended December 31, 2015, and 2014, and (iv) the Notes to Condensed Consolidated Financial Statements.

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SIGNATURES

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

Date: February 2, 2016

KEMET Corporation

By:

/s/ WILLIAM M. LOWE, JR.

William M. Lowe, Jr.

Executive Vice President and Chief Financial Officer  
(Principal Financial Officer and Principal Accounting  
Officer)

(Duly Authorized Officer)

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EXHIBIT INDEX

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