KEMET CORP
Form 10-Q
October 29, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

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

Commission File Number: 0-20289

KEMET CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**57-0923789**

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

2835 KEMET WAY, SIMPSONVILLE, SOUTH CAROLINA 29681

(Address of principal executive offices, zip code)

(864) 963-6300

(Registrant s telephone number, including area code)

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

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

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

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

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

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

The number of shares outstanding of the registrant s common stock, par value $0.01 per share, as of October 28, 2010 was 81,275,009.

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KEMET CORPORATION AND SUBSIDIARIES

Form 10-Q for the Quarter Ended September 30, 2010

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PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

KEMET CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Amounts in thousands, except per share data)

	September 30, 2010 (Unaudited)	March 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 117,454	$ 79,199
Accounts receivable, net	154,289	141,795
Inventories, net	183,676	150,508
Prepaid expenses and other	10,749	14,380
Deferred income taxes	3,735	2,129
Total current assets	469,903	388,011
Property and equipment, net of accumulated depreciation of $708,494 and $686,958 as of September 30, 2010 and March 31, 2010, respectively	307,684	319,878
Intangible assets, net	20,501	21,806
Other assets	10,513	11,266
Total assets	$ 808,601	$ 740,961
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 5,457	$ 17,880
Accounts payable, trade	82,032	78,829
Accrued expenses	77,608	63,606
Income taxes payable	1,818	1,096
Total current liabilities	166,915	161,411
Long-term debt, less current portion	268,825	231,629
Other non-current obligations	58,874	55,626
Deferred income taxes	9,282	8,023
Stockholders equity:		
Common stock, par value $0.01, authorized 300,000 shares, issued 88,525 shares at September 30, 2010 and March 31, 2010	885	885
Additional paid-in capital	478,518	479,115
Retained deficit	(135,967)	(150,789)
Accumulated other comprehensive income	17,120	11,990
Treasury stock, at cost (7,250 and 7,390 shares at September 30, 2010 and March 31, 2010, respectively)	(55,851)	(56,929)
Total stockholders equity	304,705	284,272
Total liabilities and stockholders equity	$ 808,601	$ 740,961

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 September 30, 2010	Quarters Ended September 30, 2009	Six months ended September 30, 2010	Six months ended September 30, 2009
Net sales	$ 248,588	$ 173,265	$ 492,382	$ 323,432
Operating costs and expenses:				
Cost of sales	178,870	148,751	361,756	278,412
Selling, general and administrative expenses	24,999	20,513	49,214	38,535
Research and development	6,224	5,569	12,255	10,348
Restructuring charges	2,303	1,267	4,095	1,267
Net (gain) loss on sales and disposals of assets	(1,770)	52	(1,435)	258
Total operating costs and expenses	210,626	176,152	425,885	328,820
Operating income (loss)	37,962	(2,887)	66,497	(5,388)
Other (income) expense:				
Interest income	(84)	(102)	(105)	(133)
Interest expense	7,334	6,491	14,792	12,310
Increase in value of warrant		81,088		81,088
(Gain) loss on early extinguishment of debt			38,248	(38,921)
Other (income) expense, net	(4,792)	999	(3,118)	5,511
Income (loss) before income taxes	35,504	(91,363)	16,680	(65,243)
Income tax expense	593	1,712	1,868	2,742
Net income (loss)	$ 34,911	$ (93,075)	$ 14,812	$ (67,985)
Net income (loss) per share:				
Basic	$ 0.43	$ (1.15)	$ 0.18	$ (0.84)
Diluted	$ 0.23	$ (1.15)	$ 0.10	$ (0.84)

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)

	Six Months Ended September 30, 2010	2009
Sources (uses) of cash and cash equivalents		
Operating activities:		
Net income (loss)	$ 14,812	$ (67,985)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
(Gain) loss on early extinguishment of debt	38,248	(38,921)
Increase in value of warrant		81,088
Depreciation and amortization	28,642	25,490
Amortization of debt discount and debt issuance costs	2,754	5,883
Net (gain) loss on sales and disposals of assets	(1,435)	258
Stock-based compensation expense	482	1,628
Change in deferred income taxes	(418)	(13)
Change in operating assets	(39,109)	11,563
Change in operating liabilities	14,376	2,111
Other	(1,907)	(346)
Net cash provided by operating activities	56,445	20,756
Investing activities:		
Capital expenditures	(13,821)	(3,730)
Proceeds from sales of assets	5,425	
Net cash used in investing activities	(8,396)	(3,730)
Financing activities:		
Proceeds from issuance of debt	227,434	57,786
Payments of long-term debt	(228,543)	(47,719)
Net payments under other credit facilities	(1,779)	(1,346)
Debt issuance costs	(7,461)	(4,206)
Debt extinguishment costs	(207)	(3,605)
Net cash provided by (used in) financing activities	(10,556)	910
Net increase in cash and cash equivalents	37,493	17,936
Effect of foreign currency fluctuations on cash	762	272
Cash and cash equivalents at beginning of fiscal period	79,199	39,204
Cash and cash equivalents at end of fiscal period	$ 117,454	$ 57,412

See accompanying notes to the unaudited condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements

Note 1. Basis of Financial Statement Presentation

The condensed consolidated financial statements contained herein are unaudited and have been prepared from the books and records of KEMET Corporation and its subsidiaries (KEMET or the Company). In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q, and therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles (U.S. GAAP). Although the Company believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the audited financial statements and notes thereto included in the Company s fiscal year ended March 31, 2010, Form 10-K (the Company s 2010 Annual Report) and the Company s Current Report on Form 8-K, filed with the SEC on October 26, 2010, to add Note 19, Condensed Consolidating Financial Statements .

Net sales and operating results for the three and six month periods ended September 30, 2010 are not necessarily indicative of the results to be expected for the full year. The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. In consolidation, all significant intercompany amounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to current year presentation.

The significant accounting policies followed by the Company are presented in the Company s 2010 Annual Report.

Recently Issued Accounting Pronouncements

New accounting standards adopted

There were no accounting standards adopted in the six month period ended September 30, 2010.

New accounting standards issued but not yet adopted

There are currently no new 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.

Asset Sales

During the second quarter of fiscal year 2011, Ceramics (as hereinafter defined) sold a building and related equipment for net proceeds of $3.4 million which resulted in a net gain of $1.6 million which is recognized as a component of the line item Net (gain) loss on sales and disposals of assets on the Condensed Consolidated Statements of Operations.

Restricted Cash

A guarantee was issued by a European bank on behalf of the Company in August 2006 in conjunction with the establishment of a Valued-Added Tax (VAT) registration in The Netherlands. The bank guarantee is in the amount of EUR 1.5 million ($2.0 million). An interest-bearing deposit was placed with a European bank for EUR 1.7 million ($2.3 million). The deposit is in KEMET s name, and KEMET receives all interest earned by this deposit. However, the deposit is pledged to the European bank, and the bank can use the money if a valid claim is made. The bank guarantee has no expiration date.

Restricted cash of $2.3 million and $2.2 million are included in the line item Prepaid expenses and other on the Condensed Consolidated Balance Sheets as of September 30, 2010 and March 31, 2010, respectively.

Warrant Liability

Concurrent with the consummation of the tender offer as discussed in Note 2, Debt , the Company issued K Financing, LLC (K Financing) a warrant (the Closing Warrant) to purchase up to 80,544,685 shares of the Company s common stock, subject to certain adjustments, representing, at the time of issuance, approximately 49.9% of the Company s outstanding common stock on a post-Closing Warrant basis. The Closing Warrant was subsequently transferred to K Equity, LLC (K Equity). The Closing Warrant was exercisable at a purchase price of $0.50 per share, subject to an adjustment which reduces the exercise price to a floor of $0.35 per share based on a sliding scale once the aggregate borrowings under the Platinum Line of Credit Loan (as defined in Note 2, Debt) and the Platinum Working Capital Loan exceed $12.5 million, at any time prior to the tenth anniversary of the Closing Warrant s date

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of issuance. The floor exercise price was reached on September 29, 2009 when the aggregate borrowings under the Platinum Line of Credit Loan (as defined in Note 2, Debt) and the Platinum Working Capital Loan (as defined in Note 2, Debt) reached $20.0 million. The Closing Warrant may be exercised in exchange for cash, by means of net settlement of a corresponding portion of amounts owed by the Company under the Revised Amended and Restated Platinum Credit Facility (as defined in Note 2, Debt), by cashless exercise to the extent of appreciation in the value of the Company s common stock above the exercise price of the Closing Warrant, or by any combination of the preceding alternatives.

Warrants may be classified as assets or liabilities (derivative accounting), temporary equity, or permanent equity, depending on the terms of the specific warrant agreement. The Closing Warrant issued to K Financing under the Revised Amended and Restated Platinum Credit Facility was reviewed as of June 30, 2009, the date of issuance, to determine whether it met the definition of a derivative. The Company s evaluation of the Closing Warrant as of the date of issuance concluded that it was not indexed to the Company s stock since the strike price was not fixed and as such was treated as a freestanding derivative liability. On September 29, 2009, the Company borrowed $10.0 million from the Platinum Working Capital Loan for general corporate purposes. As a result of this additional borrowing, the strike price of the Closing Warrant was fixed at $0.35 per share as of September 29, 2009, and the Company assessed whether the Closing Warrant still met the definition of a derivative. The Company s evaluation of the Closing Warrant as of September 29, 2009, concluded that the Closing Warrant was indexed to the Company s own stock and should be classified as a component of equity. The Company valued the Closing Warrant immediately prior to the strike price becoming fixed and recorded a mark-to-market adjustment of $81.1 million through earnings in the second quarter of fiscal year 2010. Subsequent to the strike price becoming fixed, the Company reclassified the warrant liability of $112.5 million into the line item Additional paid-in capital on the Condensed Consolidated Balance Sheets and the Closing Warrant is no longer marked-to-market.

At September 30, 2009, the Company estimated the fair value of the Closing Warrant using the Black-Scholes option pricing model using the following assumptions:

Expected life	9.75 years
Expected volatility	66.0%
Risk-free interest rate	3.5%
Dividends	0%

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 measured at fair value on a recurring basis as of September 30, 2010 and March 31, 2010 are as follows (amounts in thousands):

		Fair Value Measurement Using				Fair Value Measurement Using		
	Fair Value September 30, 2010	Level 1	Level 2 (2)(3)	Level 3	Fair Value March 31, 2010	Level 1	Level 2 (4)	Level 3
Assets:								
Money markets (1)	$ 22,283	$ 22,283	$	$	$ 28,761	$ 28,761	$	$
Long-term debt	284,690		284,690		260,496	70,492	190,004	

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

(2) For the 10.5% Senior Notes and the Convertible Notes the Company utilized a bid quote to quantify the fair value. For the other debt a discounted cash flow valuation approach was used to calculate fair value.

(3) The Convertible Notes moved from a Level 1 to a Level 2 this quarter as there was a lack of trading activity so quoted market prices were not available.

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

Revenue Recognition

The Company recognizes revenue only when all of the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the seller s price to the buyer is fixed or determinable, and (4) collectibility is reasonably assured.

A portion of sales is related to products designed to meet customer specific requirements. These products typically have stricter tolerances making them useful to the specific customer requesting the product and to customers with similar or less stringent requirements. Products with customer specific requirements are tested and approved by the customer before the Company mass produces and ships the product. The Company recognizes revenue at shipment as the sales terms for products produced with customer specific requirements do not contain a final customer acceptance provision or other provisions that are unique and would otherwise allow the customer different acceptance rights.

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

The SFSD program provides a mechanism for the distributor to meet a competitive price after obtaining authorization from the Company s local sales office. This program allows the distributor to ship its higher-priced inventory and debit the Company for the difference between KEMET s list price and the lower authorized price for that specific transaction. Management analyzes historical SFSD activity to determine the SFSD exposure on the global distributor inventory at the balance sheet date. The establishment of these reserves is recognized as a component of the line item Net sales on the Condensed Consolidated Statements of Operations, while the associated reserves are included in the line item Accounts receivable, net on the Condensed Consolidated Balance Sheets.

The Company provides a limited warranty to customers that the Company s products meet certain specifications. The warranty period is generally limited to one year, and the Company s liability under the warranty is generally limited to a replacement of the product or refund of the purchase price of the product. Warranty costs as a percentage of net sales were approximately 1% for the quarters and six month periods ended September 30, 2010 and 2009. The Company recognizes warranty costs when they are both probable and reasonably estimable.

Use of Estimates and Assumptions

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

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

Inventories

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

	September 30, 2010	March 31, 2010
Inventories:		
Raw materials and supplies	$ 81,399	$ 67,511
Work in process	71,152	61,754
Finished goods	52,747	40,099
	205,298	169,364
Inventory reserves	(21,622)	(18,856)
Total inventory	$ 183,676	$ 150,508

Land purchase

On April 28, 2010, the Company purchased land in Italy to be used as the site for a new manufacturing facility in order to consolidate our Italian operations. In the first quarter of fiscal year 2011, the Company paid EUR 2.1 million ($2.9 million) which was included in the line item Capital expenditures on the Condensed Consolidated Statements of Cash Flows. The remaining purchase price will be paid in seven equal annual payments of EUR 489 thousand ($667 thousand) beginning on April 28, 2013.

Note 2. Debt

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

	September 30, 2010	March 31, 2010
10.5% Senior Notes, net of discount of $2,983 as of September 30, 2010	$ 227,079	$
Convertible Debt, net of discount of $3,343 and $7,861 as of September 30, 2010 and March 31, 2010, respectively	37,829	73,220
UniCredit Agreement-A (53,201 as of March 31, 2010)		71,710
UniCredit Agreement-B (33,000 as of March 31, 2010)		44,481
Platinum Term Loan, net of discount of $22,308 as of March 31, 2010		15,525
		5,944

Platinum Line of Credit Loan, net of discount of $4,056 as of March 31, 2010				
Platinum Working Capital Loan				10,000
Vishay				15,000
Other		9,374		13,629
Total debt		274,282		249,509
Current maturities		(5,457)		(17,880)
Total long-term debt	$	268,825	$	231,629

The line item Interest expense on the Condensed Consolidated Statements of Operations for the quarters and six month periods ended September 30, 2010 and 2009, is as follows (amounts in thousands):

	Quarters Ended September 30,				Six Months Ended September 30,			
		2010		**2009**		**2010**		**2009**
Contractual interest expense	$	6,504	$	3,172	$	12,038	$	6,427
Amortization of debt issuance costs		177		694		606		994
Amortization of debt discount		653		2,625		2,148		4,889
Total interest expense	$	7,334	$	6,491	$	14,792	$	12,310

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10.5% Senior Notes

On May 5, 2010, the Company completed a private placement of $230.0 million in aggregate principal amount of the Company s 10.5% Senior Notes due 2018 (the 10.5% Senior Notes) to several initial purchasers (the Initial Purchasers) represented by Banc of America Securities LLC pursuant to an exemption from the registration requirements under the Securities Act of 1933, as amended (the Securities Act). The Initial Purchasers subsequently sold the 10.5% Senior Notes to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to persons outside of the United States pursuant to Regulation S under the Securities Act.

On May 5, 2010, in connection with the private placement of the 10.5% Senior Notes, the Company, the Company s domestic restricted subsidiaries (the Guarantors) and the Initial Purchasers entered into the Registration Rights Agreement. The terms of the Registration Rights Agreement require the Company and the Guarantors to (i) use their commercially reasonable efforts to file with the Securities and Exchange Commission within 210 days after the date of the initial issuance of the 10.5% Senior Notes, a registration statement with respect to an offer to exchange the 10.5% Senior Notes for a new issue of debt securities registered under the Securities Act, with terms substantially identical to those of the 10.5% Senior Notes (except for provisions relating to the transfer restrictions and payment of additional interest); (ii) use our commercially reasonable efforts to consummate such exchange offer within 270 days after the date of the initial issuance of the 10.5% Senior Notes; and (iii) in certain circumstances, file a shelf registration statement for the resale of the 10.5% Senior Notes. On October 26, 2010, the Company filed a Form S-4 to offer, in exchange for its outstanding 10.5% Senior Notes, up to $230.0 million in aggregate principal amount of 10.5% Senior Notes due 2018 and the guarantees thereof which have been registered under the Securities Act of 1933, as amended.

The private placement of the 10.5% Senior Notes resulted in net proceeds to the Company of $222.2 million. The Company used a portion of the proceeds of the private placement to repay all of its outstanding indebtedness under the Company s credit facility with K Financing, LLC, the Company s 60 million credit facility and 35 million credit facility with UniCredit Corporate Banking S.p.A. (UniCredit) and the Company s term loan with Vishay Intertechnology, Inc. (Vishay) and used a portion of the remaining proceeds to fund a previously announced tender offer to purchase $40.5 million in aggregate principal amount of the Company s 2.25% Convertible Senior Notes (the Convertible Notes) and to pay costs incurred in connection with the private placement, the tender offer and the foregoing repayments. Debt issuance costs related to the 10.5% Senior Notes, net of amortization, were $6.3 million as of September 30, 2010; these costs will be amortized over the term of the 10.5% Senior Notes.

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

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

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

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

The 10.5% Senior Notes Indenture provides for customary events of default (subject in certain cases to customary grace and cure periods), which include nonpayment, breach of covenants in the 10.5% Senior Notes Indenture, payment defaults or acceleration

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of other indebtedness, a failure to pay certain judgments and certain events of bankruptcy and insolvency. The 10.5% Senior Notes Indenture also provides for events of default with respect to the collateral, which include default in the performance of (or repudiation, disaffirmation or judgment of unenforceability or assertion of unenforceability) by the Company or a Guarantor with respect to the provision of security documents under the 10.5% Senior Notes Indenture. These events of default are subject to a number of important qualifications, limitations and exceptions that are described in the 10.5% Senior Notes Indenture. Generally, if an event of default occurs, the Trustee or holders of at least 25% in principal amount of the then outstanding 10.5% Senior Notes may declare the principal of and accrued but unpaid interest, including additional interest, on all the 10.5% Senior Notes to be due and payable.

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 $9.8 million at September 30, 2010.

Platinum Credit Facility

On May 5, 2009, the Company executed the Revised Amended and Restated Platinum Credit Facility with K Financing, LLC (K Financing), an affiliate of Platinum Equity Capital Partners II, L.P. (the Revised Amended and Restated Platinum Credit Facility). The Revised Amended and Restated Platinum Credit Facility consisted of a term loan of $37.8 million (Platinum Term Loan), a line of credit loan (Platinum Line of Credit Loan) that could be borrowed from time to time (but not reborrowed after being repaid) of up to $12.5 million, and a working capital loan (Platinum Working Capital Loan) of up to $12.5 million. The Platinum Term Loan was used to purchase $93.9 million of the Company s Convertible Notes that are more fully described below.

On June 30, 2009, the Company drew $10.0 million from the Platinum Line of Credit Loan and used it primarily to pay the fees and expenses related to the execution of the tender offer (described below) and the execution of the Revised Amended and Restated Platinum Credit Facility. The Company incurred $3.6 million in fees and expense reimbursements related to the execution of the tender offer, $4.2 million related to the execution of the Revised Amended and Restated Platinum Credit Facility, and $1.4 million related to the amendments of the UniCredit facilities. On September 29, 2009, the Company borrowed $10.0 million on the Platinum Working Capital Loan for general corporate purposes.

On May 5, 2010, the Platinum Term Loan, the Platinum Line of Credit Loan, and the Platinum Working Capital Loan were extinguished. The extinguishment of the Platinum facilities resulted in a $33.3 million loss on early extinguishment of debt. The calculation of the loss is as follows (amounts in thousands):

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

The Platinum Term Loan accrued interest at an annual rate of 9%. The Platinum Working Capital Loan and the Platinum Line of Credit Loan accrued interest at an annual rate equal to the greater of (i) LIBOR plus 7%, or (ii) 10%, payable monthly in arrears.

The Company s obligations to K Financing arising under the Revised Amended and Restated Platinum Credit Facility were secured by substantially all of the Company s assets located in the United States, Mexico, Indonesia and China (other than accounts receivable owing by account debtors located in the United States, Singapore and Hong Kong, which exclusively secured obligations to an affiliate of Vishay). As further described in the Offer to Purchase for the Convertible Notes, in connection with entering into the Revised Amended and Restated Platinum Credit Facility, K Financing and UniCredit entered into a letter of understanding with respect to their respective guarantor and collateral pools and the Company s assets in Europe that were not pledged to either lender. The letter of understanding also set forth each lender s agreement not to interfere with the other lender s exercise of remedies pertaining to their respective collateral pools.

Concurrent with the consummation of the tender offer, the Company issued K Financing the Closing Warrant to purchase up to 80,544,685 shares of its common stock, subject to certain adjustments, representing at the time of issuance 49.9% of the Company s outstanding common stock on a post-Closing Warrant basis. The Closing Warrant was subsequently transferred to K Equity, LLC (K Equity).

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The Company also entered into an Investor Rights Agreement (the Investor Rights Agreement) with K Financing, which subsequently transferred its rights thereunder to K Equity. Pursuant to the terms of the Investor Rights Agreement, the Company has, subject to certain terms and conditions, granted Board of Directors (Board) observation rights to K Financing which would permit K Financing to designate up to three individuals to observe Board meetings and receive information provided to the Board. In addition, the Investor Rights Agreement provides K Financing with certain preemptive rights. Subject to the terms and limitations described in the Investor Rights Agreement, in connection with any proposed issuance of equity securities or securities convertible into equity, the Company would be required to offer to sell to K Financing a pro rata portion of such securities equal to the percentage determined by dividing the number of shares of common stock held by K Financing plus the number of shares of common stock issuable upon exercise of the Closing Warrant, by the total number of shares of common stock then outstanding on a fully diluted basis. The Investor Rights Agreement also provides K Financing with certain registration and information rights.

The Company also entered into a Corporate Advisory Services Agreement with Platinum Equity Advisors, LLC (Platinum Advisors) for a term of the later of (i) June 30, 2013 and (ii) the termination of the Credit Facility, pursuant to which the Company pays an annual fee of $1.5 million to Platinum Advisors for certain advisory services. In addition, the Revised Amended and Restated Platinum Credit Facility included various fees totaling $0.7 million per year for administration and collateral management, the Company incurred a fee of 1% per annum for unused capacity under the Platinum Line of Credit Loan and the Platinum Working Capital Loan and the Company paid K Financing a success fee of $5.0 million in May 2010. This fee was payable at the time of repayment in full of the Platinum Term Loan, whether at maturity or otherwise.

At the date of issuance, the Company allocated $31.4 million of the proceeds from the issuance of the Platinum Term Loan and the draw-down on the Platinum Line of Credit Loan to warrant liability. The Company allocated the remainder of the issuance proceeds to the Platinum Term Loan and the Platinum Line of Credit Loan ($12.0 million and $4.4 million, respectively) based upon their relative fair values. The carrying amount of the Platinum Term Loan and the Platinum Line of Credit Loan were increased by quarterly accretion to the line item Interest expense on the Condensed Consolidated Statements of Operations under the effective interest method over their respective terms of approximately 3.4 years and 2.0 years.

Convertible Notes

In November 2006, the Company sold and issued its Convertible Notes which are unsecured obligations and rank equally with the Company s existing and future unsubordinated and unsecured obligations and are junior to any of the Company s future secured obligations to the extent of the value of the collateral securing such obligations. In connection with the issuance and sale of the Convertible Notes, the Company entered into an indenture (the Convertible Notes Indenture) dated as of November 1, 2006, with Wilmington Trust Company, as trustee.

The Convertible Notes bear interest at a rate of 2.25% per annum, payable in cash semi-annually in arrears on each May 15 and November 15. The Convertible Notes are convertible into (i) cash in an amount equal to the lesser of the principal amount of the Convertible Notes and the conversion value of the Convertible Notes on the conversion date and (ii) cash or shares of the Company s common stock (Common Stock) or a combination of cash and shares of the Common Stock, at the Company s option, to the extent the conversion value at that time exceeds the principal amount of the Convertible Notes, at any time prior to the close of business on the business day immediately preceding the maturity date of the Convertible Notes, unless the Company has redeemed or purchased the Convertible Notes, subject to certain conditions. The initial conversion rate was 103.0928 shares of Common Stock per $1,000 principal amount of the Convertible Notes, which represents an initial conversion price of approximately $9.70 per share, subject to adjustments.

The holder may surrender the holder s Convertible Notes for conversion if any of the following conditions are satisfied:

- During any fiscal quarter, the closing sale price of the Common Stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter exceeds 130% of the conversion price per share on such last trading day;

- The Company has called the Convertible Notes for redemption;

- The average of the trading prices of the Convertible Notes for any five consecutive trading day period is less than 98% of the average of the conversion values of the Convertible Notes during that period;

- The Company makes certain significant distributions to the holders of the Common Stock; or

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- In connection with a transaction or event constituting a fundamental change (as defined in the Convertible Notes Indenture).

The Company received net proceeds from the sale of the Convertible Notes of approximately $170.2 million, after deducting discounts and estimated offering expenses of approximately $4.8 million. Net proceeds from the sale were used to repurchase approximately 3.3 million shares of Common Stock at a cost of approximately $24.9 million (concurrent with the initial closing of the Convertible Notes offering). Debt issuance costs are being amortized over a period of five years.

Issuance and transaction costs incurred at the time of the issuance of the Convertible Notes with third parties are allocated to the liability and equity components and accounted for as debt issuance costs and equity issuance costs, respectively. Debt issuance costs related to the Convertible Notes, net of amortization, were $0.2 million as of September 30, 2010 and equity issuance costs were $1.3 million. The deferred tax liability and a corresponding valuation allowance adjustment in the same amount related to the Convertible Notes were $1.1 million as of September 30, 2010.

As of September 30, 2010, the remaining unamortized debt discount of the Convertible Notes will be amortized over a period of 13 months, the remaining expected term of the Convertible Notes. The effective interest rate on the liability component is 9.1% on an annual basis.

On June 26, 2009, $93.9 million in aggregate principal amount of the Convertible Notes were validly tendered (representing 53.7% of the outstanding Convertible Notes). As a result of the retrospective adoption effective April 1, 2009 of new guidance within ASC 470-20, *Debt With Conversion and Other Options*, the carrying value of the aggregate principal value of the tendered Convertible Notes was $81.0 million. Holders of the Convertible Notes received $400 for each $1,000 principal amount of Convertible Notes purchased in the tender offer, plus accrued and unpaid interest up to, but not including, the date of payment for the Convertible Notes accepted for payment. As a result of the consummated tender offer, on June 30, 2009, the Company used the $37.8 million Platinum Term Loan under the Revised Amended and Restated Platinum Credit Facility to extinguish the tendered Convertible Notes. The extinguishment of these Convertible Notes resulted in a $38.9 million net gain ($0.48 per share) included in the line item (Gain) loss on early extinguishment of debt on the Condensed Consolidated Statements of Operations for the quarter and six month period ended September 30, 2009. The calculation of the gain is as follows (amounts in thousands):

Reacquisition price:		
Cash paid	$	37,568
Tender offer fees		3,605
		41,173
Extinguished debt:		
Carrying amount of debt		80,987
Unamortized debt cost		(893)
		80,094
Net gain	$	38,921

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

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

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

The Convertible Notes are convertible into Common Stock at a rate equal to 103.0928 shares per $1,000 principal amount of the Convertible Notes (equal to an initial conversion price of approximately $9.70 per share), subject to adjustment as described in the Convertible Notes Indenture. Upon conversion, the Company will deliver for each $1,000 principal amount of Convertible Notes, an amount consisting of cash equal to the lesser of $1,000 and the conversion value (as defined in the Convertible Notes Indenture) and, to the extent that the conversion value exceeds $1,000, at the Company s election, cash or shares of Common Stock with respect to the remainder. The contingent conversion feature was not required to be bifurcated and accounted for separately.

If the Company undergoes a fundamental change , holders of the Convertible Notes will have the right, subject to certain conditions, to require the Company to repurchase for cash all or a portion of their Convertible Notes at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased plus accrued and unpaid interest, including contingent interest and additional amounts, if any. One occurrence creating a fundamental change is the Company s common stock ceasing to be listed on the New York Stock Exchange (NYSE) or another national securities exchange in the United States, without then being quoted on an established automated over-the-counter trading market in the United States. The transfer of the trading of the Company s stock from the NYSE to the OTC Bulletin Board did not constitute a fundamental change. On June 22, 2010, the Company s common stock began trading on the NYSE Amex. As a matter of information, such listing does not constitute a fundamental change .

The Company will pay a make-whole premium on the Convertible Notes converted in connection with any fundamental change that occurs prior to November 20, 2011. The amount of the make-whole premium, if any, will be based on the Company s stock price and the effective date of the fundamental change. The maximum make-whole premium, expressed as a number of additional shares of the Common Stock to be received per $1,000 principal amount of the Convertible Notes, would be 30.95 upon the conversion of Convertible Notes in connection with the occurrence of a fundamental change prior to November 1, 2010, or November 20, 2011 if the stock price at that date is at least $7.46 per share of Common Stock. The Convertible Notes Indenture contains a detailed description of how the make-whole premium will be determined and a table showing the make-whole premium that would apply at various stock prices and fundamental change effective dates. No make-whole premium will be paid if the price of the Common Stock on the effective date of the fundamental change is less than $7.46 per share. Any make-whole premium will be payable in shares of Common Stock (or the consideration into which the Company s Common Stock has been exchanged in the fundamental change) on the conversion date for the Convertible Notes converted in connection with the fundamental change.

The estimated fair value of the Convertible Notes, based on quoted market prices as of September 30, 2010 and March 31, 2010, was approximately $36 million and $71 million, respectively. The Company had interest payable related to the Convertible Notes included in the line item Accrued expenses on its Condensed Consolidated Balance Sheets of $0.4 million and $0.7 million at September 30, 2010 and March 31, 2010, respectively.

UniCredit Credit Facility

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

On May 5, 2010, Facility A and Facility B were extinguished. The extinguishment resulted in a $3.3 million loss on extinguishment of debt. The calculation of the loss is as follows (amounts in thousands):

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

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Material terms and conditions of Facility A were as follows:

(i)	Interest Rate:	Floating at six-month EURIBOR plus 2.5%
(ii)	Structure:	Secured with Italian real property, certain European accounts receivable and shares of two of the Company s Italian subsidiaries

Material terms and conditions of Facility B were as follows:

(i)	Interest Rate:	Floating at six-month EURIBOR plus 2.5%
(ii)	Structure:	Unsecured

Effective as of September 30, 2009, the Company entered into an amendment to Facility A. Under the terms of the amendment, the amortization schedule of Facility A was modified, including the addition of an October 1, 2009 principal installment. In connection with the amendment, the Company simultaneously executed a fee letter in which it agreed to pay to UniCredit an amendment fee and reimburse it for certain legal expenses incurred in relation to the amendment. These fees were $1.5 million and were amortized as an adjustment of interest expense over the term of the Facility, the remaining balance at the time of extinguishment was included in the calculation of the loss on extinguishment of debt.

Vishay Loan

In the second quarter of fiscal year 2009, the Company sold assets related to the production and sale of wet tantalum capacitors to a subsidiary of Vishay. The Company received $33.7 million in cash proceeds, net of amounts held in escrow, from the sale of these assets. Concurrently, the Company entered into a three-year term loan agreement for $15.0 million and a security agreement with Vishay. The loan carried an interest rate of LIBOR plus 4% which was payable monthly. Pursuant to the security agreement, the loan was secured by certain accounts receivable of the Company. On May 5, 2010, the Vishay loan was paid in full.

Revolving Line of Credit

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

Revolving loans may be used to pay fees and transaction expenses associated with the closing of the credit facilities, to pay obligations outstanding under the Loan and Security Agreement and for working capital and other lawful corporate purposes of KEC and KEMET

Singapore. Borrowings under the U.S. and Singapore facilities are subject to a borrowing base. The borrowing base consists of:

• in the case of the U.S. facility, (A) 85% of KEC s accounts receivable that satisfy certain eligibility criteria plus (B) the lesser of $4 million and 40% of the net book value of inventory of KEC that satisfy certain eligibility criteria plus (C) the lesser of $3 million and 70% of the net orderly liquidation percentage of the appraised value of equipment that satisfies certain eligibility criteria less (D) certain reserves, including certain reserves imposed by the administrative agent in its permitted discretion; and

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

Interest is payable on borrowings monthly at a rate equal to the London Interbank Offer Rate (LIBOR) or the base rate, plus an applicable margin, as selected by the Borrower. Depending upon the fixed charge coverage ratio of KEMET Corporation and its subsidiaries on a consolidated basis as of the latest test date, the applicable margin under the U.S. facility varies between 3.00% and 3.50% for LIBOR advances and 2.00% and 2.50% for base rate advances, and under the Singapore facility varies between 3.25% and 3.75% for LIBOR advances and 2.25% and 2.75% for base rate advances.

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

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An unused line fee is payable monthly in an amount equal to 0.75% per annum of the average daily unused portion of the facilities during any month; provided, that such percentage rate is reduced to (a) 0.50% per annum for any month in which the average daily balance of the facilities is greater than 33.3% of the total revolving commitment and less than 66.6% of the total revolving commitment, and (b) 0.375% per annum for any month in which the average daily balance of the facilities is greater than or equal to 66.6% of the total revolving commitment. A customary fee is also payable to the administrative agent on a quarterly basis.

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

• the absence of the existence of a Material Adverse Effect (as defined in the Loan and Security Agreement);

• the absence of the existence of a default or an event of default under the Loan and Security Agreement; and

• the representations and warranties made by KEC and KEMET Singapore in the Loan and Security Agreement continuing to be correct in all material respects.

The parent corporation of KEC - KEMET Corporation - and the Guarantors guarantee the U.S. facility obligations and the U.S. facility obligations are secured by a lien on substantially all of the assets of KEC and the Guarantors (other than assets that secure the 10.5% Senior Notes due 2018). The collection accounts of the Borrowers and Guarantors are subject to a daily sweep into a concentration account and the concentration account will become subject to full cash dominion in favor of the administrative agent (i) upon an event of default, (ii) if for five consecutive business days, aggregate availability of all facilities has been less than the greater of (A) 15% of the aggregate revolver commitments at such time and (B) $7.5 million, or (iii) if for five consecutive business days, availability of the U.S. facility has been less than $3.75 million (each such event, a Cash Dominion Trigger Event).

KEC and the Guarantors guarantee the Singapore facility obligations. In addition to the assets that secure the U.S. facility, the Singapore obligations are also secured by a pledge of 100% of the stock of KEMET Singapore and a security interest in substantially all of KEMET Singapore s assets. Within 90 days after the closing date, KEMET Singapore s bank accounts will be transferred over to Bank of America and upon a Cash Dominion Trigger Event will become subject to full cash dominion in favor of the administrative agent.

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

In addition, the Loan and Security Agreement includes negative covenants that, subject to exceptions, limit the ability of KEMET Corporation and its direct and indirect subsidiaries to, among other things:

• incur additional indebtedness;

• create liens on assets;

• make capital expenditures;

• engage in mergers, consolidations, liquidations and dissolutions;

• sell assets (including pursuant to sale leaseback transactions);

• pay dividends and distributions on or repurchase capital stock;

• make investments (including acquisitions), loans, or advances;

• prepay certain junior indebtedness;

• engage in certain transactions with affiliates;

• enter into restrictive agreements;

• amend material agreements governing certain junior indebtedness; and

• change its lines of business.

The Loan and Security Agreement includes certain customary representations and warranties, affirmative covenants and events of default, which are set forth in more detail in the Loan and Security Agreement.

Debt issuance costs related to the Loan and Security Agreement, net of amortization, were $1.1 million as of September 30, 2010, these costs will be amortized over the term of the Loan and Security Agreement. There were no borrowings against the revolving line of credit as of September 30, 2010.

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Note 3. Segment and Geographic Information

The Company is organized into three business groups: the Tantalum Business Group (Tantalum), the Ceramic Business Group (Ceramics), and the Film and Electrolytic Business Group (Film and Electrolytic). Each business group is responsible for the operations of certain manufacturing sites as well as all related research and development efforts. The sales and marketing functions are shared by the business groups and are allocated to each business group based on the business group s respective budgeted net sales. In addition, all corporate costs are allocated to the business groups based on the business group s respective budgeted net sales.

Tantalum

Tantalum operates in five manufacturing sites in the United States, Mexico, China, and Portugal. This business group produces tantalum and aluminum polymer capacitors. Tantalum also maintains a product innovation center in the United States. Tantalum products are sold in all regions of the world.

Ceramics

Ceramics operates in two manufacturing locations in Mexico and a manufacturing facility in China. This business group produces ceramic capacitors. In addition, the business group has a product innovation center in the United States. Ceramics products are sold in all regions of the world.

Film and Electrolytic

Film and Electrolytic operates in fourteen manufacturing sites in Europe, Asia and Mexico. This business group produces film, paper, and electrolytic capacitors. In addition, the business group has a product innovation center in Sweden. Film and Electrolytic products are sold in all regions in the world.

The following table reflects each business group s net sales, operating income (loss), depreciation and amortization expenses and sales by region for the quarters and six month periods ended September 30, 2010 and 2009 (amounts in thousands):

	Quarters Ended September 30,		Six Months Ended Septbember 30,	
	2010	**2009**	**2010**	**2009**
Net sales:				
Tantalum	$ 123,873	$ 81,987	$ 237,441	$ 154,355
Ceramics	56,730	40,998	111,054	73,946

Film and Electrolytic	67,985	50,280	143,887	95,131
	$ 248,588	$ 173,265	$ 492,382	$ 323,432
Operating income (loss) (1)(2):				
Tantalum	$ 27,466	$ 4,330	$ 44,972	$ 8,132
Ceramics	13,324	4,461	24,354	6,909
Film and Electrolytic	(2,828)	(11,678)	(2,829)	(20,429)
	$ 37,962	$ (2,887)	$ 66,497	$ (5,388)
Depreciation and amortization expenses:				
Tantalum	$ 8,788	$ 7,338	$ 17,106	$ 14,563
Ceramics	4,653	2,205	6,922	4,617
Film and Electrolytic	691	3,683	4,614	6,310
	$ 14,132	$ 13,226	$ 28,642	$ 25,490
Sales by region:				
North and South America (Americas)	$ 70,915	$ 43,375	$ 127,701	$ 79,497
Europe, Middle East, Africa (EMEA)	85,651	60,407	172,023	115,074
Asia and Pacific Rim (APAC)	92,022	69,483	192,658	128,861
	$ 248,588	$ 173,265	$ 492,382	$ 323,432

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The following table reflects each business group s total assets as of September 30, 2010 and March 31, 2010 (amounts in thousands):

	September 30, 2010	March 31, 2010
Total assets:		
Tantalum	$ 410,891	$ 378,344
Ceramics	173,354	169,564
Film and Electrolytic	224,356	193,053
	$ 808,601	$ 740,961

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(1) Restructuring charges included in Operating income (loss) were as follows:

	Quarters Ended September 30, 2010	Quarters Ended September 30, 2009	Six Months Ended Septbember 30, 2010	Six Months Ended Septbember 30, 2009
Total restructuring:				
Tantalum	$ 322	$ 108	$ 779	$ 108
Ceramics	93	51	187	51
Film and Electrolytic	1,888	1,108	3,129	1,108
	$ 2,303	$ 1,267	$ 4,095	$ 1,267

(2) Net (gain) loss on sales and disposals of assets included in Operating income (loss) was:

	Quarters Ended September 30, 2010	Quarters Ended September 30, 2009	Six Months Ended Septbember 30, 2010	Six Months Ended Septbember 30, 2009
Net (gain) loss on sales and disposals of assets:				
Tantalum	$ (121)	$ 31	$ (15)	$ 155
Ceramics	(1,655)	21	(1,632)	103
Film and Electrolytic	6		212	
	$ (1,770)	$ 52	$ (1,435)	$ 258

Note 4. Restructuring Charges

A summary of the expenses aggregated on the Condensed Consolidated Statements of Operations line item Restructuring charges in the quarters and six month periods ended September 30, 2010 and 2009, is as follows (amounts in thousands):

	Quarters Ended September 30, 2010	Quarters Ended September 30, 2009	Six Months Ended September 30, 2010	Six Months Ended September 30, 2009
Manufacturing relocation costs	$ 1,642	$	$ 3,080	$
Personnel reduction costs	661	1,267	1,015	1,267
Restructuring charges	$ 2,303	$ 1,267	$ 4,095	$ 1,267

Six Months Ended September 30, 2010

In fiscal year 2010, the Company initiated the first phase of a plan to restructure Film and Electrolytic and to reduce overhead within the Company as a whole. The restructuring plan includes implementing programs to make the Company more competitive, removing excess capacity, moving production to lower cost locations and eliminating unnecessary costs throughout the Company. Restructuring charges in the six months ended September 30, 2010 relate to this new plan and are primarily comprised of manufacturing relocation costs of $3.1 million for relocation of equipment from various plants to Mexico or China as well as a distribution center relocation project. In addition, the Company incurred $1.0 million in personnel reduction costs due primarily to headcount reductions within Film and Electrolytic.

Six Months Ended September 30, 2009

Restructuring expense in the first half of fiscal year 2010 is primarily comprised of a headcount reduction of 57 employees in Finland. Restructuring charges of $1.3 million were incurred in the second quarter of fiscal year 2010 and remain as a liability on the Condensed Consolidated Balance Sheets at September 30, 2009.

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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 were as follows (amounts in thousands):

	Quarter Ended September 30, 2010		Quarter Ended September 30, 2009	
	Personnel Reductions	Manufacturing Relocations	Personnel Reductions	Manufacturing Relocations
Beginning of period	$ 6,696	$	$ 5,937	$
Costs charged to expense	661	1,642	1,267	
Costs paid or settled	(1,280)	(1,642)	(1,317)	
Change in foreign exchange	662		176	
End of period	$ 6,739	$	$ 6,063	$

	Six Months Ended September 30, 2010		Six Months Ended September 30, 2009	
	Personnel Reductions	Manufacturing Relocations	Personnel Reductions	Manufacturing Relocations
Beginning of period	$ 8,398	$	$ 7,893	$
Costs charged to expense	1,015	3,080	1,267	
Costs paid or settled				