

KEMET CORP  
Form 10-K  
May 25, 2016

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PART IV

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

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FORM 10-K

(Mark  
One)

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

For the fiscal year ended March 31, 2016

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

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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)

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

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

(Title of each class) (Name of Exchange on which registered)  
Common Stock, par value \$0.01 New York Stock Exchange

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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to submit and post such files). Yes  No

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

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):

Non-accelerated filer

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

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

The aggregate market value of voting common stock held by non-affiliates of the registrant as of September 30, 2015 computed by reference to the closing sale price of the registrant's common stock was approximately \$81,863,979.

The number of shares of each class of common stock, \$0.01 par value, outstanding as of May 23, 2016 was 46,235,675.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement to be delivered to stockholders in connection with the Annual Meeting of Stockholders to be held July 28, 2016 are incorporated by reference into Part III of this report.

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## PART I

## ITEM 1. BUSINESS

## Background of Company

KEMET Corporation ("we", "us", "our", "KEMET" and the "Company"), is a global manufacturer of passive electronic components. We first began manufacturing tantalum capacitors in 1958 as a division of Union Carbide Corporation ("UCC") and became a stand-alone legal entity in 1990 following a management buyout from UCC. In 1992, we publicly issued shares of our common stock. Since then, we have made the following acquisitions:

| Business Group   | Fiscal Year | Business  |
|--|-------------|---|
| Solid Capacitors Business Group ("Solid Capacitors")           | 2007        | Tantalum Business Unit of EPCOS AG  |
| Film and Electrolytic Business Group ("Film and Electrolytic") | 2008        | Evox Rifa Group Oyj   |
| Film and Electrolytic  | 2008        | Arcotronics Italia S.p.A.   |
| Film and Electrolytic  | 2012        | Cornell Dubilier Foil, LLC (renamed KEMET Foil Manufacturing, LLC ("KEMET Foil")) |
| Solid Capacitors   | 2012        | Niotan Incorporated (renamed KEMET Blue Powder Corporation ("Blue Powder"))       |
| Corporate  | 2013        | 34% economic interest in NEC TOKIN Corporation ("NEC TOKIN")                      |
| Corporate  | 2016        | IntelliData, Inc. ("IntelliData")   |

Through the above acquisitions and organic growth we have expanded our product base to include multilayer ceramic, solid & electrolytic aluminum and film capacitors.

In fiscal year 2013, our subsidiary, KEMET Electronics Corporation ("KEC") acquired a 34% economic interest in NEC TOKIN as calculated based on the number of common shares held by KEC, directly and indirectly, in proportion to the aggregate number of common and preferred shares of NEC TOKIN outstanding as of such date. The Company accounts for its investment in NEC TOKIN using the equity method for a non-consolidated variable interest entity since KEC does not have the power to direct significant activities of NEC TOKIN.

## General

We compete in the passive electronic component industry, specifically multilayer ceramic, tantalum, film and aluminum (solid & electrolytic) capacitors. Product offerings include surface mount, which are attached directly to the circuit board; leaded capacitors, which are attached to the circuit board using lead wires; and chassis-mount and other pin-through-hole board-mount capacitors, which utilize attachment methods such as screw terminal and snap-in.

Capacitors are electronic components that store, filter, and regulate electrical energy and current flow. As an essential passive component used in nearly all circuit boards, capacitors are typically used for coupling, decoupling, filtering, oscillating and wave shaping and are used in communication systems, servers, personal computers, tablets, cellular phones, automotive electronic systems, defense and aerospace systems, consumer electronics, power management systems and many other electronic devices and systems (basically anything that plugs in or has a battery).

Our product line consists of many distinct part configurations distinguished by various attributes, such as dielectric (or insulating) material, configuration, encapsulation, capacitance (at various tolerances), voltage, performance characteristics and packaging. Most of our customers have multiple capacitance requirements, often within each of their products. Our broad product offering allows us to meet the majority of those needs independent of application and end use.

We believe the long-term demand for the various types of capacitors we offer will grow on a regional and global basis due to a variety of factors, including increasing demand for and complexity of electronic products, growing demand for technology in emerging markets and the ongoing development of new solutions for energy generation and

conservation. Our customer base includes most of the world's major electronics original equipment manufacturers ("OEMs") (including Alcatel-Lucent USA, Inc., Bosch Group, Cisco Systems, Inc., Continental AG, Dell Inc., HP Inc., International Business Machines Corporation, Motorola Solutions, L.M. Ericsson, Siemens AG and TRW Automotive), electronics manufacturing services providers ("EMSs") (including Celestica Inc., Flextronics International LTD, Jabil Circuit, Inc. and Sanmina-SCI Corporation) and distributors (including TTI, Inc., Arrow Electronics, Inc. and Avnet, Inc.).

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

**Our Industry**

We compete with others that manufacture and distribute capacitors both domestically and globally and our success in the market is influenced by many factors, including price, availability, engineering specifications, quality and breadth of offering, performance characteristics, customer service and geographic location of our manufacturing sites. As in all manufacturing industries, there is ongoing pressure on average unit selling prices for capacitors. To help mitigate this effect, KEMET as well as many of our larger competitors have relocated their manufacturing operations to low cost regions and locations in closer proximity to our respective customers.

According to a March 2016 report entitled "Passive Electronic Components: World Market Outlook: 2016-2021" by Paumanok Publications, Inc. ("Paumanok"), a market research firm concentrating on the passive components industry, the global capacitor market in fiscal year 2016 (fiscal year ending March 2016) was estimated to be \$18.8 billion in revenues and 1.87 trillion units. According to the Paumanok report, the global capacitor market is expected to improve substantially and achieve revenue and unit volume increases of 13% and 16%, respectively, by fiscal year 2021.

According to Paumanok, the forecast of the capacitor industry for fiscal year 2016 and the expected growth to fiscal year 2021 are as follows (amounts in billions):

|                        | Fiscal<br>Year<br>2016 | Fiscal<br>Year<br>2021 |
|------------------------|------------------------|------------------------|
| Tantalum               | \$1.6                  | \$1.9                  |
| Ceramic                | 10.3                   | 11.3                   |
| Aluminum               | 3.6                    | 3.8                    |
| Paper and plastic film | 1.7                    | 2.4                    |
| Other                  | 0.6                    | 0.7                    |
|                        | \$17.8                 | \$20.1                 |

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

- the development of new products and applications, such as alternative and renewable energy systems, hybrid transportation systems, electronic controls for engines and industrial machinery, smart phones and mobile personal computing devices;
- the "internet-of-things" products;
- the next generation of automotive electronics to support advance driver assistance systems, as well as the connected car;
- the increase in the electronic content of existing products, such as home appliances, medical equipment and automobiles;
- consumer desire for mobility and connectivity; and
- the enhanced functionality, complexity and convergence of electronic devices that use state-of-the-art microprocessors.

#### Markets and Customers

Our products are sold to a variety of OEMs in a broad range of industries including the computer, communications, automotive, military, consumer, industrial and aerospace industries. We also sell products to EMS providers, which also serve OEMs in these industries. Electronics distributors are an important channel of distribution in the electronics industry and represent the largest channel through which we sell our capacitors. One electronics distributor accounted for over 10% of our net sales in fiscal years 2016, 2015 and 2014. If our relationship with this customer were to terminate, we would need to

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determine alternative means of delivering our products to the end-customers served by them. Our top 50 customers accounted for 86.3% of our net sales during fiscal year 2016.

While we are seeing a merging of major segments as connectivity and “internet-of-things” grow, the following table presents an overview of the diverse industries that incorporate our capacitors into their products and the general nature of those products.

| Industry           | Products   |
|--------------------|--|
| Automotive         | Adaptive cruise control, High intensity discharge headlamps, Light emitting diode electronic modules, Lane departure warning, Camera systems, Audio systems, Tire pressure monitoring, Power train electronics, Instrumentation, Airbag systems, Anti-lock braking and stabilization systems, Hybrid and electric drive vehicles, Electronic engine control modules, Driver comfort controls, Security systems, radar, connectivity systems and advance driver assistance gear |
| Communications     | Smart phones, Telephones, Switching equipment, Relays, Base stations, and Wireless infrastructure  |
| Computer-related   | Personal computers (laptops, tablets, netbooks), Workstations, Servers, Mainframes, Computer peripheral equipment, Power supplies, Solid state drives, and Local area networks   |
| Industrial         | Electronic controls, Measurement equipment, Instrumentation, Solar and wind energy generation, Down-hole drilling and Medical electronics  |
| Consumer           | Digital media devices, Game consoles, Televisions, audio devices, and Global positioning systems   |
| Military/Aerospace | Avionics, Radar, Guidance systems, and Satellite communications  |
| Alternative Energy | Wind generation systems, Solar generation systems, Geothermal generation systems, Tidal generation Systems and Electric drive vehicles   |

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

It is impracticable to report revenues from external customers for each of the above noted products primarily because approximately 42% of our external sales were to electronics distributors for fiscal year 2016.

**KEMET in the United States**

Our corporate headquarters is located near Greenville, South Carolina.

Commodity manufacturing previously located in the United States 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 other specialty products for which customers are predominantly located in North America.

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

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

**KEMET in Mexico**

We believe our operations in Mexico are among the most cost efficient in the world, and we expect they will continue to be our primary production facilities supporting North American and European customers for Solid Capacitors. One



of the strengths of KEMET Mexico is that it is a local operation, including local management and workers. These facilities are responsible for maintaining KEMET's tradition of excellence in quality, service, and delivery, while driving costs down. The

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facilities in Victoria and Matamoros are focused primarily on tantalum capacitors, while the facilities in Monterrey are focused on ceramic capacitors.

**KEMET in Asia Pacific**

We have a well-established manufacturing, sales and logistics network in Asia to support our customers' Asian operations. We currently manufacture tantalum and aluminum polymer and Electrolytic products in China. The vision for KEMET China is to be a local operation, with local management and workers, to help achieve our objective of being a global company. These facilities are responsible for maintaining our tradition of excellence in quality, service, and delivery, while accelerating cost-reduction efforts and supporting efforts to grow our customer base in Asia.

**KEMET in Europe**

We currently have one or more manufacturing locations in each of the following countries: Bulgaria, Finland, Italy, Macedonia, Portugal, and Sweden. In addition, we operate product innovation centers in the United Kingdom, Italy, Germany and Sweden. We continue to maintain and enhance our strong European sales and customer service infrastructure, allowing us to continue to meet the local preferences of European customers who remain an important focus for KEMET.

**Global Sales and Logistics**

KEMET serves the needs of our global customer base through three geographic regions: North America and South America ("Americas"), Europe, the Middle East and Africa ("EMEA") and Asia and the Pacific Rim ("APAC"). Each region's sales staff is organized into three areas supported by regional offices. We also have independent sales representatives located in seven countries worldwide including: Brazil, Israel, Canada, and the United States.

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

Electronics distributors are an important distribution channel in the electronics industry and accounted for 42%, 45%, and 45% of our net sales in fiscal years 2016, 2015 and 2014, respectively. A portion of our net sales to distributors are made under agreements allowing certain rights of return and price protection on unsold merchandise held by distributors. In addition, our distributor policy includes inventory price protection and "ship-from-stock and debit" ("SFSD") programs common in the industry.

**Sales by Geography**

In fiscal years 2016 and 2015, net sales by region were as follows (dollars in millions):

|          | Fiscal Year |       | Fiscal Year |              |
|----------|-------------|-------|-------------|--------------|
|          | 2016        |       | 2015        |              |
|          | Net         | % of  | Net         | % of         |
|          | Sales       | Total | Sales       | Total        |
| Americas | \$225.7     | 31 %  | Americas    | \$260.0 32 % |
| APAC     | 275.8       | 37 %  | APAC        | 281.8 34 %   |
| EMEA     | 233.3       | 32 %  | EMEA        | 281.4 34 %   |
| Total    | \$734.8     |       | Total       | \$823.2      |

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

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## Inventory and Backlog

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

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

## Competition

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

Our major global competitors include AVX Corporation, Panasonic Corporation, Littelfuse, Inc., Murata Manufacturing Co., Ltd., Samsung, Taiyo Yuden Co., Ltd., TDK-EPC Corporation, WIMA GmbH & Co., KG and Vishay Intertechnology, Inc. ("Vishay").

## Raw Materials

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

Tantalum is mined principally in the Democratic Republic of Congo, Australia, Brazil, Canada and Mozambique. As a result of our tantalum vertical integration program which began in fiscal year 2012, we have reduced our exposure to price volatility and supply uncertainty in the tantalum supply chain. A majority of our tantalum needs are now met through our direct sourcing of conflict free tantalum ore or tantalum scrap reclaim, which is then processed into the intermediate product potassium heptafluorotantalate (commonly known as K-salt) at our own facility in Mexico, before final processing into tantalum powder at Blue Powder. Price increases for tantalum ore, or for the remaining tantalum powder that we source from third parties, could impact our financial performance as we may not be able to pass all such price increases on to our customers.

Palladium is a precious metal used in the manufacture of multilayer ceramic capacitors ("MLCC") and is mined primarily in Russia and South Africa. We continue to pursue ways to reduce palladium usage in ceramic capacitors to minimize the price risk. The amount of palladium we require has generally been available in sufficient quantities; however, the price of palladium is driven by the market which has shown significant price fluctuations. For instance, in fiscal year 2016 the price of palladium fluctuated between \$470 and \$802 per troy ounce. Price increases and the possibility of our inability to pass such increases on to our customers could have an adverse effect on profitability. Silver and aluminum have generally been available in sufficient quantities, and we believe there are a sufficient number of suppliers from which we can purchase our requirements. An increase in the price of silver and aluminum that we are unable to pass on to our customers, could, however, have an adverse effect on our profitability.

## Patents and Trademarks

As of March 31, 2016, we held the following number of patents and trademarks:

|               | Patents | Trademarks |
|---------------|---------|------------|
| United States | 124     | 7          |
| Foreign       | 47      | 114        |

We believe the success of our business is not materially dependent on the existence or duration of any individual patent, license, or trademark other than the trademarks "KEMET" and "KEMET Charged". Our engineering and

research and development staffs have developed and continue to develop proprietary manufacturing processes and equipment designed to enhance our manufacturing facilities and reduce costs.

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Research and Development

Research and development expenses were \$25.0 million, \$25.8 million and \$24.5 million for fiscal years 2016, 2015 and 2014, respectively. These amounts include expenditures for product development and the design and development of machinery and equipment for new processes and cost reduction efforts. We continue to invest in new technology to improve product performance and production efficiencies.

Segment Reporting

We are organized into two business groups: Solid Capacitors and Film and Electrolytic. Each business group is responsible for the operations of certain manufacturing sites as well as all related research and development efforts. The sales, marketing and corporate functions are shared by each of the business groups. See Note 6, "Segment and Geographic Information" to our consolidated financial statements.

Solid Capacitors Business Group

Solid Capacitors operates nine capacitor manufacturing sites in the United States, Mexico and China and a product innovation center in the United States and primarily produces tantalum, aluminum, polymer and ceramic capacitors which are sold globally. Solid Capacitors also produces tantalum powder used in the production of tantalum capacitors. Solid Capacitors employs over 6,270 employees worldwide. For fiscal years 2016, 2015 and 2014, Solid Capacitors had consolidated net sales of \$556.3 million, \$621.3 million and \$626.5 million, respectively.

We continue to make significant investments in tantalum production within Solid Capacitors and, based on net sales, we believe we are the largest tantalum capacitor manufacturer in the world. We believe we have one of the broadest lines of tantalum product offerings and are one of the leaders in the growing market for high-frequency surface mount tantalum and aluminum polymer capacitors. On February 21, 2012, we acquired Blue Powder which we believe is the largest production facility for tantalum powder in the western hemisphere. The Company continues to review its cost structure and may take actions to improve the cost structure if the anticipated result is advantageous.

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

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

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

Film and Electrolytic Business Group

Our Film and Electrolytic Business Group produces film, paper and wet aluminum electrolytic capacitors. In addition, the business group designs and produce EMI filters. For applications requiring high power and high voltages, film capacitors are more suitable. For applications requiring high energy at a reasonable price, aluminum electrolytic capacitors are preferred. EMI filters consist of capacitive and inductive elements that reduce electromagnetic disturbance in the frequency range desired. We believe we are one of the world's largest suppliers of direct current film and one of the leaders in wet aluminum electrolytic capacitors. In addition, we produce capacitor grade aluminum foils utilized as a core component in the manufacture of electrolytic capacitors. For fiscal years 2016, 2015 and 2014, our Film and Electrolytic Business Group had consolidated net sales of \$178.5 million, \$201.9 million and \$207.2 million, respectively. One of the primary drivers of the decreases in sales from fiscal year 2014 to fiscal year 2016 is the reduction of the USD to EURO exchange rate from a weighted average value of 1.34 to 1.10.

Our Film and Electrolytic Business Group primarily serves the industrial and automotive markets. We believe our Film and Electrolytic Business Group's product portfolio, technology and experience allow us to significantly benefit from the continued growth in alternative energy solutions and energy efficiency solutions within both the automotive

and industrial markets especially for demanding applications such as humidity, temperature, voltage, etc. We operate ten film and electrolytic manufacturing sites throughout Europe and Asia and maintain product innovation centers in the United Kingdom, Italy, Germany and Sweden. Our Film and Electrolytic Business Group employs approximately 2,090 employees worldwide.

As part of our restructuring efforts for Film and Electrolytic, we have been executing our plan to reduce the number of operations and headcount. The restructuring plan is now substantially complete even though the full effects of these actions

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have not been reflected in the income statement yet and a few actions are still being completed. During fiscal year 2016, three operations were ceased and we reduced headcount by approximately 160 employees. The total closing, severance, and startup expenses incurred in fiscal year 2016 were approximately \$3.0 million. These actions resulted in approximately a \$4.0 million reduction in our operating costs in fiscal year 2016. We expect an additional \$4.6 million of savings in fiscal year 2017 as a result of our plan, followed by another \$1.8 million in fiscal year 2018.

**Environmental and Regulatory Compliance**

We are subject to various North American, European, and Asian federal, state, and local environmental laws and regulations relating to the protection of the environment, including those governing the handling and management of certain chemicals and materials used and generated in manufacturing electronic components. Based on the annual costs incurred over the past several years, we do not believe compliance with these laws and regulations will have a material adverse effect on our capital expenditures, earnings, or competitive position. We believe, however, it is reasonably likely the trend in environmental litigation, laws, and regulations will continue to be toward stricter standards. Such changes in the laws and regulations may require us to make additional capital expenditures which, while not currently estimable with certainty, are not presently expected to have a material adverse effect on our financial condition.

We are strongly committed to economic, environmental, and socially sustainable development. As a result of this commitment, we have adopted the Electronic Industry Citizenship Coalition ("EICC") Code of Conduct. The EICC Code of Conduct is a comprehensive code of conduct that addresses all aspects of corporate responsibility including labor, health and safety, the environment, business ethics, and related management system elements. It outlines standards to ensure working conditions in the electronic industry supply chain are safe, workers are treated with respect and dignity, manufacturing processes are environmentally sustainable and materials are sourced responsibly. Policies, programs, and procedures implemented throughout KEMET ensure compliance with legal and regulatory requirements, the content of the EICC Code of Conduct, and customer contractual requirements related to social and environmental responsibility.

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

**Summary of Activities to Develop a Transparent Supply Chain**

We are actively involved in developing a transparent supply chain through our membership in the EICC/GeSI Conflict-Free Sourcing Initiative. We were a member of the EICC/GeSI working group that developed the CFSP assessment protocols and participated in the pilot implementation phase of the Organization for Economic Cooperation and Development Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. We participate in smelter engagement to increase the number of conflict-free validated smelters globally, the development of due diligence guidance documents and the advancement of the industry adopted conflict minerals reporting template. We will rely on the EICC/GeSI Conflict-Free Smelter Program independent third party audits to supplement our internal due diligence of conflict mineral suppliers and are monitoring the progress of these audits to ensure our supply chain is conflict free. We fully support section 1502 "Conflict Minerals" of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and will comply with all reporting requirements.



Global Code of Conduct and Mission, Vision and Values

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

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Employees

We have approximately 8,800 employees as of March 31, 2016 in the following locations:

|               |       |
|---------------|-------|
| Mexico        | 4,950 |
| Asia          | 1,825 |
| Europe        | 1,450 |
| United States | 575   |

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

|           |       |
|-----------|-------|
| Mexico    | 3,350 |
| Italy     | 250   |
| Macedonia | 25    |
| Bulgaria  | 125   |
| Indonesia | 325   |
| Finland   | 175   |
| Sweden    | 100   |

In fiscal year 2016, we did not experience any major work stoppages. Our labor costs in Mexico, Asia and various locations in Europe are denominated in local currencies, and a significant depreciation or appreciation of the United States dollar against the local currencies would increase or decrease our labor costs.

Securities Exchange Act of 1934 ("Exchange Act") Reports

We maintain an Internet website at the following address: <http://www.kemet.com>. KEMET makes available on or through our Internet website certain reports and amendments to those reports filed or furnished to the Securities and Exchange Commission ("SEC") pursuant to Section 13(a) or 15(d) of the Exchange Act. These include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and beneficial ownership reports on Forms 3, 4 and 5. This information is available on our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC.

ITEM 1A. RISK FACTORS.

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

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

Factors that may cause 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;

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(ix) equity method investment in NEC TOKIN exposes us to a variety of risks; (x) acquisitions and other strategic transactions expose us to a variety of risks; (xi) possible acquisition of NEC TOKIN may not achieve all of the anticipated results; (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 forward-looking statements made in this report, and the reader should not consider the above list of factors to be a complete set of all potential risks or uncertainties.

Adverse economic conditions could impact our ability to realize operating plans if the demand for our products declines; and such conditions could adversely affect our liquidity and ability to continue to operate.

While our operating plans provide for cash generated from operations to be sufficient to cover our future operating requirements, many factors, including reduced demand for our products, currency exchange rate fluctuations, increased raw material costs, and other adverse market conditions we cannot predict could cause a shortfall in net cash generated from operations. As an example, the electronics industry is a cyclical industry with demand for capacitors reflecting the demand for products in the electronics market. Customers' requirements for our capacitors fluctuate as a result of changes in general economic activity and other factors affecting the demand for their end-products. During periods of increasing demand for their products, they typically seek to increase their inventory of our products to avoid production bottlenecks. When demand for their products peaks and begins to decline, they may rapidly decrease orders for our products while they use accumulated inventory. Business cycles vary somewhat in different geographical regions, such as Asia, and within customer industries. We are also vulnerable to general economic events beyond our control and our sales and profits may suffer in periods of weak demand.

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

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

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

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

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

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

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be required to take an impairment charge to earnings under U.S. generally accepted accounting principles. However, such a charge would have no direct effect on our cash. If the economic conditions decline we could incur additional charges in the future.

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

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

Tantalum is mined principally in the Democratic Republic of Congo, Australia, Brazil, Canada and Mozambique. As a result of our tantalum vertical integration program which began in fiscal year 2012, we have reduced our exposure to price volatility and supply uncertainty in the tantalum supply chain. A majority of our tantalum needs are now met through our direct sourcing of conflict free tantalum ore or tantalum scrap reclaim, which is then processed into the intermediate product potassium heptafluorotantalate (commonly known as K-salt) at our own facility in Mexico, before final processing into tantalum powder at Blue Powder. Price increases for tantalum ore, or for the remaining tantalum powder that we source from third parties, could impact our financial performance as we may not be able to pass all such price increases on to our customers.

Palladium is a precious metal used in the manufacture of multilayer ceramic capacitors and is mined primarily in Russia and South Africa. We continue to pursue ways to reduce palladium usage in ceramic capacitors in order to minimize the price risk. The amount of palladium we require has generally been available in sufficient quantities; however, the price of palladium is subject to significant price fluctuations driven by market demand. For instance, in fiscal year 2016 the price of palladium fluctuated between \$470 and \$802 per troy ounce. Price increases and the possibility of our inability to pass such increases on to our customers could have an adverse effect on profitability.

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

Changes in the competitive environment could harm our business.

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

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

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

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

Our international operations are subject to a number of special risks, in addition to the same risks as our domestic business. These risks include currency exchange rate fluctuations, differing protections of intellectual property, trade barriers, labor unrest, exchange controls, regional economic uncertainty, differing (and possibly more stringent) labor

regulation, risk of governmental expropriation, domestic and foreign customs and tariffs, current and changing regulatory regimes, differences in the availability and terms of financing, political instability and potential increases in taxes. These factors could impact our production capability or adversely affect our results of operations or financial condition.

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We may experience difficulties, delays or unexpected costs in completing our restructuring plan and may not realize all of the expected benefits from our restructuring plan.

During fiscal year 2016, we continued our restructuring plan for Film and Electrolytic and took actions to reduce headcount by a total of approximately 160 employees and we expect to further reduce headcount in fiscal year 2017 by an additional 35 employees.

Solid Capacitors took actions to reduce headcount by approximately 230 in fiscal year 2016. The full benefits of this restructuring activity are expected to be realized in fiscal year 2017. We may not realize, in full or in part, the anticipated benefits of the restructuring plan without encountering difficulties, which may include complications in the transfer of production knowledge, loss of key employees and/or customers, the disruption of ongoing business, possible inconsistencies in standards, controls and procedures and potential difficulty in meeting customer demand in the event the market dramatically improves. We are party to collective bargaining agreements in certain jurisdictions in which we operate which could potentially prevent or delay execution of parts of our restructuring plan.

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

On February 1, 2013, we closed on KEC's investment in a 34% economic interest in NEC TOKIN with the purchase of 51% of the common stock in NEC TOKIN. The 34% economic interest is calculated based on the number of common shares held by KEC, directly and indirectly, in proportion to the aggregate number of common and preferred shares of NEC TOKIN outstanding as of such date. These businesses are subject to laws, regulations or market conditions, or have risks inherent in their operations, that could adversely affect their performance. We do not have the power to direct significant activities of our equity method investments and therefore the performance of the investment may be negatively impacted. The interests of our partners may differ from the Company's, and they may cause such entities to take actions which are not in the Company's best interest. Any of these factors could adversely impact our results of operations and the value of our investment. In fiscal years 2016, 2015 and 2014 we incurred a loss on our equity investment in NEC TOKIN of \$16.4 million, \$2.2 million and \$7.1 million, respectively.

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

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

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

We may not realize the anticipated synergies and revenue expansion expected to result from completing the acquisition of NEC TOKIN and we may experience difficulties in integrating NEC TOKIN's business which may adversely affect our financial performance.

There can be no assurance we will complete the acquisition of the remaining shares of common stock and preferred stock of NEC TOKIN. KEC's first and second call options to purchase additional capital stock of NEC TOKIN expired on April 30, 2015 and as a result KEC does not currently have the right to purchase the remaining capital stock of



NEC TOKIN. There can be no assurance KEC will be able to negotiate new terms to purchase the additional capital stock of NEC TOKIN. From April 1, 2015 through May 31, 2018, NEC Corporation (“NEC”) of Japan may require KEC to purchase all outstanding capital stock of NEC TOKIN from its stockholders, primarily NEC (the “Put Option”), provided KEC’s payment of the Put Option price is permitted under the 10.5% Senior Notes and Loan and Security Agreement.

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Even if we do complete the acquisition, there can be no assurance we will realize the anticipated operating synergies, tax benefits and revenue expansion from the acquisition of NEC TOKIN or we will not experience difficulties in integrating the operations of NEC TOKIN with our operations. For example, the integration of NEC TOKIN will require the experience and expertise of certain of our key managers and key managers of NEC TOKIN. There can be no assurance, however, that these managers will remain with us for the time period necessary to successfully integrate the operations of NEC TOKIN with our operations. In addition, the acquisition of NEC TOKIN may present significant challenges for our management due to the increased time and resources required to properly integrate our management, employees, information systems, accounting controls, personnel and administrative functions with those of NEC TOKIN and to manage the combined company on a going forward basis. There can be no assurance we will be able to successfully integrate and streamline overlapping functions or, if successfully accomplished, that such integration will not be more costly to accomplish than presently contemplated or that we will not encounter difficulties in managing the combined company due to its increased size and scope. Furthermore, expansions or acquisitions into new geographic markets and services may require us to comply with new and unfamiliar legal and regulatory requirements, which could impose substantial obligations on us and our management, cause us to expend additional time and resources and increase our exposure to penalties or fines for non-compliance with such requirements. Furthermore, there can be no assurance that, as a combined company, we will continue to maintain all of the supplier and customer relationships we and NEC TOKIN enjoyed as separate companies. As a combined company, we may encounter difficulties managing relationships with our suppliers and our customers due to our increased size and scope and to the increased number of relationships we will have with suppliers and customers.

We are currently subject to increased regulatory scrutiny and litigation that may negatively impact our business. The growth of our Company and our expansion into a variety of new products expose us to a variety of new regulatory issues, and we have experienced increased regulatory scrutiny as we have grown. We are subject to various federal, foreign and state laws, including antitrust laws, violations of which can involve civil or criminal sanctions. Beginning in March 2014, NEC TOKIN and certain of its subsidiaries have 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, and NEC TOKIN has subsequently received significant fines from the United States Department of Justice and the Taiwan Fair Trade Commission arising out of their respective investigations. Given our leading position within several segments of the capacitor industry and our substantial investment in NEC TOKIN, these investigations have exposed us to civil litigation costs and could interfere with our ability to meet certain business objectives. Further, the Company received a request for information from the European Commission in connection with its investigation of NEC TOKIN as the regulators evaluate any potential liability to which shareholders of NEC TOKIN may be subject. In addition, in connection with the antitrust litigation and settlement proceedings involving NEC TOKIN as described in Note 5 to the consolidated financial statements; the line item " Net income (loss) from NEC TOKIN on our Consolidated Statement of Operations reflects our 34% economic interest in NEC TOKIN's litigation and settlement expenses.

Various purported antitrust class actions as described in "Item 3. Legal Proceedings", have been filed in United States district courts (the "U.S. Complaints") and Canada (the "Canadian Complaints") alleging collusion and restraint of trade in capacitors by the named defendants, including KEMET Corporation, KEC and NEC TOKIN.

The Company has not recorded any accrual concerning the U.S. Complaints and the Canadian Complaints.

The impact of these and other investigations could have a material adverse effect on our financial position, liquidity and results of operations.

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

Our success depends upon the continued contributions of our executive officers and certain other employees, many of whom have many years of experience with us and would be extremely difficult to replace. We must also attract and retain experienced and highly skilled engineering, sales and marketing and managerial personnel. Competition for

qualified personnel is intense in our industry, and we may not be successful in hiring and retaining these people. If we lost the services of our executive officers or our other highly qualified and experienced employees or cannot attract and retain other qualified personnel, our business could suffer through less effective management due to loss of accumulated knowledge of our business or through less successful products due to a reduced ability to design, manufacture and market our products.

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

While most of the fundamental technologies used in the passive components industry have been available for a long time, the market is nonetheless characterized by rapid changes in product designs and technological advances allowing for better performance, smaller size and/or lower cost. New applications are frequently found for existing technologies, and new technologies occasionally replace existing technologies for some applications or open up new business opportunities in other areas of application. We believe successful innovation is critical for maintaining profitability in order to offset potential erosion of selling prices for existing products and to ensure the flow of new products and robust manufacturing processes that will keep us at the forefront of our customers' product designs. Non-customized commodity products are especially vulnerable to price pressure, but customized products have also experienced price pressure in recent years. Developing and marketing new products requires start-up costs that may not be recouped if these products or production techniques are not successful. There are numerous risks inherent in product development, including the risks we will be unable to anticipate the direction of technological change or we will be unable to develop and market new products and applications in a timely fashion to satisfy customer demands. If this occurs, we could lose customers and experience adverse effects on our results of operations.

We may be exposed to claims alleging product defects.

Our business exposes us to claims alleging product defects or nonconformance with product specifications. We may be held liable for, or incur costs related to, such claims if any of our products, or products in which our products are incorporated, are found to have caused end market product application failures, product recalls, property damage or personal injury. Provisions in our customer and distributor agreements are designed to limit our exposure to potential material product defect claims, including warranty, indemnification, waiver and limitation of liability provisions, but such provisions may not be effective under the laws of some jurisdictions. If we cannot successfully defend ourselves against product defect claims, we may incur substantial liabilities. Regardless of the merits or eventual outcome, defect claims could entail substantial expense and require the time and attention of key management personnel. Our insurance program may not be adequate to cover all liabilities arising out of product defect claims and, at any time, insurance coverage may not be available on commercially reasonable terms or at all. If liability coverage is insufficient, a product defect claim could result in liability to us, which could materially and adversely affect our results of operations or financial condition. Even if we have adequate insurance coverage, product defect claims or recalls could result in negative publicity or force us to devote significant time and attention to those matters.

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

The SEC requires issuers for whom tantalum, tin, tungsten and gold are necessary to the functionality or production of a product manufactured, or contracted to be manufactured, by such person to disclose annually whether any of those minerals originated in the Democratic Republic of Congo or an adjoining country. As defined by the SEC, tantalum, tin, tungsten and gold are commonly referred to as "conflict minerals" or "3TG". If an issuer's conflict minerals originated in those countries, the rule requires the issuer to submit a report to the Commission that includes a description of the measures it took to exercise due diligence on the conflict minerals' source and chain of custody. We use tantalum, tin

and, to a lesser degree, other of the 3TG minerals in our production processes and in our products. We have exercised due diligence on the source and chain of custody during the reporting period and, as required under the rule, will disclose a description of these measures and certain of our findings in a special disclosure on Form SD. Disclosure in accordance with the rule may cause changes to the pricing of 3TG minerals, which could adversely affect our profitability. In addition, it is possible some of our disclosures pursuant to the rule related to our inquiries and supply chain custody diligence could cause reputational harm and cause the company to lose customers or sales.

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

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

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

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

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

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

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

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

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

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

achieve premium prices, offsetting the price declines in our more mature products.

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

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

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

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

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

Failure of our information technology systems to function properly may cause business disruptions.

As a global company we depend on our information technology systems to support our business. Any inability to successfully manage the procurement, development, implementation, execution or maintenance of our information systems, including matters related to system and data security, reliability, compliance or performance could have an adverse effect on our business including our results of operation and timeliness of financial reporting.

In the ordinary course of business, we collect and store sensitive data and information, including our proprietary and regulated business information, as well as personally identifiable information about our employees, in addition to other information upon which our business processes rely. Our information systems, like those of other companies, are susceptible to malicious damage, intrusions and outages due to, among other events, viruses, breaches of security, natural disasters, power loss or telecommunications failures. We have taken steps to maintain adequate data security and address these risks and uncertainties by implementing security technologies, internal controls, network and data center resiliency and recovery processes. However, any operational failure could lead to the loss or disclosure of confidential and other important information which could have the following implications: loss of intellectual property, significant remediation costs, disruption to key business operations and diversion of management's attention and key informational technology resources.



K Equity may obtain significant influence over all matters submitted to a stockholder vote if they exercise Platinum Warrant and retain ownership of the shares, which may limit the ability of other shareholders to influence corporate activities and may adversely affect the market price of our common stock.

As part of the consideration for entering into the Platinum Credit Facility on May 5, 2009, K Financing received the Platinum Warrant to purchase up to 26,848,484 shares of our common stock (subject to certain adjustments), representing 49.9% of our outstanding common stock at the time of issuance on a post-exercise basis. This Platinum Warrant was subsequently transferred to K Equity, LLC ("K Equity"), an affiliate of K Financing. As of March 31, 2016, 8,416,815 shares remain subject to the Platinum Warrant. To the extent K Equity exercises the remainder of the Platinum Warrant in whole or in

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part but does not sell all or a significant part of the shares it acquires upon exercise, K Equity may own up to 15.4% of our outstanding common stock. As a result, K Equity may have substantial influence over the outcome of votes on all matters requiring approval by our stockholders, including the election of directors, the adoption of amendments to our restated certificate of incorporation and by-laws and approval of significant corporate transactions. This concentration of stock ownership may make it difficult for stockholders to replace management. In addition, this significant concentration of stock ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. This concentration of control could be disadvantageous to other stockholders with interests different from those of our officers, directors and principal stockholders, and the trading price of shares of our common stock could be adversely affected.

Sales to distribution channel customers may fluctuate and adversely affect our results of operations.

From time-to-time, if end customer demand decreases, our sales to distributors also decrease while the distributors reduce their inventory levels. In addition, a single customer, a distributor, accounted for over 10% of our net sales in fiscal years 2016, 2015 and 2014. If our relationship with this customer were to terminate, we would need to determine alternative means of delivering our products to the end-customers served by it.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We are headquartered in Simpsonville, South Carolina, and have 19 manufacturing plants located in North America, Europe and Asia. Our manufacturing and research facilities include approximately 3.3 million square feet of floor space and use proprietary manufacturing processes and equipment.

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

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

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The following table provides certain information regarding our principal facilities:

| Location  | Square Footage (in thousands) | Type of Interest | Description of Use   |
|---|-------------------------------|------------------|--|
| Simpsonville, South Carolina U.S.A.<br>Solid Capacitor Business Group | 372                           | Owned            | Headquarters, Innovation Center, Advanced Tantalum Manufacturing |
| Matamoros, Mexico(1)  | 384                           | (1)              | (1)  |
| Monterrey, Mexico(2)  | 532                           | Owned            | Manufacturing  |
| Suzhou, China(2)  | 353                           | Leased           | Manufacturing  |
| Ciudad Victoria, Mexico   | 265                           | Owned            | Manufacturing  |
| Carson City, Nevada U.S.A.<br>Film and Electrolytic Business Group    | 87                            | Owned            | Manufacturing  |
| Evora, Portugal   | 233                           | Owned            | Manufacturing  |
| Skopje, Macedonia   | 126                           | Owned            | Manufacturing  |
| Granna, Sweden  | 132                           | Owned            | Manufacturing  |
| Suomussalmi, Finland  | 93                            | Leased           | Manufacturing  |
| Batam, Indonesia  | 86                            | Owned            | Manufacturing  |
| Knoxville, Tennessee U.S.A.   | 78                            | Owned            | Manufacturing  |
| Kyustendil, Bulgaria  | 83                            | Owned            | Manufacturing  |
| Landsberg, Germany  | 81                            | Leased           | Innovation Center  |
| Pontecchio, Italy   | 226                           | Owned            | Manufacturing and Innovation Center                              |
| Weymouth, United Kingdom  | 96                            | Leased           | Innovation Center  |
| Anting, China   | 38                            | Owned            | Manufacturing  |
| Farjestaden, Sweden   | 28                            | Leased           | Manufacturing and Innovation Center                              |

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

2. Includes two manufacturing facilities.

### ITEM 3. LEGAL PROCEEDINGS.

We or our subsidiaries are at any one time parties to a number of lawsuits arising out of their respective operations, including workers' compensation or work place safety cases, some of which involve claims of substantial damages. Although there can be no assurance, based upon information known to us, we do not believe that any liability which might result from an adverse determination of such lawsuits would have a material adverse effect on our financial condition or results of operations.

As previously reported, KEMET Corporation and KEC, along with more than 20 other capacitor manufacturers and subsidiaries, are defendants in a purported antitrust class action complaint, In re: Capacitors Antitrust Litigation, No. 3:14-cv-03264-JD, filed on December 4, 2014 with the United States District Court, Northern District of California (the "U.S. Complaint"). The complaint alleges a violation of Section 1 of the Sherman Act, for which it seeks injunctive and equitable relief and money damages. On March 30, 2016, KEMET Corporation and KEC filed a motion for summary judgement with the District Court; response and reply briefs concerning the motion have not yet been filed. In addition, as previously reported, KEMET Corporation and KEC, along with certain other capacitor manufacturers and subsidiaries, were named as defendants in several additional suits that were filed in Canada (collectively, the

“Canadian Complaints”): *Badashmin v. Panasonic Corporation, et al.*, filed August 6, 2014 in the Superior Court, Province of Quebec, District of Montreal; *Herard v. Panasonic Corporation, et al.*, filed August 6, 2014 in the Superior Court, Province of Quebec, District of Montreal; *Cygnus Electronics Corporation v. Panasonic Corporation, et al.*, filed August 6, 2014 in the Superior Court of Justice, Province of Ontario; *LeClaire v. Panasonic Corporation, et al.*, filed August 6, 2014 in the Superior Court, Province of Quebec, District of Montreal; *Taylor v Panasonic Corporation, et al.*, filed August 11, 2014 in the Superior Court of Justice, Province of Ontario; *Ramsay v. Panasonic Corporation, et al.*, filed August 14, 2014 in the Supreme Court, Province of British Columbia; *Martin v. Panasonic Corporation, et al.*, filed September 25, 2014 in the Superior Court, Province of

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Quebec, District of Montreal; Parikh v. Panasonic Corporation, et al., filed October 3, 2014 in the Superior Court of Justice, Province of Ontario; Fraser v. Panasonic Corporation, et al., filed October 3, 2014 in the Court of Queen's Bench, Province of Saskatchewan; Pickering v. Panasonic Corporation, et al., filed October 6, 2014 in the Supreme Court, Province of British Columbia; and McPherson v Panasonic Corporation et al., filed on November 6, 2014 in the Court of Queen's Bench, Province of Manitoba. The Canadian Complaints generally allege the same unlawful acts as in the U.S. Complaint, assert claims under Canada's Competition Act as well as various civil and common law causes of action, and seek injunctive and equitable relief and money damages.

Except for certain attorneys' fees, the Company has not recorded any accrual concerning the U.S. Complaint and the Canadian Complaints.

Beginning in March 2014, NEC TOKIN and certain of its subsidiaries have 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. In connection with the European Commission ("EC") investigation, EC regulators are evaluating any potential liability to which shareholders of NEC TOKIN, including KEC, may be subject. See Note 5, "Investment in NEC TOKIN".

## ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

## ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The name, age, business experience, positions and offices held and period served in such positions or offices for each of the executive officers and certain key employees of the Company is as listed below. There are no family relationships among our executive officers and directors.

| Name                   | Age | Position   | Years with Company |
|------------------------|-----|--|--------------------|
| Per-Olof Lööf          | 65  | Chief Executive Officer and Director                                       | 11                 |
| William M. Lowe, Jr.   | 62  | Executive Vice President and Chief Financial Officer                       | 8                  |
| Charles C. Meeks, Jr.  | 54  | Executive Vice President, Solid Capacitor Business Group                   | 32                 |
| R. James Assaf         | 56  | Senior Vice President, General Counsel and Secretary                       | 8                  |
| Susan B. Barkal        | 53  | Senior Vice President Quality, Chief Compliance Officer and Chief of Staff | 16                 |
| Dr. Phillip M. Lessner | 57  | Senior Vice President and Chief Technology Officer                         | 20                 |
| Claudio Lollini        | 36  | Senior Vice President of Global Sales and Marketing                        | 11                 |
| Stefano Vetralla       | 53  | Senior Vice President and Chief Human Resources Officer                    | 8                  |
| Robert S. Willoughby   | 55  | Senior Vice President, Global Supply Chain                                 | 30                 |
| Andreas Meier          | 48  | Senior Vice President, Film and Electrolytic Business Group                | 18                 |
| Michael L. Raynor      | 50  | Vice President and Corporate Controller                                    | 8                  |
| Richard J. Vatinelle   | 52  | Vice President and Treasurer   | 3                  |

## Executive Officers

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

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

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

R. James Assaf, Senior Vice President, General Counsel and Secretary, was named such in February 2014. Mr. Assaf joined KEMET as Vice President, General Counsel in March 2008, and was appointed Vice President, General Counsel and Secretary in July 2008 prior to his appointment to his current position. Before joining KEMET, Mr. Assaf served as General Manager for InkSure Inc., a start-up seller of product authentication solutions. He had also previously held several positions with Sensormatic Electronics Corporation, including Associate General Counsel and Director of Business Development, Mergers & Acquisitions. Prior to Sensormatic, Mr. Assaf served as an Associate Attorney with the international law firm Squire Sanders & Dempsey. Mr. Assaf received his Bachelor of Arts degree from Kenyon College and his Juris Doctor degree from Case Western Reserve University School of Law.

Susan B. Barkal, Senior Vice President Quality, Chief Compliance Officer and Chief of Staff, was named such in February 2014. Ms. Barkal joined KEMET in November 1999, and has served as Quality Manager for the Tantalum Business Group (now a part of Solid Capacitors), Technical Product Manager for all Tantalum product lines and Director of Tantalum Product Management. Ms. Barkal was appointed Vice President of Quality and Chief Compliance Officer in December 2008 prior to her appointment to her current position. Ms. Barkal holds a Bachelor of Science degree in Chemical Engineering from Clarkson University, a Master of Science degree in Mechanical Engineering from California Polytechnic University and is a 2007 graduate of the KEMET Leadership Forum.

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

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

Claudio Lollini, Senior Vice President of Global Sales and Marketing, was named such in July 2015. He joined KEMET in October 2007 through the Company's acquisition of Arcotronics Italia S.p.A., where he served as Manager, Sales - Great China. Mr. Lollini was appointed Director of Product Management for Film & Electrolytic in January 2009, Director of Sales Taiwan in June 2012, and Vice President, Sales - Asia Pacific in May 2013 prior to his appointment to his current position. Mr. Lollini holds a Bachelor of Science degree in Engineering Management from the University of Bologna and is a 2011 graduate of the KEMET Leadership Forum.

Stefano Vetralla, Senior Vice President and Chief Human Resources Officer, was named such in July 2015. He joined KEMET in May 2008 as Director - HR, Film and Electrolytic Business Group. Mr. Vetralla was appointed Director - HR, Global Sales and Film and Electrolytic Business Group in January 2011; Senior Director HR, Global Sales and Film and Electrolytic Business Group in January 2012; Senior Director - HR, Field in September 2012; Vice President - Global HR Operations in September 2013; and Vice President - Global HR and Chief Human Resources Officer in May 2014 prior to his current appointment. Prior to KEMET, he held Human Resources positions of increasing

responsibility in international corporations including Hewlett-Packard Company, 3Com Corporation and Telindus /Belgacom. Mr. Vetralla holds a Law Degree from the State University of Milan and is a 2011 graduate of the KEMET Leadership Forum.

Robert S. Willoughby, Senior Vice President-Global Supply Chain, was named such in May 2016. He joined KEMET in December 1985 and has held positions of increasing responsibility within Diagnostic, Quality, New Product and Process Engineering. Mr. Willoughby served as Director - Ceramic Operations from July 2007 until March 2010; served as Vice President of Operations - Film and Electrolytic Business Unit from March 2010 until May 2013; served as Vice President, Film and Electrolytic Business Group from May 2013 through December 2014; and served as Senior Vice President-Film and Electrolytic Business Group from January 2015 through April 2016. He holds a Bachelor of Science degree in Industrial Engineering from Clemson University and is a 2007 graduate of the KEMET Leadership Forum.



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Other Key Employees

Andreas Meier, Senior Vice President-Film and Electrolytic Business Group, was named such in May 2016. Mr. Meier joined KEMET in January 1998 and has held several positions of increasing responsibility in the Sales and Product Management areas. Mr. Meier was named Vice President - Product Management, Film and Electrolytic Business Group in January, 2010 and Vice President, Sales - EMEA in December, 2012 prior to his appointment to his current position. Mr. Meier holds a degree in Electronic Engineering from the University of Paderborn in Germany.

Michael L. Raynor, Vice President and Corporate Controller, was named such in November 2012. Mr. Raynor joined the Company in July 2007 as the Assistant Corporate Controller; in November of 2008 Mr. Raynor was named Director of Financial Planning & Analysis prior to his appointment to his current position. Prior to joining KEMET, Mr. Raynor held various controller level positions with distribution and manufacturing companies. Mr. Raynor received a Bachelor of Arts degree in Economics and a Masters of Accounting from the University of North Carolina at Chapel Hill, is a Certified Public Accountant in the state of North Carolina and is a 2015 graduate of the KEMET Leadership Forum.

Richard J. Vatinelle, Vice President and Treasurer, was named such in March 2014. Mr. Vatinelle joined the Company in November 2012 as Controller - Tantalum Business Group. Prior to joining KEMET, Mr. Vatinelle served for two years as Regional Controller - Latin America for Leo Pharma A/S, a global manufacturer of pharmaceutical products. From 2007 to 2009 he served as Director of Finance, Policies and Reporting, for Stiefel Laboratories, a pharmaceutical company specialized in dermatology. Mr. Vatinelle's career in finance includes eight years with Conagra Foods Inc., where he held various international finance roles, and eleven years with Banque Sudameris, an international banking group where he began his career. Mr. Vatinelle holds a Bachelor of Science degree in Finance and International Management from Georgetown University and is a 2015 graduate of the KEMET Leadership Forum.

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## PART II

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

## Market for Common Stock of the Company

Our common stock trades on the NYSE under the ticker symbol "KEM" (NYSE: KEM). We had 112 stockholders of record as of May 17, 2015. The following table represents the high and low sale prices of our common stock for the periods indicated:

| Quarter | Fiscal Year |        | Fiscal Year |        |
|---------|-------------|--------|-------------|--------|
|         | 2016        | 2015   | 2015        | 2014   |
|         | High        | Low    | High        | Low    |
| First   | \$4.57      | \$2.88 | \$6.07      | \$4.51 |
| Second  | 2.80        | 1.56   | 6.13        | 3.94   |
| Third   | 2.97        | 1.87   | 4.80        | 3.92   |
| Fourth  | 2.41        | 1.30   | 4.58        | 3.75   |

## Dividend Policy

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

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## PERFORMANCE GRAPH

The following graph compares our cumulative total stockholder return for the past five fiscal years, beginning on March 31, 2011, with the Russell 3000 and a peer group (the "Peer Group") comprised of certain companies which manufacture capacitors and with which we generally compete. The Peer Group is comprised of AVX Corporation, Littelfuse, Inc. and Vishay Intertechnology, Inc.

## COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

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

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\*\$100 invested on 3/31/11 in stock or index, including reinvestment of dividends.

Fiscal year ending March 31.

## RETURNS

Years Ending March 31,

|                   | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   |
|-------------------|--------|--------|--------|--------|--------|--------|
| KEMET Corporation | 100.00 | 63.12  | 42.14  | 39.18  | 27.92  | 13.01  |
| Russell 3000      | 100.00 | 105.07 | 117.85 | 141.70 | 156.24 | 152.57 |
| Peer Group        | 100.00 | 88.86  | 92.09  | 116.20 | 124.21 | 144.80 |

## Unregistered Sales of Equity Securities

We did not sell any of our equity securities during fiscal year 2016 that were not registered under the Securities Act of 1933, as amended (the "Securities Act").

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## Repurchase of Equity Securities

The following table provides information relating to our purchase of shares of our common stock during the quarter ended March 31, 2016 (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 |
|--|--|----------------------------------|---|---|
| January 1 to January 31, 2016          | 21                                       | \$ 1.49                          | —   | —   |
| February 1 to February 29, 2016        | —  | —                                | —   | —   |
| March 1 to March 31, 2016              | —  | —                                | —   | —   |
| Total for Quarter Ended March 31, 2016 | 21                                       | \$ 1.49                          |   |   |

(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.

## Equity Compensation Plan Disclosure

The following table summarizes equity compensation plans approved by stockholders and equity compensation plans that were not approved by stockholders as of March 31, 2016:

| Plan category  | (a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights | (b) Weighted-average price of outstanding options, warrants, and rights | (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|--|--|---|---|
| Equity compensation plans approved by stockholders     | 4,747,780  | (1) \$ 8.66   | 1,095,932   |
| Equity compensation plans not approved by stockholders | —  | —   | —   |
| Total  | 4,747,780  | \$ 8.66   | 1,095,932   |

Includes 1,275,387 shares subject to outstanding LTIP Awards (time-based), 705,500 shares subject to outstanding (1)LTIP Awards (performance-based) and 1,430,021 outstanding non-vested restricted shares of Common Stock; the weighted-average exercise price does not take into account these shares as they have no exercise price.



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## ITEM 6. SELECTED FINANCIAL DATA.

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

|   | Fiscal Years Ended March 31, |            |            |             |            |
|---|------------------------------|------------|------------|-------------|------------|
|   | 2016                         | 2015       | 2014       | 2013        | 2012(1)    |
| <b>Income Statement Data:</b>   |                              |            |            |             |            |
| Net sales   | \$ 734,823                   | \$ 823,192 | \$ 833,666 | \$ 823,903  | \$ 924,052 |
| Operating income (loss)   | 32,326                       | 22,378     | (18,211 )  | (35,080 )   | 28,083     |
| Interest income   | (14 )                        | (15 )      | (195 )     | (139 )      | (175 )     |
| Interest expense  | 39,605                       | 40,701     | 40,962     | 41,331      | 28,567     |
| Income (loss) from continuing operations  | (53,629 )                    | (19,522 )  | (64,869 )  | (78,512 )   | (2,350 )   |
| Income (loss) from discontinued operations, net of income tax expense (benefit) | —                            | 5,379      | (3,634 )   | (3,670 )    | 9,042      |
| Net income (loss)   | (53,629 )                    | (14,143 )  | (68,503 )  | (82,182 )   | 6,692      |
| <b>Per Share Data:</b>  |                              |            |            |             |            |
| Net income (loss) per basic share:  |                              |            |            |             |            |
| Income (loss) from continuing operations  | \$(1.17 )                    | \$(0.43 )  | \$(1.44 )  | \$(1.75 )   | \$(0.05 )  |
| Income (loss) from discontinued operations, net of income tax expense (benefit) | \$—                          | \$0.12     | \$(0.08 )  | \$(0.08 )   | \$0.21     |
| Net income (loss)   | \$(1.17 )                    | \$(0.31 )  | \$(1.52 )  | \$(1.83 )   | \$0.16     |
| Net income (loss) per diluted share:  |                              |            |            |             |            |
| Income (loss) from continuing operations  | \$(1.17 )                    | \$(0.43 )  | \$(1.44 )  | \$(1.75 )   | \$(0.04 )  |
| Income (loss) from discontinued operations, net of income tax expense (benefit) | \$—                          | \$0.12     | \$(0.08 )  | \$(0.08 )   | \$0.17     |
| Net income (loss)   | \$(1.17 )                    | \$(0.31 )  | \$(1.52 )  | \$(1.83 )   | 0.13       |
| <b>Balance Sheet Data:</b>  |                              |            |            |             |            |
| Total assets (3)  | \$ 702,544                   | \$ 746,693 | \$ 841,608 | \$ 909,857  | \$ 977,855 |
| Working capital   | 228,793                      | 228,478    | 227,070    | 257,801     | 392,274    |
| Long-term debt, less current portion(2)   | 388,597                      | 390,409    | 391,292    | 372,707     | 345,380    |
| Other non-current obligations   | 74,892                       | 57,131     | 55,864     | 69,022      | 101,229    |
| Stockholders' equity  | 112,481                      | 164,682    | 221,884    | 276,916     | 358,996    |
| <b>Other Data:</b>  |                              |            |            |             |            |
| Cash flow provided by (used in) operating activities                            | \$ 32,365                    | \$ 24,402  | \$(6,746 ) | \$(22,827 ) | \$ 80,730  |
| Capital expenditures  | 20,469                       | 22,232     | 32,147     | 46,174      | 49,314     |
| Research and development  | 24,955                       | 25,802     | 24,466     | 26,876      | 27,765     |

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

(2)In fiscal years 2013 and 2012, the Company issued \$15.0 million and \$110.0 million, respectively of 10.5% Senior Notes. In fiscal year 2013, the Company received a \$24.0 million advance payment from an original equipment manufacturer and in fiscal year 2015 this advance payment was repaid in full. In fiscal years 2016, 2015 and 2014, the Company had \$33.9 million, \$33.5 million and \$18.4 million, respectively, outstanding under a Loan and

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Security Agreement (the "Loan and Security Agreement") with Bank of America, N.A.

Fiscal years 2012 through 2015 have been restated due to the retroactive adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2015-17, Balance Sheet Classification of Deferred Taxes.

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

The following discussion and analysis provides information that we believe is useful in understanding our operating results, cash flows, and financial condition for the three fiscal years ended March 31, 2016, 2015, and 2014. The discussion should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements and related notes appearing elsewhere in this report. The discussions in this document contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties. Our actual future results could differ materially from those discussed here. Factors that could cause or contribute to such differences include, but are not limited to, those discussed under the Item 1A, "Risk Factors" and, from time to time, in our other filings with the Securities and Exchange Commission.

**Our Competitive Strengths**

We believe that our Company benefits from the following competitive strengths:

**Strong Customer Relationships**

We have a large and diverse customer base. We believe that our emphasis on quality control and our performance history establishes loyalty with OEMs, EMSs and distributors. Our customer base includes most of the world's major electronics OEMs (including Alcatel-Lucent USA, Inc., Bosch Group, Cisco Systems, Inc., Continental AG, Dell Inc., HP Inc., International Business Machines Corporation, Motorola Solutions, L.M. Ericsson, Siemens AG and TRW Automotive), EMSs (including Celestica Inc., Flextronics International LTD, Jabil Circuit, Inc. and Sanmina-SCI Corporation) and distributors (including TTI, Inc., Arrow Electronics, Inc. and Avnet, Inc.). Our strong, extensive and efficient worldwide distribution network is one of our differentiating factors. We believe our ability to provide innovative and flexible service offerings, superior customer support and focus on speed-to-market results in a more rewarding customer experience, earning us a high degree of customer loyalty.

**Breadth of Our Diversified Product Offering and Markets**

We believe that we have the most complete line of primary capacitor types spanning a full spectrum of dielectric materials including tantalum, multilayer ceramic, solid and electrolytic aluminum and film capacitors. As discussed below, our private label partnership with NEC TOKIN has expanded our product offerings and markets. As a result, we believe we can satisfy virtually all of our customers' capacitance needs, thereby strengthening our position as their supplier of choice. We sell our products into a wide range of end-markets, including computing, industrial, telecommunications, transportation, consumer, defense and healthcare across all geographical regions. No single industry accounted for more than 30% of net sales; although, one customer, an electronics distributor, accounted for more than 10% of our net sales in fiscal year 2016. No single end-use customer accounted for more than 6% of our net sales in fiscal year 2016. We believe that well-balanced product, geographic and customer diversification helps us mitigate some of the negative financial impact through economic cycles.

**Leading Market Positions and Operating Scale**

Based on net sales, we believe that we are the largest manufacturer of tantalum capacitors in the world and one of the largest manufacturers of direct current film capacitors in the world and have a substantial market position in the specialty ceramic and custom wet aluminum electrolytic markets. As discussed below, our private label partnership with NEC TOKIN allows us to achieve true scale in operations to manage raw materials sourcing as well as maximize efficiencies. We believe that our leading market positions and operating scale allow us to realize production efficiencies, leverage economies of scale and capitalize on growth opportunities in the global capacitor market.

**Strong Presence in Specialty Products**

We engage in design collaboration with our customers in order to meet their specific needs and provide them with customized products satisfying their engineering specifications. Whether at the concept or design stage, KEMET provides engineering tools and samples to our customers to enable them to make the best product selections.

KEMET's Field Application Engineers (experts in electrical circuits) and Technical Product Managers (experts in product applications) assist our Sales team as they navigate the product selection process with our customers. During



fiscal years 2016 and 2015, respectively, specialty products accounted for 41.3% and 40.5% of our revenue. By allocating an increasing portion of our management resources and research and development ("R&D") investment (particularly through our partnership with NEC TOKIN as discussed below) to specialty products, we have established ourselves as one of the leading innovators in this fast growing, emerging segment of the market, including healthcare, renewable energy, telecommunication infrastructure and oil and gas.

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### Low-Cost and Strategic Locations

We believe our plants in China, Mexico, Bulgaria and Macedonia have some of the lowest cost production facilities in the industry. Many of our key customers have relocated their production facilities to Asia, particularly China. We believe our manufacturing facilities in China are in close proximity to the large and growing Chinese market. In addition, we have the ability to increase capacity and change product mix to meet our customers' needs.

### Our Brand

Founded by Union Carbide in 1919 as KEMET Laboratories, we believe that we have established a reputation as a high quality, efficient and affordable partner that sets our customers' needs as the top priority. This has allowed us to successfully attract loyal clientele and enabled us to expand our operations and market share over the past few years. We believe our commitment to addressing the needs of the industry in which we operate has differentiated us from our competitors. In addition to our traditional reputation of being the "Easy-To-Buy-From" company by providing excellent customer service and on-time delivery, we have now evolved to being the "Easy-To-Design-In" company with the addition of technical resources like KEMET's online Engineering Center and capacitor selection simulation tools.

### Our People

We believe that we have successfully developed a unique corporate culture based on innovation, customer focus and commitment. We have a strong, highly experienced and committed team in each of our markets. Many of our professionals have developed unparalleled experience in building leadership positions in new markets, as well as successfully integrating acquisitions. Our 14 member executive management team has an average of 18 years of experience with us and an average of 26 years of experience in the manufacturing industry.

### Business Strategy

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

#### One KEMET Campaign.

We continue to focus on improving our commercial and technological capabilities through various initiatives that all fall under our One KEMET campaign. The One KEMET campaign aims to ensure that we, as a company, are focused on the same goals and working with the same processes and systems to ensure consistent quality and service that allow us to provide our customers with the technologies they require at a competitive "total cost of ownership." This effort was launched to ensure that, as we continue to grow, we not only remain grounded in our core principles but that we also use those principles, operating procedures and systems as the foundation from which to expand. These initiatives include our Lean and Six Sigma culture evolution, our global customer accounts management program and our evolution toward a philosophy of being "easy to design-in."

#### Develop Our Significant Customer Relationships and Industry Presence.

We continue to focus on our responsiveness to our customers' needs and requirements by making order entry and fulfillment easier, faster, more flexible and more reliable for our customers. This will be accomplished by focusing on building products around customers' needs and by giving decision-making authority to customer-facing personnel and by providing purpose-built systems and processes.

#### Leverage Our Technological Competence and Expand Our Leadership in Specialty Products

We continue to leverage our technological competence and partnership with NEC TOKIN by introducing new products in a timely and cost-efficient manner. This allows us to generate an increasing portion of our sales from new and customized solutions that meet our customers' varied and evolving capacitor needs as well as improves our financial performance. We believe that by continuing to build on our strength in the higher growth and higher margin specialty segments of the capacitor market, we will be well-positioned to achieve our long-term growth objectives while also improving our profitability. During fiscal year 2016, we introduced 23,294 new products of which 889 were first to market, and specialty products accounted for 41.3% of our revenue over this period.



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### Further Expand Our Broad Capacitance Capabilities

We identify ourselves as the "Electronic Components" company and strive to be the supplier of choice for all our customers' capacitance needs across the full spectrum of dielectric materials including tantalum, multilayer ceramic, solid and electrolytic aluminum, film and paper. As discussed below, through our partnership with NEC TOKIN we have further expanded our product offerings to other electro-magnetic, electro-mechanical and access devices. While we believe we have the most complete line of capacitor technologies across these primary capacitor types, we intend to continue to research and pursue additional capacitance technologies and solutions in order to maximize the breadth of our product offerings.

### Selectively Target Complementary Acquisitions and Equity Investments

As strategic opportunities are identified, we will evaluate and possibly pursue them if they would enable us to enhance our competitive position and expand our market presence. Our strategy is to acquire complementary capacitor and other related businesses allowing us to leverage our business model, potentially including those involved in other passive components that are synergistic with our customers' technologies and our current product offerings. For example, in fiscal year 2012, we acquired KEMET Foil and Blue Powder which has allowed us to vertically integrate certain manufacturing processes within Film and Electrolytic and Solid Capacitors, respectively. In addition, on February 1, 2013, KEC, a wholly owned subsidiary of the Company, acquired a 34% economic interest in NEC TOKIN, a manufacturer of tantalum capacitors and electro-magnetic, electro-mechanical and access devices.

### Promote the KEMET Brand Globally

We are focused on promoting the KEMET brand globally by highlighting the high-quality and high reliability of our products and our superior customer service. We will continue to market our products to new and existing customers around the world in order to expand our business. We continue to be recognized by our customers as a leading global supplier. For example, in calendar year 2015, we received the "Asia Supplier Excellence Award" and "Global Operations Excellence Award" from TTI, Inc. and the "Excellence in Sustainability" award from Cisco Systems, Inc.

### Global Sales & Marketing Strategy

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

### Partnership with NEC TOKIN

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

### Recent Developments and Trends

### Equity Investment

On March 12, 2012, KEC, a wholly owned subsidiary of the Company, entered into a Stock Purchase Agreement with 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) from NEC. 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.

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Concurrent with KEC's execution of the Stock Purchase Agreement, KEC was granted First and Second Call Options (as defined in Note 5, "Investment in NEC TOKIN") to purchase additional capital stock of NEC TOKIN, which expired on April 30, 2015 without being exercised. In addition, NEC was granted a Put Option, pursuant to which 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, 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 and NEC have had continued discussions regarding the terms of any potential acquisitions of NEC TOKIN. See Note 5, "Investment in NEC TOKIN" for further discussion of the NEC TOKIN Equity Investment.

In the fiscal year ended March 31, 2016, we incurred a net loss from NEC TOKIN of \$16.4 million primarily due to NEC TOKIN's additional accrual of \$51.6 million for antitrust fines and civil litigation as described in Note 5, "Investment in NEC TOKIN", which resulted in additional expense to KEMET of \$17.5 million related to our 34% economic interest. The civil fines were accrued during the quarter ended March 31, 2016.

In addition, the Company has marked KEC's options to fair value and in the fiscal year ended March 31, 2016 recognized a \$26.3 million loss, which was included on the line item "Change in value of NEC TOKIN options" in the Consolidated Statement of Operations. The line item "Other non-current obligations" on the Consolidated Balance Sheets includes \$20.6 million as of March 31, 2016 related to the Put Option.

### Restructuring

In the fiscal year ended March 31, 2016 we incurred \$4.2 million in restructuring charges including \$1.8 million related to personnel reduction costs and \$2.4 million of manufacturing relocation costs.

### Subsequent Event

#### Revolving Line of Credit and Debt Repurchase

On May 2, 2016, the Loan and Security Agreement, as defined herein, was amended and, as a result, the revolving credit facility has increased to \$65.0 million. In addition, on May 10, 2016, the company repurchased and retired \$2.0 million of our 10.5% Senior Notes.

#### Off-Balance Sheet Arrangements

As of March 31, 2016, other than operating lease commitments as described in Note 16, "Commitments and Contingencies", we are not a party to any material off-balance sheet financing arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

#### Critical Accounting Policies

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

Our estimates and assumptions are based on historical data and other assumptions that we believe are reasonable. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. In addition, they affect the reported amounts of revenues and expenses during the reporting period.

Our judgments are based on our assessment as to the effect certain estimates, assumptions, or future trends or events may have on the financial condition and results of operations reported in the consolidated financial statements.

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

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**REVENUE RECOGNITION.** We ship products to customers based upon firm orders and revenue is recognized when the sales process is complete. This occurs when products are shipped to the customer in accordance with the terms of an agreement of sale, there is a fixed or determinable selling price, title and risk of loss have been transferred and collectability is reasonably assured. Based on product availability, customer requirements and customer consent, KEMET may ship products earlier than the initial planned ship date. Shipping and handling costs are included in cost of sales.

A portion of sales is related to products designed to meet customer specific requirements. These products typically have stricter tolerances making them useful to the specific customer requesting the product and to customers with similar or less stringent requirements. We recognize revenue when title to the products transfers to the customer. A portion of sales is made to distributors under agreements allowing certain rights of return and price protection on unsold merchandise held by distributors. Our distributor policy includes inventory price protection and SFSD programs common in the industry. The price protection policy protects the value of the distributors' inventory in the event we reduce our published selling price to distributors. This program allows the distributor to debit us for the difference between our list price and the lower authorized price for specific parts. We establish price protection reserves on specific parts residing in distributors' inventories in the period that the price protection is formally authorized by KEMET.

KEMET's SFSD program provides authorized distributors with the flexibility to meet marketplace prices by allowing them, upon a case-by-case pre-approved basis, to adjust their purchased inventory cost to correspond with current market demand. Requests for SFSD adjustments are considered on an individual basis, require a pre-approved cost adjustment quote from their local KEMET sales representative and apply only to a specific customer, part, a specified special price amount, a specified quantity, and is only valid for a specific period of time. To estimate potential SFSD adjustments corresponding with current period sales, KEMET records a sales reserve based on historical SFSD credits, distributor inventory levels, and certain accounting assumptions, all of which are reviewed quarterly. We believe this methodology enables us to make reliable estimates of future adjustments under the SFSD program. If the historical SFSD run rates used in our calculation were changed by 1% in fiscal year 2016, net sales would be impacted by \$0.8 million.

The establishment of these reserves is recognized as a component of the line item "Net sales" on the Consolidated Statements of Operations, while the associated reserves are included in the line item "Accounts receivable" on the Consolidated Balance Sheets. Estimates used in determining sales allowances are subject to various factors. This includes, but is not limited to, changes in economic conditions, pricing changes, product demand, inventory levels in the supply chain, the effects of technological change, and other variables that might result in changes to our estimates.

**INVENTORIES.** Inventories are valued at the lower of cost or market. For most of the inventory, cost is determined under the first-in, first-out method. For tool crib, a component of our raw material inventory, cost is determined under the average cost method. The valuation of inventories requires us to make estimates. We also must assess the prices at which we believe the finished goods inventory can be sold compared to its cost. A sharp decrease in demand could adversely impact earnings as the reserve estimates could increase.

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

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

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

We base our assumptions on either historical or market data that we consider reasonable. Variations in these assumptions could have a significant effect on the amounts reported in Consolidated Balance Sheets and the



Consolidated Statements of Operations. The most critical assumption relates to the discount rate. A 25 basis point increase or decrease in the weighted average discount rate would result in changes to the projected benefit obligation of \$(1.9) million and \$2.2 million, respectively.

**GOODWILL AND LONG-LIVED ASSETS.** Goodwill, which represents the excess of purchase price over fair value of net assets acquired, and intangible assets with indefinite useful lives are tested for impairment at least on an annual basis. We perform our impairment test during the fourth quarter of each fiscal year and when otherwise warranted.

We evaluate our goodwill on a reporting unit basis. This requires us to estimate the fair value of the reporting units based on the future net cash flows expected to be generated. The impairment test involves a comparison of the fair value of

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each reporting unit, with the corresponding carrying amounts. If the reporting unit's carrying amount exceeds its fair value, then an indication exists that the reporting unit's goodwill may be impaired. The impairment to be recognized is measured by the amount by which the carrying value of the reporting unit's goodwill being measured exceeds its implied fair value. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the sum of the amounts assigned to identified net assets. As a result, the implied fair value of goodwill is generally the residual amount that results from subtracting the value of net assets including all tangible assets and identified intangible assets from the fair value of the reporting unit's fair value. We determine the fair value of our reporting units using an income-based, discounted cash flow ("DCF") analysis, and market-based approaches (Guideline Publicly Traded Company Method and Guideline Transaction Method) which examine transactions in the marketplace involving the sale of the stocks of similar publicly-owned companies, or the sale of entire companies engaged in operations similar to KEMET. In addition to the above described reporting unit valuation techniques, our goodwill impairment assessment also considers our aggregate fair value based upon the value of our outstanding shares of common stock. Our goodwill balance of \$40.3 million is comprised of \$35.6 million related to Blue Powder, which is within the Tantalum product line of the Solid Capacitors Business Group, and \$4.7 million related to IntelliData (see Note 8, "Acquisitions") which is a corporate asset. As part of our annual impairment testing, we determine the fair value of the relevant reporting unit(s) using an income-based, discounted cash flow ("DCF") analysis for Blue Powder, and an internal rate of return analysis for IntelliData. Recognizing that Blue Powder is now fully integrated and reliant on other facilities within the Tantalum product line, we have updated the reporting unit used this year to evaluate Blue Powder's goodwill at the Tantalum product line level.

Significant assumptions used in the DCF analysis are:

- the discount rate based on the weighted average cost of capital ("WACC"),
- estimated sales growth rates, and
- the estimated market price and production cost for tantalum products

Our WACC is determined through market comparisons combined with small stock and equity risk premiums.

Tantalum's sales growth rates are estimated through KEMET's three-year strategic plan.

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

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

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

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 March 31, 2016 and concluded that they were not impaired. 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 assets. 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).

We evaluate the value of our other indefinite-lived intangible assets (trademarks) using an income-based, relief from royalty analysis.

The Company completed its impairment test on goodwill and intangible assets with indefinite useful lives as of January 1, 2016 and concluded that goodwill and indefinite-lived assets were not impaired nor were they at risk of failing step one of the impairment test as the fair value of each of the assets exceeds the carrying value by more than 10%. A one percent

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increase or decrease in the discount rate used in the goodwill and indefinite-lived assets valuation would have resulted in changes in fair value in the following amounts, and would not have resulted in an impairment change:

|                        | Discount Rate   |                 |
|------------------------|-----------------|-----------------|
|                        | Sensitivity, in |                 |
|                        | millions        |                 |
| Fair                   |                 |                 |
| Value in               |                 |                 |
| Excess of              | +1%             | -1%             |
| Carrying               |                 |                 |
| Value, %               |                 |                 |
| Goodwill - Blue Powder | 18 %            | \$(21.3) \$25.8 |
| Trademarks             | 870 %           | (6.1 ) 7.4      |
| Goodwill - IntelliData | 33 %            | (1.0 ) 1.3      |

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

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

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

To the extent that the provision for income taxes changed by 1% of loss before income taxes, consolidated net loss would change by \$0.3 million in fiscal year 2016.

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## Results of Operations

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

|   | Fiscal Years Ended March 31, |            |            |
|---|------------------------------|------------|------------|
|   | 2016                         | 2015       | 2014       |
| Net sales   | \$734,823                    | \$823,192  | \$833,666  |
| Operating costs and expenses:   |                              |            |            |
| Cost of sales   | 571,543                      | 663,683    | 712,925    |
| Selling, general and administrative expenses  | 101,446                      | 98,533     | 95,856     |
| Research and development  | 24,955                       | 25,802     | 24,466     |
| Restructuring charges   | 4,178                        | 13,017     | 14,122     |
| Write down of long-lived assets   | —                            | —          | 4,476      |
| Net loss on sales and disposals of assets   | 375                          | (221)      | 32         |
| Operating (loss) income   | 32,326                       | 22,378     | (18,211)   |
| Interest income   | (14)                         | (15)       | (195)      |
| Interest expense  | 39,605                       | 40,701     | 40,962     |
| Change in value of NEC TOKIN options  | 26,300                       | (2,100)    | (3,111)    |
| Other (income) expense, net   | (2,348)                      | (4,082)    | 430        |
| Income (loss) from continuing operations before income taxes and equity income (loss) from NEC TOKIN                      | (31,217)                     | (12,126)   | (56,297)   |
| Income tax expense (benefit)  | 6,006                        | 5,227      | 1,482      |
| Income (loss) from continuing operations before equity income (loss) from NEC TOKIN                                       | (37,223)                     | (17,353)   | (57,779)   |
| Equity income (loss) from NEC TOKIN   | (16,406)                     | (2,169)    | (7,090)    |
| Income (loss) from continuing operations  | (53,629)                     | (19,522)   | (64,869)   |
| Income (loss) from discontinued operations, net of income tax expense (benefit) of \$0, \$1,976, and \$(98), respectively | —                            | 5,379      | (3,634)    |
| Net income (loss)   | \$(53,629)                   | \$(14,143) | \$(68,503) |

## Consolidated Comparison of Fiscal Year 2016 to Fiscal Year 2015

## Net sales:

Net sales of \$734.8 million in fiscal year 2016 decreased 10.7% from \$823.2 million in fiscal year 2015. Solid Capacitor and Film and Electrolytic sales decreased by \$65.0 million and \$23.4 million, respectively. The overall Solid Capacitors net sales decrease was primarily driven by a decrease in net sales to the Americas and EMEA distribution channel, typical market price erosion and changes in product line mix. In addition, Solid Capacitor net sales were unfavorably impacted by \$12.0 million from foreign currency exchange primarily due to the change in the value of the Euro compared to the U.S. dollar for the fiscal year 2016 as compared to fiscal year 2015. The overall Film and Electrolytic net sales included a \$18.9 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, Film and Electrolytic net sales decreased by \$4.4 million primarily driven by decreased net sales in the APAC and Americas regions partially offset by the marginally improved net sales in the EMEA region.

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In fiscal years 2016 and 2015, net sales by region were as follows (dollars in millions):

|          | Fiscal Year |       | Fiscal Year |              |
|----------|-------------|-------|-------------|--------------|
|          | 2016        |       | 2015        |              |
|          | Net         | % of  | Net         | % of         |
|          | Sales       | Total | Sales       | Total        |
| Americas | \$225.7     | 31 %  | Americas    | \$260.0 32 % |
| APAC     | 275.8       | 37 %  | APAC        | 281.8 34 %   |
| EMEA     | 233.3       | 32 %  | EMEA        | 281.4 34 %   |
| Total    | \$734.8     |       | Total       | \$823.2      |

In fiscal years 2016 and 2015, the percentages of net sales by channel to total net sales were as follows:

|              | Fiscal Year |       | Fiscal Year  |              |
|--------------|-------------|-------|--------------|--------------|
|              | 2016        |       | 2015         |              |
|              | Net         | % of  | Net          | % of         |
|              | Sales       | Total | Sales        | Total        |
| Distributors | \$308.1     | 42 %  | Distributors | \$366.3 45 % |
| EMS          | 155.5       | 21 %  | EMS          | 151.2 18 %   |
| OEM          | 271.2       | 37 %  | OEM          | 305.7 37 %   |
| Total        | \$734.8     |       | Total        | \$823.2      |

#### Gross margin:

Gross margin for the fiscal year ended March 31, 2016 of \$163.3 million (22.2% of net sales) increased \$3.8 million or 2.4% from \$159.5 million (19.4% of net sales) in the prior fiscal year. Despite the decrease in net sales, gross margin as a percentage of net sales improved 280 basis points. This improvement was driven by cost reductions achieved through headcount reductions, manufacturing relocations previously completed as part of our restructuring plans, 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.

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

SG&A expenses of \$101.4 million (13.8% of net sales) for fiscal year 2016 increased \$2.9 million or 3.0% compared to \$98.5 million (12.0% of net sales) for fiscal year 2015. The increase consists primarily of the following items: a \$2.5 million increase in consulting and contractor expenses; a \$2.4 million increase in ERP integration and technology transition costs; a \$2.3 million increase in legal expenses, which were primarily related to ongoing antitrust lawsuits; and a \$0.4 million increase in non-income-related taxes. Partially offsetting these increases was a \$1.2 million decrease in software expenses; a \$1.1 million decrease in professional fees; a \$1.1 million decrease in payroll, commissions, and related expenses and benefits; a \$0.9 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; and a \$0.4 million decrease in director fees.

#### Research and development:

R&D expenses of \$25.0 million (3.4% of net sales) for fiscal year 2016 decreased \$0.8 million or 3.3% compared to \$25.8 million (3.1% of net sales) for fiscal year 2015.

#### Restructuring charges:

Restructuring charges of \$4.2 million in fiscal year 2016 decreased \$8.8 million or 67.9% from \$13.0 million in fiscal year 2015.

Restructuring charges in the fiscal year ended March 31, 2016 included \$1.8 million of personnel reduction costs and \$2.4 million of relocation costs. The personnel reduction costs were due to the following: \$0.9 million for headcount reductions in Matamoros, Mexico related to the relocation of certain Solid Capacitor manufacturing from Matamoros, Mexico to Victoria, Mexico, \$0.6 million related to a headcount reduction in Suzhou, China for the Film &

Electrolytic production line transfer from Suzhou, China to Anting, China, \$0.5 million related to the consolidation of certain Solid Capacitor manufacturing in Victoria, Mexico, \$0.5 million for headcount reductions related to the outsourcing of the Company's information technology function and overhead reductions in North America and Europe, and \$0.3 million for headcount reductions in Europe (primarily Landsberg, Germany). These personnel reduction costs were partially offset by a \$1.0 million credit to expense in Italy due to the partial reversal of a severance accrual. 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

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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 \$2.4 million relocation costs include \$1.1 million for the Landsberg, Germany shut-down including relocating equipment to Pontecchio, Italy and Skopje, Macedonia; \$0.4 million for the relocation of certain Solid Capacitor manufacturing equipment in Victoria, Mexico; \$0.4 million for the exit of Film & Electrolytic manufacturing from Suzhou, China; and \$0.5 million for other costs related to shut-downs in Europe, North America, and Asia.

Restructuring charges in the fiscal year ended March 31, 2015 included \$10.3 million related to personnel reduction costs which is primarily comprised of the following: \$4.1 million related to headcount reductions in Europe (primarily Landsberg, Germany) as the Company relocates production to lower cost regions; \$3.2 million is related to a headcount reduction of 50 employees due to the consolidation of manufacturing facilities in Italy; \$1.9 million related to the reduction of certain Solid Capacitor production workforce from Matamoros, Mexico to Victoria, Mexico; and \$1.1 million related to headcount reductions taken as the Company began to outsource its information technology function.

In addition to these personnel reduction costs, the Company incurred manufacturing relocation costs of \$2.7 million comprised of the following: \$1.4 million for the exit of solid capacitors in Evora, Portugal and the relocation of certain Solid Capacitors manufacturing operations from Evora, Portugal to Victoria, Mexico; \$0.4 million for the Landsberg, Germany shut-down including relocating equipment to Pontecchio, Italy; \$0.3 million for the relocation of certain Film & Electrolytic lines from Monterrey, Mexico and Skopje, Macedonia to Suzhou China and \$0.5 million for other costs related to shut-downs in Europe and Asia.

Operating income (loss):

Operating income for fiscal year 2016 of \$32.3 million improved \$9.9 million compared to operating income of \$22.4 million in fiscal year 2015. The improvement was primarily due to a \$8.8 million decrease in restructuring charges, a \$3.8 million increase in gross margin, and a \$0.8 million decrease in R&D expenses. These improvements were partially offset by a \$2.9 million increase in SG&A expenses and a \$0.6 million unfavorable change in gains or losses on disposals of fixed assets.

Non-operating (income) expense, net:

Non-operating (income) expense, net was a net expense of \$63.5 million in fiscal year 2016 compared to a net expense of \$34.5 million in fiscal year 2015. The \$29.0 million increase is primarily attributable to a \$26.3 million decrease in the value of the NEC TOKIN options recognized in fiscal year 2016, the change in value is primarily attributable to the expiration of KEMET's call option and resulting from the NEC TOKIN antitrust and civil litigation, compared to a \$2.1 million increase in fiscal year 2015. In addition, we incurred a \$3.0 million foreign exchange gain in fiscal year 2016 compared to a \$4.2 million foreign exchange gain in fiscal year 2015, and a \$1.0 million gain from the extinguishment of an advance payment from an OEM debt in fiscal year 2015. Partially offsetting these unfavorable items was \$1.1 million in professional fees related to financing activities during fiscal year 2015 that did not repeat in fiscal year 2016.

Income taxes:

The income tax expense from continuing operations was \$6.0 million in fiscal year 2016 compared to an income tax expense of \$5.2 million in fiscal year 2015. Fiscal year 2016 income tax expense is comprised of \$6.4 million and \$0.2 million in foreign and state income tax expense, respectively, partially offset by \$0.6 million of U.S. income tax benefit. No U.S. federal income tax benefit is recognized for the U.S. taxable loss for fiscal year 2016 due to a valuation allowance provided for U.S. net operating losses.

Equity loss from NEC TOKIN:

In fiscal year 2016, we incurred an equity loss related to our 34% economic interest in NEC TOKIN of \$16.4 million compared to a loss of \$2.2 million in fiscal year 2015. The change is primarily comprised of the following: a \$15.7 million increase in accrued antitrust and civil litigation fines and a \$2.7 million unfavorable change in the foreign



exchange rates. Partially offsetting these unfavorable items were: a \$1.7 million improvement in gross margin and a \$1.2 million decrease in business restructuring expenses. The improvement in gross margin was driven primarily by sales mix improvement, improvements in manufacturing efficiencies, and a reduction of personnel costs.

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## Segment Comparison of Fiscal Year 2016 to Fiscal Year 2015:

The following table sets forth the operating income (loss) for each of our business segments for the fiscal years 2016 and 2015. The table also sets forth each of the segments' net sales as a percentage of total net sales and total operating income (loss) as a percentage of total net sales (amounts in thousands, except percentages):

|                         | For the Fiscal Years Ended |                        |                |                        |
|-------------------------|----------------------------|------------------------|----------------|------------------------|
|                         | March 31, 2016             |                        | March 31, 2015 |                        |
|                         | Amount                     | % to<br>Total<br>Sales | Amount         | % to<br>Total<br>Sales |
| Net sales               |                            |                        |                |                        |
| Solid Capacitors        | \$556,303                  | 75.7 %                 | \$621,275      | 75.5 %                 |
| Film and Electrolytic   | 178,520                    | 24.3 %                 | 201,917        | 24.5 %                 |
| Total                   | \$734,823                  | 100.0%                 | \$823,192      | 100.0%                 |
| Operating income (loss) |                            |                        |                |                        |
| Solid Capacitors        | \$129,909                  |                        | \$135,946      |                        |
| Film and Electrolytic   | (71 )                      |                        | (16,685 )      |                        |
| Corporate               | (97,512 )                  |                        | (96,883 )      |                        |
| Total                   | \$32,326                   | 4.4 %                  | \$22,378       | 2.7 %                  |

## Solid Capacitors

The table below sets forth Net sales, Operating income and Operating income as a percentage of net sales for Solid Capacitors for fiscal years 2016 and 2015 (amounts in thousands, except percentages):

|                                 | For the Fiscal Years Ended |                      |                |                      |
|---------------------------------|----------------------------|----------------------|----------------|----------------------|
|                                 | March 31, 2016             |                      | March 31, 2015 |                      |
|                                 | Amount                     | % to<br>Net<br>Sales | Amount         | % to<br>Net<br>Sales |
| Tantalum product line net sales | \$337,392                  |                      | \$377,893      |                      |
| Ceramic product line net sales  | 218,911                    |                      | 243,382        |                      |
| Net sales                       | 556,303                    |                      | 621,275        |                      |
| Segment operating income        | 129,909                    | 23.4%                | 135,946        | 21.9%                |

## Net sales:

Net sales of \$556.3 million in fiscal year 2016 decreased \$65.0 million or 10.5% from \$621.3 million in fiscal year 2015. Tantalum product line net sales of \$337.4 million in fiscal year 2016 decreased \$40.5 million or 10.7% from \$377.9 million in fiscal year 2015. Ceramic product line net sales of \$218.9 million in fiscal year 2016 decreased \$24.5 million or 10.1% from \$243.4 million in fiscal year 2015. Included in the decrease in net sales was an unfavorable impact of \$12.0 million from foreign currency exchange primarily due to the change in the value of the Euro compared to the U.S. dollar.

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The overall Solid Capacitors net sales decrease was primarily driven by a decrease in net sales to the Americas and EMEA distribution channel (as shown in the table below), typical market price erosion and changes in product line mix:

|   | For the Fiscal<br>Years Ended |                      | Change<br>in Sales |
|---|-------------------------------|----------------------|--------------------|
|   | March<br>31,<br>2016          | March<br>31,<br>2015 |                    |
| Solid Capacitor Distributor Sales by Region | Amount                        | Amount               |                    |
| Americas                                    | \$99.6                        | \$ 121.3             | \$(21.7)           |
| EMEA  | 65.0                          | 87.7                 | (22.7 )            |
| APAC  | 73.1                          | 81.8                 | (8.7 )             |
| Solid Capacitor distributor net sales       | \$237.7                       | \$ 290.8             | \$(53.1)           |

## Segment Operating Income:

Segment operating income of \$129.9 million for fiscal year 2016 decreased \$6.0 million or 4.4% from \$135.9 million for fiscal year 2015; however operating income as a percentage of net sales improved 150 basis points. The decrease in segment operating income is primarily attributable to the following: a decrease in gross margin of \$6.5 million and a \$1.1 million increase in SG&A expenses. Despite the decrease in net sales, our gross margin decrease was mitigated by vertical integration, the favorable foreign currency impact to manufacturing costs, and manufacturing process improvements as a result of our partnership with NEC TOKIN. These items were partially offset by a decrease in restructuring charges of \$1.4 million, a \$0.1 million decrease loss on disposal of assets and a \$0.1 million decrease in R&D expenses.

## Film and Electrolytic

The table below sets forth Net sales, Operating loss and Operating loss as a percentage of net sales for Film and Electrolytic for the fiscal years 2016 and 2015 (amounts in thousands, except percentages):

|                        | For the Fiscal Years Ended |                      |                |                      |
|------------------------|----------------------------|----------------------|----------------|----------------------|
|                        | March 31, 2016             |                      | March 31, 2015 |                      |
|                        | Amount                     | % to<br>Net<br>Sales | Amount         | % to<br>Net<br>Sales |
| Net sales              | \$ 178,520                 |                      | \$ 201,917     |                      |
| Segment operating loss | (71 )                      | —%                   | (16,685 )      | (8.3)%               |

## Net sales:

Net sales of \$178.5 million in fiscal year 2016 decreased \$23.4 million or 11.6% from \$201.9 million in fiscal year 2015. Capacitor unit sales volume for fiscal year 2016 decreased 5.7% compared to fiscal year 2015. The decrease in net sales included an \$18.9 million unfavorable impact from foreign currency exchange primarily due to the change in the value of the Euro compared to the U.S. dollar. In addition to the foreign exchange impact, net sales decreased by \$4.4 million primarily driven by decreased net sales in the APAC and Americas regions partially offset by the marginal improvement in net sales in the EMEA region.

## Segment Operating loss:

Segment operating loss of \$0.1 million in fiscal year 2016 improved \$16.6 million from \$16.7 million of segment operating loss in fiscal year 2015 and operating income as a percentage of net sales improved 820 basis points. The improvement was attributable to a \$10.2 million improvement in gross margin, a \$6.5 million decrease in restructuring charges, a \$0.4 million decrease in SG&A expenses, and a \$0.2 million decrease in R&D expenses. The improvement in gross margin is mainly driven by the headcount reductions and manufacturing relocations previously completed as

part of our restructuring plan and cost reduction actions across all plants. The improvements were partially offset by a \$0.7 million decrease in the gain on disposals of fixed assets for fiscal year 2016 compared to fiscal year 2015.

Consolidated Comparison of Fiscal Year 2015 to Fiscal Year 2014

Net sales:

Net sales of \$823.2 million for fiscal year 2015 decreased 1.3% from \$833.7 million for fiscal year 2014. Film and Electrolytic and Solid Capacitor sales decreased by \$5.3 million and \$5.2 million, respectively. Capacitor unit sales volumes decreased 0.9% for fiscal year 2015 as compared to fiscal year 2014. Average selling prices for capacitors decreased 0.4% for

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fiscal year 2015 compared to fiscal year 2014 due to an unfavorable \$9.3 million impact on net sales related to foreign exchange and an unfavorable product mix shift in Film and Electrolytic. These unfavorable impacts on average selling prices were partially offset by an increase in sales of higher priced specialty products within Solid Capacitors.

In fiscal years 2015 and 2014, net sales by region were as follows (dollars in millions):

|          | Fiscal Year |       | Fiscal Year |              |
|----------|-------------|-------|-------------|--------------|
|          | 2015        |       | 2014        |              |
|          | Net         | % of  | Net         | % of         |
|          | Sales       | Total | Sales       | Total        |
| Americas | \$260.0     | 32 %  | Americas    | \$262.9 31 % |
| APAC     | 281.8       | 34 %  | APAC        | 282.3 34 %   |
| EMEA     | 281.4       | 34 %  | EMEA        | 288.5 35 %   |
| Total    | \$823.2     |       | Total       | \$833.7      |

In fiscal years 2015 and 2014, the percentages of net sales by channel to total net sales were as follows:

|              | Fiscal Year |       | Fiscal Year  |              |
|--------------|-------------|-------|--------------|--------------|
|              | 2015        |       | 2014         |              |
|              | Net         | % of  | Net          | % of         |
|              | Sales       | Total | Sales        | Total        |
| Distributors | \$366.3     | 45 %  | Distributors | \$377.0 45 % |
| EMS          | 151.2       | 18 %  | EMS          | 139.4 17 %   |
| OEM          | 305.7       | 37 %  | OEM          | 317.3 38 %   |
| Total        | \$823.2     |       | Total        | \$833.7      |

#### Gross margin:

Gross margin for the fiscal year ended March 31, 2015 of \$159.5 million (19.4% of net sales) increased \$38.8 million or 32.1% from \$120.7 million (14.5% of net sales) in the prior fiscal year. The primary contributor to the gross margin improvement was a \$36.9 million gross margin increase in Solid Capacitors for the fiscal year 2015 compared to fiscal year 2014 corresponding with further cost savings from vertical integration, an increase in average selling prices, and sales of higher margin specialty products. The improvement in Solid Capacitors' gross margin was supplemented by a \$1.9 million increase in Film and Electrolytic gross margin for the fiscal year 2015 compared to fiscal year 2014 and is primarily attributable to cost reduction activities.

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

SG&A expenses of \$98.5 million (12.0% of net sales) for fiscal year 2015 increased \$2.7 million or 2.8% compared to \$95.9 million (11.5% of net sales) for fiscal year 2014. The increase consisted primarily of the following items: a \$4.7 million increase in payroll expenses primarily due to an increase in bonus and incentive compensation, a \$0.8 million increase in professional fees, a \$0.8 million increase in software expense, and a \$0.7 million increase in legal fees. Partially offsetting these increases was a \$1.2 million decrease in depreciation expense, a \$0.9 million decrease in office and equipment rent expense, a \$0.6 million decrease in ERP integration and technology transition costs, a \$0.5 million decrease in charitable contributions, a \$0.5 million decrease in consulting and contractor expenses, \$0.5 million decrease in non-income-related taxes, and a \$0.4 million decrease in travel expenses.

#### Restructuring charges:

Restructuring charges of \$13.0 million in fiscal year 2015 decreased \$1.1 million or 7.8% from \$14.1 million in fiscal year 2014.

Restructuring charges in the fiscal year ended March 31, 2015 included \$10.3 million related to personnel reduction costs which were primarily comprised of the following: \$4.1 million related to headcount reductions in Europe (primarily Landsberg, Germany) as the Company relocates production to lower cost regions; \$3.2 million is related to a headcount reduction of 50 non-manufacturing labor employees; \$1.9 million related to the reduction of certain Solid Capacitor production workforce from Matamoros, Mexico to Victoria, Mexico; and \$1.1 million related to headcount

reductions taken as the Company begins to outsource its information technology function.

In addition to these personnel reduction costs, the Company incurred manufacturing relocation costs of \$2.7 million comprised of the following: \$1.4 million for the exit of solid capacitors in Evora, Portugal and the relocation of certain Solid Capacitors manufacturing operations from Evora, Portugal to Victoria, Mexico; \$0.4 million for the Landsberg, Germany shut-down including relocating equipment to Pontecchio, Italy; \$0.3 million for the relocation of certain Film & Electrolytic lines

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from Monterrey, Mexico and Skopje, Macedonia to Suzhou China; and \$0.5 million for other cost related to shut-downs in Europe and Asia.

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

**Research and development:**

R&D expenses of \$25.8 million (3.1% of net sales) for fiscal year 2015 increased \$1.3 million or 5.5% compared to \$24.5 million (2.9% of net sales) for fiscal year 2014. The increase is primarily a result of additional product testing and an increase in headcount.

**Write down of long-lived assets:**

In fiscal year 2013, the Company initiated a restructuring plan for its Evora, Portugal manufacturing operations. As a part of ongoing restructuring activities, the Company has relocated certain Solid Capacitor manufacturing operations from the Evora, Portugal facility to a manufacturing facility in Mexico and the remaining Solid Capacitor equipment in Portugal was disposed. In fiscal year 2014, Solid Capacitors incurred a \$3.9 million impairment charge due to a decrease in forecasted revenues because production was relocated to Mexico sooner than originally planned. The Company used an income approach to estimate the fair value of the assets to be disposed. In addition, during fiscal year 2014, Film and Electrolytic incurred impairment charges totaling \$0.6 million related to manufacturing equipment in a facility in Italy.

**Operating income:**

Operating income for fiscal year 2015 of \$22.4 million improved \$40.6 million compared to an operating loss of \$18.2 million in fiscal year 2014. The improvement was primarily due to a \$38.8 million increase in gross margin, a \$4.5 million decrease in write down of long-lived assets, and a \$1.1 million decrease in restructuring charges. These improvements were partially offset by a \$2.7 million increase in SG&A expenses and a \$1.3 million increase in R&D expenses.

**Non-operating (income) expense, net:**

Non-operating (income) expense, net was a net expense of \$34.5 million in fiscal year 2015 compared to a net expense of \$38.1 million in fiscal year 2014. The \$3.6 million improvement is primarily attributable to a \$4.2 million foreign exchange gain in fiscal year 2015 compared to a \$0.3 million foreign exchange gain in fiscal year 2014, a \$1.0 million gain from the extinguishment of an advance payment from an OEM debt in fiscal year 2015, and during fiscal year 2014 we incurred a \$1.4 million charge related to the write off of a long-term note receivable. Partially offsetting these improvements was \$1.1 million in professional fees related to financing activities and a \$2.1 million increase in the value of the NEC TOKIN options recognized in fiscal year 2015 compared to a \$3.1 million increase in fiscal year 2014.

**Income taxes:**

The income tax expense from continuing operations was \$5.2 million in fiscal year 2015 compared to an income tax expense of \$1.5 million in fiscal year 2014. The fiscal year 2015 income tax expense was comprised of an income tax expense resulting from operations in certain foreign jurisdictions totaling \$5.0 million, \$0.3 million income tax expense allocated from outside of continuing operations to continuing operations, and \$0.1 million of state income tax benefit. No U.S. federal income tax benefit was recognized for the U.S. taxable loss for fiscal year 2015 due to a valuation allowance provided for U.S. net operating losses.

Equity loss from NEC TOKIN:

In fiscal year 2015, we incurred an equity loss related to our 34% economic interest in NEC TOKIN of \$2.2 million compared to a loss of \$7.1 million in fiscal year 2014 due primarily to a \$5.4 million improvement in operating income and a \$2.5 million equity adjustment primarily for the deferred tax impact related to the sale of land in fiscal year 2014 and step up basis adjustments. The improvement in operating income was primarily driven by sales mix improvement, improvements in manufacturing efficiencies, and a reduction of personnel costs. Partially offsetting these favorable items was a net \$1.7 million accrual related to estimated antitrust investigation fines (net of KEMET's portion of a \$25 million indemnity asset to be



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received from NEC, of which KEMET's portion is \$8.5 million) and a \$1.4 million increase in income tax expenses which primarily relates to additional income tax expense and penalty incurred in Vietnam.

Segment Comparison of Fiscal Year 2015 to Fiscal Year 2014:

The following table sets forth the operating income (loss) for each of our business segments for the fiscal years 2015 and 2014. The table also sets forth each of the segments' net sales as a percentage of total net sales and the operating income (loss) components as a percentage of total net sales (amounts in thousands, except percentages):

|                       | For the Fiscal Years Ended |                  |                  |                  |
|-----------------------|----------------------------|------------------|------------------|------------------|
|                       | March 31, 2015             |                  | Fiscal Year 2014 |                  |
|                       | Amount                     | % to Total Sales | Amount           | % to Total Sales |
| Net sales             |                            |                  |                  |                  |
| Solid Capacitors      | \$621,275                  | 75.5 %           | \$626,494        | 75.1 %           |
| Film and Electrolytic | 201,917                    | 24.5 %           | 207,172          | 24.9 %           |
| Total                 | \$823,192                  | 100.0 %          | \$833,666        | 100.0 %          |

Operating income (loss)

|                       |           |       |             |         |
|-----------------------|-----------|-------|-------------|---------|
| Solid Capacitors      | \$135,946 |       | \$91,848    |         |
| Film and Electrolytic | (16,685 ) |       | (17,587 )   |         |
| Corporate             | (96,883 ) |       | (92,472 )   |         |
| Total                 | \$22,378  | 2.7 % | \$(18,211 ) | (2.2 )% |

Solid Capacitors

The table sets forth Net sales, Operating income and Operating income as a percentage of net sales for Solid Capacitors for the fiscal years 2015 and 2014 (amounts in thousands, except percentages):

|                                 | For the Fiscal Years Ended |                |                |                |
|---------------------------------|----------------------------|----------------|----------------|----------------|
|                                 | March 31, 2015             |                | March 31, 2014 |                |
|                                 | Amount                     | % to Net Sales | Amount         | % to Net Sales |
| Tantalum product line net sales | \$377,893                  |                | \$390,422      |                |
| Ceramic product line net sales  | 243,382                    |                | 236,072        |                |
| Net sales                       | 621,275                    |                | 626,494        |                |
| Segment operating income        | 135,946                    | 21.9%          | 91,848         | 14.7%          |

Net sales:

Net sales of \$621.3 million in fiscal year 2015 decreased \$5.2 million or 0.8% from \$626.5 million in fiscal year 2014. Tantalum product line net sales of \$377.9 million in fiscal year 2015 decreased \$12.5 million or 3.2% from \$390.4 million in fiscal year 2014 primarily due to unfavorable foreign exchange as well as a shift away from sales of lower margin commercial products. Ceramic product line net sales of \$243.4 million in fiscal year 2015 increased \$7.3 million or 3.1% from \$236.1 million in fiscal year 2014 primarily due to growth in specialty products across all regions. Unit sales volume for fiscal year 2015 decreased 1.3% compared to fiscal year 2014. The average selling price in fiscal year 2015 increased 0.4% compared to fiscal year 2014 primarily driven by an increase in higher priced specialty products.

Segment operating income:

Segment operating income of \$135.9 million for fiscal year 2015 improved \$44.1 million or 48.0% from \$91.8 million for fiscal year 2014. The increase in segment operating income was primarily attributable to the following: an increase in gross margin of \$36.9 million, a decrease in restructuring charges of \$4.8 million, a \$3.9 million decrease in write

down of long-lived assets, and a \$0.6 million decrease in SG&A expenses. The improvement in gross margin was mainly driven by continued improvement seen in vertical integration, an increase in sales of higher margin specialty products, and lower manufacturing costs as a result of restructuring efforts which moved production from Evora, Portugal to our Mexico facilities. These

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improvements were partially offset by a \$0.7 million increase in R&D expenses and a \$0.6 million loss on disposals of fixed assets for fiscal year 2015 compared to a gain on disposals of fixed assets of \$0.7 million in fiscal year 2014.

**Film and Electrolytic**

The table sets forth Net sales, Operating income (loss) and Operating income (loss) as a percentage of net sales for Film and Electrolytic for the fiscal years 2015 and 2014 (amounts in thousands, except percentages):

|                                 | For the Fiscal Years Ended |                |                |                |
|---------------------------------|----------------------------|----------------|----------------|----------------|
|                                 | March 31, 2015             |                | March 31, 2014 |                |
|                                 | Amount                     | % to Net Sales | Amount         | % to Net Sales |
| Net sales                       | \$201,917                  |                | \$207,172      |                |
| Segment operating (loss) income | (16,685 )                  | (8.3)%         | (17,587 )      | (8.5)%         |

**Net sales:**

Net sales of \$201.9 million in fiscal year 2015 decreased \$5.3 million or 2.5% from \$207.2 million in fiscal year 2014. Capacitor unit sales volume for fiscal year 2015 increased 11.7% compared to fiscal year 2014 driven by an overall increase in customer demand across all regions. This increase was offset by a \$6.0 million unfavorable impact related to foreign exchange (primarily the decrease in the euro) and an 8.9% decrease in average selling prices at comparable exchange rates for fiscal year 2015 as compared to fiscal year 2014 due to an unfavorable shift in product line mix.

**Segment operating loss:**

Segment operating loss of \$16.7 million in fiscal year 2015 improved \$0.9 million or 5.1%, from \$17.6 million of segment operating loss in fiscal year 2014. The improvement was attributable to a \$1.9 million increase in gross margin, a \$0.6 million decrease in write down of long-lived assets, and a \$1.0 million gain on disposals of fixed assets for fiscal year 2015 compared to a loss on disposals of fixed assets of \$0.8 million in fiscal year 2014. The improvement in gross margin was due to realized cost reductions achieved through our restructuring and cost reduction efforts. The improvements were partially offset by a \$2.6 million increase in restructuring charges, a \$0.6 million increase in SG&A expenses, and a \$0.2 million increase in R&D expenses.

**and Capital Resources**

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

**Issuance of 10.5% Senior Notes**

On May 5, 2010, we completed the issuance of our 10.5% Senior Notes with an aggregate principal amount of \$230.0 million which resulted in net proceeds to the Company of \$222.2 million. The Company used a portion of the proceeds to repay all of its outstanding indebtedness under the Company's credit facility with K Financing, LLC, the Company's €60 million credit facility and €35 million credit facility with UniCredit Corporate Banking S.p.A. ("UniCredit") and the Company's term loan with a subsidiary of Vishay and used a portion of the remaining proceeds to fund a previously announced tender offer to purchase \$40.5 million in aggregate principal amount of the Company's 2.25% Convertible Senior Notes (the "Convertible Notes") and to pay costs incurred in connection with the issuance, the tender offer and the foregoing repayments.

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

Subsidiaries and secured by a first priority lien on 51% of the capital stock of certain of our foreign restricted subsidiaries.

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

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(ix) designate subsidiaries as unrestricted subsidiaries. These covenants are subject to a number of important limitations and exceptions that are described in the 10.5% Senior Notes Indenture.

At any time, at its option, the Company may redeem the 10.5% Senior Notes, in whole or in part, at the redemption price of 100% of the Principal amount. The Company may also at any time and from time to time purchase its 10.5% Senior Notes in the open market, subject to compliance with the Indenture.

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

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

On March 27, 2012 and April 3, 2012, the Company completed the sale of \$110.0 million and \$15.0 million aggregate principal amount of its 10.5% Senior Notes due 2018, respectively, at an issue price of 105.5% of the principal amount plus accrued interest from November 1, 2011. The issuance resulted in a debt premium of \$6.1 million which is being amortized over the term of the 10.5% Senior Notes. The Senior Notes were issued as additional notes under the indenture, dated May 5, 2010, as amended, among the Company, the Guarantor Subsidiaries party thereto and Wilmington Trust Company, as trustee.

The Company may from time to time seek to retire or purchase our outstanding 10.5% Senior notes through cash purchases, in open market purchases, privately negotiated transactions or otherwise. Repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The Board of Directors has authorized a debt repurchase plan, initially up to \$20 million over the course of fiscal year 2017. There can be no assurance regarding the timing or price of debt repurchases, if any.

**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. A portion of the U.S. facility and the Singapore facility can be used to issue letters of credit. On December 19, 2014, the Loan and Security Agreement was amended and as a result the expiration was extended to December 19, 2019. On May 2, 2016, the Loan and Security Agreement was further amended. Under the terms of the amended Loan and Security Agreement, the revolving credit facility has increased to \$65.0 million, 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 amendment contains an accordion feature permitting the U.S. Borrowers to increase commitments under the facility by an aggregate principal amount up to \$15.0 million (for a total facility of \$75.0 million), subject to terms and documentation acceptable to the Agent and/or the Lenders. In addition, KEMET Foil, Blue Powder and The Forest Electric Company were included as Borrowers under the U.S. facility. The principal

features of the Loan and Security Agreement as amended are reflected in the description below.

The size of the U.S. facility and Singapore facility can fluctuate as long as the Singapore facility does not exceed \$30.0 million and the total facility does not exceed \$65.0 million.

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

in the case of the U.S. facility, (A) 85% of KEC's accounts receivable that satisfy certain eligibility criteria plus (B) the lesser of (i) \$6.0 million and (ii) (a) on or prior to agent's receipt of an updated inventory appraisal and agent's approval thereof, 40% of the value of Eligible Inventory (as defined in the agreement) and (b) upon agent's receipt of an updated inventory appraisal, 85% of the net orderly liquidation value of the Eligible Inventory (as defined in the agreement) plus (C) the lesser of \$5.1 million and 80% of the net orderly liquidation percentage of the appraised value of equipment that satisfies certain eligibility criteria, as reduced on the first day of each fiscal quarter occurring after

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April 30, 2014 in an amount equal to one-twentieth (1/20) of such appraised value less (D) certain reserves, including certain reserves imposed by the administrative agent in its permitted discretion; and in the case of the Singapore facility, (A) 85% of KEMET Singapore's accounts receivable that satisfy certain eligibility criteria as further specified in the Loan and Security Agreement less (B) certain reserves, including certain reserves imposed by the administrative agent in its permitted discretion.

Interest is payable on borrowings monthly at a rate equal to the London Interbank Offer Rate ("LIBOR") or the base rate, plus an applicable margin, as selected by the Borrower. Depending upon the fixed charge coverage ratio of KEMET Corporation and its subsidiaries on a consolidated basis as of the latest test date, the applicable margin under the U.S. facility varies between 2.00% and 2.50% for LIBOR advances and 1.00% and 1.50% for base rate advances, and under the Singapore facility varies between 2.25% and 2.75% for LIBOR advances and 1.25% and 1.75% for base rate advances.

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

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

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

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

KEMET and the Guarantor Subsidiaries 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 Guarantor Subsidiaries (other than assets that secure the 10.5% Senior Notes due 2018). The collection accounts of the Borrowers and Guarantor Subsidiaries 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) 12.5% 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 Guarantor Subsidiaries 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. KEMET Singapore's bank accounts are maintained at 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 1.0 :1.0 must be maintained as of the last day of each fiscal quarter ending immediately prior to or during any period in which any of the following occurs and is continuing until none of the following occurs for a period of at least forty-five consecutive days: (i) an event of default, (ii) aggregate availability of all facilities has been less than the greater of (A) 12.5% 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 and its subsidiaries on a consolidated basis.

In addition, the Loan and Security Agreement includes various covenants that, subject to exceptions, limit the ability of KEMET and its direct and indirect subsidiaries to, among other things: incur additional indebtedness; create liens

on assets; 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.

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The Company had the following activity for the twelve month period ended March 31, 2016 and resulting balances under the revolving line of credit (amounts in millions, excluding percentages):

|                           | March 31,<br>2015         | Twelve Month Period<br>Ended March 31,<br>2016 |            | March 31,<br>2016         | Rate (1) | Due Date          |
|---------------------------|---------------------------|--|------------|---------------------------|----------|-------------------|
|                           | Outstanding<br>Borrowings | Additional<br>Borrowings                       | Repayments | Outstanding<br>Borrowings | (2)      |                   |
| U.S. Facility             | \$ 21,481                 | \$ 8,000                                       | \$ 9,600   | \$ 19,881                 | 4.750%   | December 19, 2019 |
| Singapore Facility        |                           |  |            |                           |          |                   |
| Singapore Borrowing 1 (3) | 12,000                    | —  | —          | 12,000                    | 3.250%   | August 22, 2016   |
| Singapore Borrowing 2 (3) | —                         | 2,000  | —          | 2,000                     | 3.250%   | July 11, 2016     |
| Total Facilities          | \$ 33,481                 | \$ 10,000                                      | \$ 9,600   | \$ 33,881                 |          |                   |

(1) For U.S. borrowings, Base Rate plus 1.5%, as defined in the Loan and Security Agreement.

(2) For Singapore borrowings, LIBOR plus a spread of 2.50% as of March 31, 2016.

(3) 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, and the Company's available borrowing capacity under the Loan and Security Agreement was \$25.6 million as of March 31, 2016. The borrowing capacity has increased from the prior year due to an improvement in the fixed charged coverage ratio and an increase in the eligible account receivable collateral.

#### Short-term Liquidity

Cash and cash equivalents totaled \$65.0 million as of March 31, 2016, representing an increase of \$8.6 million as compared to \$56.4 million as of March 31, 2015. Our net working capital (current assets less current liabilities) remained essentially flat with the balance as of March 31, 2016 of \$228.8 million compared to \$228.5 million of net working capital as of March 31, 2015. Cash and cash equivalents held by our foreign subsidiaries totaled \$28.2 million and \$22.6 million at March 31, 2016 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 on the undistributed foreign earnings which was offset by a reduction to the the valuation allowance for 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 in the U.S. for our operations, we may be required to accrue U.S. withholding taxes on the distributed foreign earnings.

We have taken steps to improve our operating results by decreasing global headcount and vertically integrating our supply chain. Based on our current operating plans, we believe that existing cash and cash equivalents, cash provided by operations and cash from the revolving line of credit will continue to be sufficient to fund our operating requirements for the next twelve months, including \$38.4 million in interest payments, expected capital expenditures in the range of \$20.0 million to \$25.0 million, payments of \$1.0 million related to restructuring liabilities, and \$2.0 million for repurchase of our 10.5% Senior Notes.

Our cash and cash equivalents increased by \$8.6 million during the year ended March 31, 2016, decreased \$1.6 million during the year ended March 31, 2015 and decreased \$38.0 million during the year ended March 31, 2014 as follows (amounts in thousands):

|   | Fiscal Years Ended March 31, |          |           |
|---|------------------------------|----------|-----------|
|   | 2016                         | 2015     | 2014      |
| Net cash provided by (used in) operating activities | \$32,365                     | \$24,402 | \$(6,746) |
| Net cash provided by (used in) investing activities | (20,588)                     | 3,629    | (25,253)  |

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|  |          |            |            |
|--|----------|------------|------------|
| Net cash provided by (used in) financing activities  | (3,803 ) | (26,868 )  | (6,877 )   |
| Effect of foreign currency fluctuations on cash      | 668      | (2,730 )   | 827        |
| Net increase (decrease) in cash and cash equivalents | \$8,642  | \$(1,567 ) | \$(38,049) |

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## Fiscal Year 2016 compared to Fiscal Year 2015

## Operations

In fiscal year 2016, cash provided by operating activities totaled \$32.4 million, representing an \$8.0 million improvement compared to cash provided by operating activities of \$24.4 million in fiscal year 2015. The improvement for fiscal year 2016 compared to fiscal year 2015 relates to a \$11.5 million improvement in cash flows related to operations (change in net loss adjusted for the change in: net cash provided by operating activities of discontinued operations, gain on sale of discontinued operations, gain on early extinguishment of debt, equity loss from NEC TOKIN, change in value of NEC TOKIN options, depreciation and amortization, deferred income taxes, net (gain) loss on sales and disposals of assets, amortization of debt discount and debt issuance costs, stock-based compensation, non-cash pension and other post-retirement benefits, write down of receivables, and other non-cash changes to net loss).

We used \$5.6 million through changes in assets and liabilities in fiscal year 2016 as compared to using \$2.0 million through changes in assets and liabilities in fiscal year 2015.

In fiscal year 2016, the cash usage of \$5.6 million was primarily related to a decrease in other operating liabilities of \$13.8 million (primarily related to a decrease in accrued salaries, wages and benefits), a decrease in accounts payable of \$6.0 million, an increase in accounts receivable of \$2.3 million, and a decrease in accrued income taxes of \$0.4 million. This was partially offset by a decrease in prepaid expenses and other assets of \$13.6 million (primarily related to a decrease in value-added-tax receivable), and a reduction in inventory of \$3.3 million achieved through cost reductions and yield improvements.

In fiscal year 2015, the cash use of \$2.0 million was primarily related to an increase in prepaid expenses and other assets of \$8.4 million, a decrease in other operating liabilities of \$7.3 million, a decrease in accounts payable of \$2.9 million, and a decrease in accrued income taxes of \$0.2 million. This was partially offset by a reduction in inventory of \$8.6 million achieved through cost reduction and yield improvements and a reduction in accounts receivable of \$8.2 million.

## Investing

Cash used in investing activities was \$20.6 million in fiscal year 2016 compared to cash provided by investing activities of \$3.6 million in fiscal year 2015. Cash provided by investing activities in fiscal year 2015 was achieved due to the release of restricted cash due to the repayment of an advance payment from an OEM which provided cash of \$11.5 million, the sale of discontinued operations provided \$9.6 million and proceeds from the sale of assets of \$4.8 million, whereas in fiscal year 2016 cash provided from these items was \$1.8 million, none and \$1.0 million, respectively.

Cash used for investing activities in fiscal year 2016 included capital expenditures of \$20.5 million, and acquisition payments net of cash received related to Intellidata used cash of \$2.9 million. Capital expenditures were primarily related to expanding capacity at our manufacturing facilities in Suzhou, China; Pontecchio, Italy; Gränna, Sweden; Matamoros, Mexico; and Evora, Portugal as well as information technology projects in Simpsonville, South Carolina. Cash used for investing activities in fiscal year 2015 included capital expenditures of \$22.2 million, primarily related to expanding capacity at our manufacturing facilities in Europe and Asia.

## Financing

Cash used in financing activities of \$3.8 million in fiscal year 2016 decreased \$23.1 million from cash used in financing activities of \$26.9 million in fiscal year 2015.

In fiscal year 2016, we used \$3.0 million for deferred acquisition payments related to the Intellidata acquisition, \$0.5 million for payments of long term debt, and \$0.4 million for net payments on the revolving line of credit.

In fiscal year 2015, we used \$19.5 million for deferred acquisition payments related to the KEMET Foil and Blue Powder acquisitions and \$21.7 million for debt payments. This was partially offset by \$15.0 million in net proceeds from the revolving line of credit.



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## Commitments

At March 31, 2016, we had contractual obligations in the form of non-cancelable operating leases and debt, including interest payments (see Note 2, "Debt" and Note 16, "Commitments and Contingencies" to our consolidated financial statements), European social security, pension benefits, other post-retirement benefits, inventory purchase obligations, fixed asset purchase obligations, acquisition related obligations, and construction obligations as follows (amounts in thousands):

| Contractual obligations                        | Payment Due by Period |          |                |                |                         |
|--|-----------------------|----------|----------------|----------------|-------------------------|
|  | Total                 | Year 1   | Years 2 -<br>3 | Years 4<br>- 5 | More<br>than<br>5 years |
| Debt obligations                               | \$388,881             | \$2,000  | \$353,000      | \$33,881       | \$—                     |
| Interest obligations                           | 83,119                | 38,449   | 43,553         | 1,117          | —                       |
| Operating lease obligations                    | 10,809                | 3,653    | 4,831          | 1,124          | 1,201                   |
| Pension and other post-retirement benefits (1) | 19,375                | 1,710    | 3,243          | 3,552          | 10,870                  |
| Employee separation liability                  | 9,352                 | 285      | 740            | 797            | 7,530                   |
| Restructuring liability                        | 976                   | 946      | 30             | —              | —                       |
| Purchase commitments                           | 2,827                 | 1,876    | 951            | —              | —                       |
| Capital lease obligations                      | 1,258                 | 614      | 561            | 72             | 11                      |
| Total  | \$516,597             | \$49,533 | \$406,909      | \$40,543       | \$19,612                |

(1) Reflects expected benefit payments through 2023.

## Derivative Investments

Certain operating expenses at the Company's Mexican facilities are paid in Mexican pesos or Japanese yen, and certain sales are made in euros. In order to hedge these forecasted cash flows, the Company purchases foreign exchange contracts to buy Mexican pesos, buy Japanese yen, or sell euros for periods and amounts consistent with the underlying cash flow exposures. At March 31, 2016, the Company had outstanding forward exchange contracts with maturities of less than twelve months to purchase Mexican pesos with notional amounts of \$37.7 million. The fair value of these contracts at March 31, 2016 totaled \$0.4 million and was recorded as a derivative liability on the Consolidated Balance Sheets under the line item "Accrued Expenses". See Note 13, "Derivatives" for further discussion of derivative financial instruments.

## Uncertain Income Tax Positions

We have recognized a liability for our unrecognized uncertain income tax positions of approximately \$7.1 million as of March 31, 2016. The ultimate resolution and timing of payment for remaining matters continues to be uncertain and are, therefore, excluded from the above table.

## Non-GAAP Financial Measures

To complement our consolidated statements of operations and cash flows, we use non-GAAP financial measures of Adjusted gross margin, Adjusted operating income (loss), Adjusted net income (loss) and Adjusted EBITDA. We believe 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-GAAP measures is not meant to be considered in isolation or as an alternative to net income (loss) as an indicator of our performance, or as an alternative to cash flows from operating activities as a measure of liquidity.

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

|   | Fiscal Years Ended March 31, |           |           |
|---|------------------------------|-----------|-----------|
|   | 2016                         | 2015      | 2014      |
| Net sales                                 | \$734,823                    | \$823,192 | \$833,666 |
| Gross Margin                              | 163,280                      | 159,509   | 120,741   |
| Gross margin as a % of net sales          | 22.2                         | % 19.4    | % 14.5    |
| Non-U.S. GAAP-adjustments:                |                              |           |           |
| Plant shut-down costs                     | 372                          | 889       | 2,668     |
| Plant start-up costs                      | 861                          | 4,556     | 3,336     |
| Stock-based compensation expense          | 1,418                        | 1,576     | 1,006     |
| Adjusted gross margin                     | \$165,931                    | \$166,530 | \$127,751 |
| Adjusted gross margin as a % of net sales | 22.6                         | % 20.2    | % 15.3    |

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

|   | Fiscal Years Ended March 31, |          |            |
|---|------------------------------|----------|------------|
|   | 2016                         | 2015     | 2014       |
| Operating income (loss)                           | \$32,326                     | \$22,378 | \$(18,211) |
| Adjustments:                                      |                              |          |            |
| ERP integration costs/IT transition costs         | 5,677                        | 3,248    | 3,880      |
| Stock-based compensation                          | 4,774                        | 4,512    | 2,909      |
| Restructuring charges                             | 4,178                        | 13,017   | 14,122     |
| Legal expenses related to antitrust class actions | 3,041                        | 844      | —          |
| NEC TOKIN investment related expenses             | 900                          | 1,778    | 2,299      |
| Plant start-up costs                              | 861                          | 4,556    | 3,336      |
| Net (gain) loss on sales and disposals of assets  | 375                          | (221)    | ) 32       |
| Plant shut-down costs                             | 372                          | 889      | 2,668      |
| Pension plan adjustment                           | 312                          | —        | —          |
| Write down of long-lived assets                   | —                            | —        | 4,476      |
| Inventory write downs                             | —                            | —        | 3,886      |
| Infrastructure tax                                | —                            | —        | 1,079      |
| Adjusted operating income (loss)                  | \$52,816                     | \$51,001 | \$20,476   |

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

|   | Fiscal Years Ended March 31, |            |            |
|---|------------------------------|------------|------------|
|   | 2016                         | 2015       | 2014       |
| Net income (loss)                                 | \$(53,629)                   | \$(14,143) | \$(68,503) |
| Adjustments:                                      |                              |            |            |
| Change in value of NEC TOKIN options              | 26,300                       | (2,100)    | (3,111)    |
| Equity (gain) loss from NEC TOKIN                 | 16,406                       | 2,169      | 7,090      |
| Restructuring charges                             | 4,178                        | 13,017     | 14,122     |
| ERP integration costs/IT transition costs         | 5,677                        | 3,248      | 3,880      |
| Stock-based compensation                          | 4,774                        | 4,512      | 2,909      |
| Legal expenses related to antitrust class actions | 3,041                        | 844        | —          |
| Net foreign exchange (gain) loss                  | (3,036)                      | (4,249)    | (304)      |
| NEC TOKIN investment related expenses             | 900                          | 1,778      | 2,299      |
| Income tax effect on pension curtailment          | 875                          | —          | —          |
| Plant start-up costs                              | 861                          | 4,556      | 3,336      |
| Amortization included in interest expense         | 859                          | 1,814      | 3,596      |
| Net (gain) loss on sales and disposals of assets  | 375                          | (221)      | 32         |
| Plant shut-down costs                             | 372                          | 889        | 2,668      |
| Pension plan adjustment                           | 312                          | —          | —          |
| Income tax effect of non-GAAP adjustments (1)     | 652                          | 84         | (301)      |
| (Income) loss from discontinued operations        | —                            | (5,379)    | 3,634      |
| (Gain) loss on early extinguishment of debt       | —                            | (1,003)    | —          |
| Professional fees related to financing activities | —                            | 1,142      | —          |
| Write down of long-lived assets                   | —                            | —          | 4,476      |
| Inventory write downs                             | —                            | —          | 3,886      |
| Long-term receivable write down                   | —                            | —          | 1,444      |
| Infrastructure tax                                | —                            | —          | 1,079      |
| Adjusted net income (loss)                        | \$8,917                      | \$6,958    | \$(17,768) |

(1) Fiscal year 2014 has been adjusted to reflect the income tax adjustment related to the recognition of KEMET's portion of NEC TOKIN's AOCI activity.

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

|   | Fiscal Years Ended March 31, |            |            |
|---|------------------------------|------------|------------|
|   | 2016                         | 2015       | 2014       |
| Net income (loss)                                 | \$(53,629)                   | \$(14,143) | \$(68,503) |
| Adjustments:                                      |                              |            |            |
| Income tax expense (benefit)                      | 6,006                        | 5,227      | 1,482      |
| Interest expense, net                             | 39,591                       | 40,686     | 40,767     |
| Depreciation and amortization                     | 39,016                       | 40,768     | 49,527     |
| Change in value of NEC TOKIN options              | 26,300                       | (2,100 )   | (3,111 )   |
| Equity (gain) loss from NEC TOKIN                 | 16,406                       | 2,169      | 7,090      |
| ERP integration costs/IT transition costs         | 5,677                        | 3,248      | 3,880      |
| Stock-based compensation                          | 4,774                        | 4,512      | 2,909      |
| Restructuring charges                             | 4,178                        | 13,017     | 14,122     |
| Legal expenses related to antitrust class actions | 3,041                        | 844        | —          |
| Net foreign exchange (gain) loss                  | (3,036 )                     | (4,249 )   | (304 )     |
| NEC TOKIN investment related expenses             | 900                          | 1,778      | 2,299      |
| Plant start-up costs                              | 861                          | 4,556      | 3,336      |
| Net (gain) loss on sales and disposals of assets  | 375                          | (221 )     | 32         |
| Plant shut-down costs                             | 372                          | 889        | 2,668      |
| Pension plan adjustment                           | 312                          | —          | —          |
| (Income) loss from discontinued operations        | —                            | (5,379 )   | 3,634      |
| (Gain) loss on early extinguishment of debt       | —                            | (1,003 )   | —          |
| Professional fees related to financing activities | —                            | 1,142      | —          |
| Write down of long-lived assets                   | —                            | —          | 4,476      |
| Inventory write downs                             | —                            | —          | 3,886      |
| Long-term receivable write down                   | —                            | —          | 1,444      |
| Infrastructure tax                                | —                            | —          | 1,079      |
|   |                              |            | —          |
| Adjusted EBITDA                                   | \$91,144                     | \$91,741   | \$70,713   |

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 the underlying operating performance of the Company. Adjusted operating income (loss) should not be considered as an alternative to operating income (loss) or any other performance measure derived in accordance with U.S. GAAP.

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



in accordance with U.S. GAAP.

Adjusted EBITDA represents net income (loss) before income tax expense, interest expense, net, and depreciation and amortization, 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

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we believe such measure is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry.

We believe Adjusted EBITDA is an appropriate supplemental measure of debt service capacity because cash expenditures on interest are, by definition, available to pay interest and tax expense is inversely correlated to interest expense because tax expense goes down as deductible interest expense goes up; 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, one 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 (loss), operating income (loss) or any other performance measures derived in accordance with U.S. GAAP or as an alternative to cash flow from operating activities as a measure of our liquidity.

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

- it does not reflect our cash expenditures, future requirements for capital expenditures or contractual commitments;

- it does not reflect changes in, or cash requirements for, our working capital needs;

- it does not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments on our debt;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and our Adjusted EBITDA measure does not reflect any cash requirements for such replacements;

- it is not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;

- 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 only supplementally.

### Recent Accounting Pronouncements

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation. This guidance changes several aspects of the accounting for share-based payment award transactions, including: (1) Accounting and Cash Flow Classification for Excess Tax Benefits and Deficiencies, (2) Forfeitures, and (3) Tax Withholding Requirements and Cash Flow Classification. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016. Early application is permitted, KEMET adopted ASU No. 2016-09 as of April 1, 2016. This new guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The ASU requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than short-term leases). The guidance is to be applied using a modified retrospective approach at the beginning of the earliest comparative period in the financial statements. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2018.

Early application is permitted. We are currently in the process of assessing the impact the adoption of this guidance will have on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes. The Company has adopted the provisions of ASU No. 2015-17 which requires deferred tax liabilities and assets be classified as either a noncurrent asset or noncurrent liability in the accompanying balance sheet. Prior to the issuance of this ASU, an entity

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would present deferred taxes as a net current asset or liability and a net noncurrent asset or liability. The new accounting guidance simplifies financial reporting by reducing the presentation of deferred taxes into a single line and reduces complexities in determining when the recognized deferred tax amounts are expected to be recovered or settled. The balance sheet as of March 31, 2015 has been adjusted to reflect retrospective application of the new accounting guidance as follows:

|  | As<br>Previously<br>Reported | Retrospective<br>Adjustment | As<br>Adjusted |
|--|------------------------------|-----------------------------|----------------|
| Assets   |                              |                             |                |
| Deferred income taxes (current)                          | 10,762                       | (10,762 )                   | —              |
| Total current assets                                     | 371,327                      | (10,762 )                   | 360,565        |
| Deferred income taxes (non-current)                      | 5,111                        | 4,663                       | 9,774          |
| Total assets   | 752,792                      | (6,099 )                    | 746,693        |
| Income taxes payable and deferred income taxes (current) | 1,017                        | (133 )                      | 884            |
| Total current liabilities                                | 132,220                      | (133 )                      | 132,087        |
| Deferred income taxes (non-current)                      | 8,350                        | (5,966 )                    | 2,384          |
| Total liabilities and stockholders' equity               | 752,792                      | (6,099 )                    | 746,693        |

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 is effective for interim and annual reporting periods beginning April 1, 2016. Early application is permitted. The Company will apply the new standard to measurement period adjustments related to future 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.

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Effect of Inflation

Inflation generally affects us by increasing the cost of labor, equipment, and raw materials. We do not believe that inflation has had any material effect on our business over the past three fiscal years except for the following discussion in Commodity Price Risk.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk

We are exposed to interest rate risk through our revolving line of credit, which had an outstanding balance as of March 31, 2016, of \$33.9 million. This debt has a variable interest rate and a 1% change in the interest rate would yield a \$0.3 million change in interest expense.

Foreign Currency Exchange Rate Risk

Given our international operations and sales, we are exposed to movements in foreign exchange rates. Of these, the most significant are currently the euro and the Mexican peso. A portion of our sales to our customers and operating costs in Europe are denominated in euro creating an exposure to foreign currency exchange rates. Also, a portion of our costs in our operations in Mexico are denominated in Mexican pesos, creating an exposure to foreign currency exchange rates. Additionally, certain of our non-U.S. subsidiaries make sales denominated in U.S. dollars which expose them to foreign currency transaction gains and losses. Historically, in order to minimize our exposure, we periodically entered into forward foreign exchange contracts in which the future cash flows were hedged against the U.S. dollar (see Note 13, "Derivatives" to the consolidated financial statements).

A 10 percent increase or decrease in foreign exchange rates would have resulted in changes in net income (loss) of \$16.5 million and \$(18.5) million, respectively.

Commodity Price Risk

As a result of our tantalum vertical integration efforts which began in fiscal year 2012, we have reduced our exposure to price volatility and supply uncertainty in the tantalum supply chain. A majority of our tantalum needs are now met through our direct sourcing of conflict free tantalum ore or tantalum scrap reclaim, which is then processed into the intermediate product potassium heptafluorotantalate (commonly known as K-salt) at our own facility in Mexico, before final processing into tantalum powder at Blue Powder. Price increases for tantalum ore, or for the remaining tantalum powder that we source from third parties, could impact our financial performance as we may be unable to pass all such price increases on to our customers.

Palladium is a precious metal used in the manufacture of multilayer ceramic capacitors and is mined primarily in Russia and South Africa. We continue to pursue ways to reduce palladium usage in ceramic capacitors in order to minimize the price risk. The amount of palladium that we require has generally been available in sufficient quantities; however the price of palladium is driven by the market which has shown significant price fluctuations. For instance, in fiscal year 2016 the price of palladium fluctuated between \$470 and \$802 per troy ounce. Price increases and the possibility of our inability to pass such increases on to our customers could have an adverse effect on profitability. Silver and aluminum have generally been available in sufficient quantities, and we believe there are a sufficient number of suppliers from which we can purchase our requirements. An increase in the price of silver and aluminum that we are unable to pass on to our customers, however, could have an adverse effect on our profitability.

To evaluate the impact of price changes in precious metals on net income (loss) we used the following assumptions: the selling prices of our products would not be impacted, all the precious metals change in the same direction at the same time and we do not have commitment contracts in place. Under these assumptions, a 10 percent increase or decrease in the cost of precious metals would result in approximately \$11.3 million of increase or decrease to our net income (loss). We believe we have partially mitigated this risk through our vertical integration efforts.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The response to this item is submitted as a separate section of this Form 10-K. See Item 15.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

As of March 31, 2016, 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 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 Securities and Exchange Commission 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.

Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act). Internal control over financial reporting is a process, designed by, or under the supervision of, an entity's principal executive and principal financial officers, and effected by an entity's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and the dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of the management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on its consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company's management conducted an assessment of the effectiveness of its internal control over financial reporting based on the criteria set forth in the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework).

Based on that assessment, as of March 31, 2016, the Company's management concluded that its internal control over financial reporting was effective. Ernst & Young LLP, our independent registered public accounting firm has issued an attestation report on the Company's internal control over financial reporting, which is on page 62 of this annual report on Form 10-K.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting during the fiscal quarter ended March 31, 2016, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.





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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Other than the information under "Executive Officers" and "Other Key Employees" under Part I, Item 4A, the other information required by Item 10 is incorporated by reference from the Company's definitive proxy statement for its annual stockholders meeting to be held on July 28, 2016 under the headings "Nominees for Board of Directors," "Continuing Directors," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Information about the Board of Directors."

ITEM 11. EXECUTIVE COMPENSATION.

The information required by Item 11 is incorporated by reference from the Company's definitive proxy statement for its annual stockholders' meeting to be held on July 28, 2016 under the headings "Compensation Discussion and Analysis," "Summary Compensation Table," "Grants of Plan-Based Awards Table," "Outstanding Equity Awards at Fiscal Year-End Table," "Option Exercises and Stock Vested Table," "Nonqualified Deferred Compensation Table," "Potential Payments Upon Termination or Change in Control Table," "Director Compensation Table," "Report of the Compensation Committee," and "Compensation Committee Interlocks and Insider Participation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by Item 12 is incorporated by reference from the Company's definitive proxy statement for its annual stockholders' meeting to be held on July 28, 2016 under the heading "Security Ownership", and from "Equity Compensation Plan Disclosure" in Item 5 hereof.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by Item 13 is incorporated by reference from the Company's definitive proxy statement for its annual stockholders' meeting to be held on July 28, 2016 under the headings "Review, Approval or Ratification of Transactions with Related Persons" and "Information about the Board of Directors."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by Item 14 is incorporated by reference from the Company's definitive proxy statement for its annual stockholders' meeting to be held on July 28, 2016 under the heading "Audit and Non-Audit Fees."

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## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

## (a)(1) Financial Statements

The following financial statements are filed as a part of this report:

|   |           |
|---|-----------|
| <u>Report of Independent Registered Public Accounting Firm</u>  | <u>61</u> |
| <u>Report of Independent Registered Public Accounting Firm</u>  | <u>62</u> |
| Consolidated Financial Statements:  |           |
| <u>Consolidated Balance Sheets as of March 31, 2016 and 2015</u>  | <u>63</u> |
| <u>Consolidated Statements of Operations for the years ended March 31, 2016, 2015 and 2014</u>                      | <u>64</u> |
| <u>Consolidated Statements of Comprehensive Income (Loss) for the years ended March 31, 2016, 2015 and 2014</u>     | <u>65</u> |
| <u>Consolidated Statements of Changes in Stockholders' Equity for the years ended March 31, 2016, 2015 and 2014</u> | <u>66</u> |
| <u>Consolidated Statements of Cash Flows for the years ended March 31, 2016, 2015 and 2014</u>                      | <u>67</u> |
| <u>Notes to Consolidated Financial Statements</u>   | <u>69</u> |

## (a)(2) Financial Statement Schedules

Financial statement schedules are omitted because they are not applicable or because the required information is included in the consolidated financial statements or notes thereto.

## (a)(3) List of Exhibits

The following exhibits are filed herewith or are incorporated by reference to exhibits previously filed with the SEC:

- Stock Purchase Agreement, dated as of February 2, 2012, by and among KEMET Corporation, Niotan
- 2.1 Incorporated and Niotan Investment Holdings LLC (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on February 2, 2012)
- Stock Purchase Agreement, dated as of March 12, 2012, by and among KEMET Electronics Corporation, NEC
- 2.2 Corporation and NEC TOKIN Corporation (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on March 15, 2012)
- Amendment No. 1 to the Stock Purchase Agreement dated as of December 12, 2012, by and among KEMET
- 2.3 Electronics Corporation, NEC Corporation and NEC TOKIN Corporation (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on December 14, 2012)
- Second Restated Certificate of Incorporation of the Company, as amended to date (incorporated by reference to
- 3.1 Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-15491) for the quarter ended June 30, 2011)
- 3.2 Amended and Restated By-laws of KEMET Corporation, effective June 5, 2008 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on June 5, 2008)
- Indenture, dated May 5, 2010, by and among the Company, certain subsidiary guarantors named therein and
- 4.1 Wilmington Trust Company, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on May 5, 2010)
- Registration Rights Agreement, dated May 5, 2010, by and among the Company, certain subsidiary guarantors
- 4.2 named therein and the initial purchasers named therein (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on May 5, 2010)

4.3

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Supplemental Indenture, dated as of August 10, 2011, among KEMET Foil Manufacturing LLC (f/k/a Cornell Dubilier Foil, LLC), KEMET Corporation, the other Guarantors named therein and Wilmington Trust Company, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-15491) for the quarter ended September 30, 2011)

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- 4.4 Registration Rights Agreement, dated March 27, 2012, among KEMET Corporation, the guarantors named therein and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Deutsche Bank Securities Inc., as initial purchasers (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on March 28, 2012)
- 4.5 Registration Rights Agreement, dated as of April 3, 2012, among KEMET Corporation, the guarantors named therein and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Deutsche Bank Securities Inc., as initial purchasers (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on April 4, 2012)
- 4.6 Supplemental Indenture, dated April 17, 2012, among KEMET Corporation, the guarantors named therein and Wilmington Trust Company, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on April 18, 2012)
- 4.7 Form of 10 1/2% Senior Note due 2018 (included in Exhibit 4.1)
- 10.1 Registration Agreement, dated as of December 21, 1990, by and among the Company and each of the investors and executives listed on the schedule of investors and executives attached thereto (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (Reg. No. 33-48056))
- 10.2 Form of Amendment No. 1 to Registration Agreement, dated as of April 28, 1994 (incorporated by reference to Exhibit 10.3.1 to the Company's Registration Statement on Form S-1 (Reg. No. 33-61898))
- 10.3 1995 Executive Stock Option Plan by and between the Company and each of the executives listed on the schedule attached thereto (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K (File No. 1-15491) for the year ended March 31, 1996)\*
- 10.4 Executive Bonus Plan by and between the Company and each of the executives listed on the schedule attached thereto (incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K (File No. 1-15491) for the year ended March 31, 1996)\*
- 10.5 1992 Key Employee Stock Option Plan (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K (File No. 1-15491) for the year ended March 31, 2009)\*
- 10.6 Amendment No. 1 to KEMET Corporation 1992 Key Employee Stock Option Plan effective October 23, 2000 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-15491) for the quarter ended December 31, 2000)\*
- 10.7 2004 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 (Reg. No. 333-123308))\*
- 10.8 Form of Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on April 23, 2009)\*
- 10.9 Warrant to Purchase Common Stock, dated June 30, 2009, issued by the Company to K Financing, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-15491)

filed on June 30, 2009)

10.10 Investor Rights Agreement, dated June 30, 2009, between the Company and K Financing, LLC (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on June 30, 2009)

10.11 Purchase Agreement, dated April 21, 2010, by and among the Company, certain subsidiary guarantors named therein and Banc of America Securities LLC, as representative of the several initial purchasers (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on April 22, 2010)

10.12 Second Amended and Restated KEMET Corporation Deferred Compensation Plan (incorporated by reference to Exhibit 10.56 to the Company's Annual Report on Form 10-K (File No. 1-15491) for the year ended March 31, 2009)\*

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- 10.13 Loan and Security Agreement, dated as of September 30, 2010, by and among KEMET Electronics Corporation, KEMET Electronics Marketing (S) Pte Ltd., and Bank of America, N.A., as agent and Banc of America Securities LLC, as lead arranger and bookrunner (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on October 5, 2010)
- 10.14 KEMET Executive Secured Benefit Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-15491) for the quarter ended December 31, 2010)\*
- 10.15 Form of Change in Control Severance Compensation Agreement, entered into with executive officers of the Company\*
- 10.16 Option Agreement, dated as of March 12, 2012, by and among NEC Corporation and KEMET Electronics Corporation (incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on March 15, 2012)
- 10.17 Stockholders' Agreement, dated as of March 12, 2012, by and among KEMET Electronics Corporation, NEC Corporation and NEC TOKIN Corporation (incorporated by reference to Exhibit 99.4 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on March 15, 2012)
- 10.18 Form of Restricted Stock Unit Grant Agreement for Employees (incorporated by reference to Exhibit 10.61 to the Company's Annual Report on Form 10-K (File No. 1-15491) for the year ended March 31, 2012)\*
- 10.19 Form of Restricted Stock Unit Grant Agreement for Directors (incorporated by reference to Exhibit 10.62 to the Company's Annual Report on Form 10-K (File No. 1-15491) for the year ended March 31, 2012)\*
- 10.20 Amendment No. 1 to Loan and Security Agreement, Waiver and Consent, dated as of March 19, 2012, by and among KEMET Electronics Corporation, KEMET Electronics Marketing (S) Pte Ltd., the financial institutions party thereto as lenders and Bank of America, N.A., as agent (incorporated by reference to Exhibit 10.63 to the Company's Annual Report on Form 10-K (File No. 1-15491) for the year ended March 31, 2012)
- 10.21 Development and Cross-Licensing Agreement between NEC TOKIN Corporation and KEMET Electronics Corporation (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on May 8, 2013)
- 10.22 Form of Long-Term Incentive Plan Award Agreement\*
- 10.23 Consolidated Amendment to Loan and Security Agreement, dated as of July 8, 2013, by and among KEMET Electronics Corporation, KEMET Foil Manufacturing, LLC, KEMET Blue Powder Corporation, KEMET Electronics Marketing (S) PTE LTD., the financial institutions party thereto as lenders and Bank of America, N.A., as agent (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-15491) filed on August 2, 2013)
- 10.24 Amendment No. 5 to Loan and Security Agreement, dated April 30, 2014, among KEMET Electronics Corporation and its subsidiaries KEMET Foil Manufacturing, LLC, KEMET Blue Powder Corporation, and KEMET Electronics Marketing (S) PTE LTD., as Borrowers, and Bank of America, N.A., as agent for the Lenders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No.

1-15491) filed on May 5, 2014)

10.25 2014 Amendment and Restatement of the 2014 KEMET Corporation 2011 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on July 24, 2014)\*

10.26 Amendment No. 1 to Option Agreement, dated as of August 29, 2014, between KEMET Electronics Corporation and NEC Corporation (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-15491) filed on September 4, 2014)

10.27 Incentive Award, Severance and Non-Competition Agreement, dated as of December 1, 2014, between KEMET Corporation and William M. Lowe, Jr. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on December 5, 2014)\*



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- Incentive Award and Non-Competition Agreement, dated as of December 1, 2014, between KEMET Corporation and Charles C. Meeks, Jr. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on December 5, 2014)\*
- 10.28
- Amendment No. 6 to Loan and Security Agreement, Waiver and Consent dated December 19, 2014, among KEMET Electronics Corporation, KEMET Foil Manufacturing, LLC, KEMET Blue Powder Corporation, The Forest Electric Company and KEMET Electronics Marketing (S) PTE LTD., as Borrowers, the financial institutions party thereto, as Lenders, and Bank of America, N.A., as agent for the Lenders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on December 22, 2014)
- 10.29
- Amendment No. 7 to Loan and Security Agreement, dated March 27, 2015, among KEMET Electronics Corporation, KEMET Foil Manufacturing, LLC, KEMET Blue Powder Corporation, The Forest Electric Company and KEMET Electronics Marketing (S) PTE LTD., as Borrowers, the financial institutions party thereto, as Lenders, and Bank of America, N.A., as agent for the Lenders
- 10.30
- Third Supplemental Indenture dated May 21, 2015, among KEMET Corporation, IntelliData, Inc., the other guarantors named therein and Wilmington Trust Company, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on May 26, 2015)
- 10.31
- Amended and Restated Employment Agreement between KEMET Corporation and Per-Olof Lööf, dated June 29, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on July 6, 2015)\*
- 10.32
- Amendment No. 8 to Loan and Security Agreement, dated May 2, 2016, among KEMET Electronics Corporation, KEMET Foil Manufacturing, LLC, KEMET Blue Powder Corporation, The Forest Electric Company and KEMET Electronics Marketing (S) PTE LTD., as Borrowers, the financial institutions party thereto, as Lenders, and Bank of America, N.A., as agent for the Lenders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on May 5, 2016)
- 10.33
- 21.1 Subsidiaries of KEMET Corporation
- 23.1 Consent of Independent Registered Public Accounting Firm, Ernst & Young LLP
- 23.2 Consent of Paumanok Publications, Inc.
- 31.1 Certification of the Chief Executive Officer Pursuant to Section 302
- 31.2 Certification of the Chief Financial Officer Pursuant to Section 302
- 32.1 Certification of the Chief Executive Officer Pursuant to Section 906
- 32.2 Certification of the Chief Financial Officer Pursuant to Section 906
- 99.1 NEC TOKIN Financial Statements as of March 31, 2016 and March 21, 2015 and for NEC TOKIN's fiscal years ended March 31, 2016, 2015 and 2014

101 The following financial information from KEMET Corporation's Annual Report on Form 10-K for the year ended March 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at March 31, 2016, and March 31, 2015, (ii) Consolidated Statements of Income for the years ended March 31, 2016, 2015 and 2014, (iii) Consolidated Statements of Comprehensive Income for the years ended March 31, 2016, 2015 and 2014, (iv) Consolidated Statements of Changes in Stockholders' Equity for the years ended March 31, 2016, 2015 and 2014, (v) Consolidated Statements of Cash Flows for the years ended March 31, 2016, 2015 and 2014 and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text

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\*Exhibit is a management contract or a compensatory plan or arrangement.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of KEMET Corporation

We have audited the accompanying consolidated balance sheets of KEMET Corporation and subsidiaries as of March 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for the three years in the period ended March 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of KEMET Corporation and subsidiaries at March 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for the three years ended March 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), KEMET Corporation's internal control over financial reporting as of March 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated May 24, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Greenville, South Carolina  
May 24, 2016

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of KEMET Corporation

We have audited KEMET Corporation and subsidiaries' internal control over financial reporting as of March 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). KEMET Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Managements' Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, KEMET Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of KEMET Corporation and subsidiaries as of March 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows for each of the three years in the period ended March 31, 2016 of KEMET Corporation and subsidiaries and our report dated May 24, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Greenville, South Carolina  
May 24, 2016

## KEMET CORPORATION AND SUBSIDIARIES

## Consolidated Balance Sheets

(Amounts in thousands except per share data)

|  | March 31,  |            |
|--|------------|------------|
|  | 2016       | 2015       |
| <b>ASSETS</b>  |            |            |
| Current assets:  |            |            |
| Cash and cash equivalents  | \$65,004   | \$56,362   |
| Accounts receivable, net   | 93,168     | 90,857     |
| Inventories, net   | 168,879    | 171,843    |
| Prepaid and other current assets   | 25,496     | 41,503     |
| Total current assets   | 352,547    | 360,565    |
| Property, plant and equipment, net   | 241,839    | 249,641    |
| Goodwill   | 40,294     | 35,584     |
| Intangible assets, net   | 33,301     | 33,282     |
| Investment in NEC TOKIN  | 20,334     | 45,016     |
| Deferred income taxes  | 8,397      | 9,774      |
| Other assets   | 5,832      | 12,831     |
| Total assets   | \$702,544  | \$746,693  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |            |            |
| Current liabilities:   |            |            |
| Current portion of long-term debt  | \$2,000    | \$962      |
| Accounts payable   | 70,981     | 69,785     |
| Accrued expenses   | 50,320     | 60,456     |
| Income taxes payable   | 453        | 884        |
| Total current liabilities  | 123,754    | 132,087    |
| Long-term debt   | 388,597    | 390,409    |
| Other non-current obligations  | 74,892     | 57,131     |
| Deferred income taxes  | 2,820      | 2,384      |
| Commitments and contingencies  |            |            |
| 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 March 31, 2016 and 2015 | 465        | 465        |
| Additional paid-in capital   | 452,821    | 461,191    |
| Retained deficit   | (299,510 ) | (245,881 ) |
| Accumulated other comprehensive income (loss)  | (31,425 )  | (28,796 )  |
| Treasury stock, at cost (611 and 1,056 shares at March 31, 2016 and 2015, respectively)                    | (9,870 )   | (22,297 )  |
| Total stockholders' equity   | 112,481    | 164,682    |
| Total liabilities and stockholders' equity   | \$702,544  | \$746,693  |

See accompanying notes to consolidated financial statements.

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## KEMET CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Operations

(Amounts in thousands except per share data)

|   | Fiscal Years Ended March 31, |              |              |
|---|------------------------------|--------------|--------------|
|   | 2016                         | 2015         | 2014         |
| Net sales   | \$734,823                    | \$823,192    | \$833,666    |
| Operating costs and expenses:   |                              |              |              |
| Cost of sales   | 571,543                      | 663,683      | 712,925      |
| Selling, general and administrative expenses  | 101,446                      | 98,533       | 95,856       |
| Research and development  | 24,955                       | 25,802       | 24,466       |
| Restructuring charges   | 4,178                        | 13,017       | 14,122       |
| Write down of long-lived assets   | —                            | —            | 4,476        |
| Net (gain) loss on sales and disposals of assets  | 375                          | (221)        | ) 32         |
| Total operating costs and expenses  | 702,497                      | 800,814      | 851,877      |
| Operating income (loss)   | 32,326                       | 22,378       | (18,211)     |
| Other (income) expense:   |                              |              |              |
| Interest income   | (14)                         | ) (15)       | ) (195)      |
| Interest expense  | 39,605                       | 40,701       | 40,962       |
| Change in value of NEC TOKIN options  | 26,300                       | (2,100)      | ) (3,111)    |
| Non-operating (income) expense, net   | (2,348)                      | ) (4,082)    | ) 430        |
| Income (loss) from continuing operations before income taxes and equity income (loss) from NEC TOKIN                      | (31,217)                     | ) (12,126)   | ) (56,297)   |
| Income tax expense (benefit)  | 6,006                        | 5,227        | 1,482        |
| Income (loss) from continuing operations before equity income (loss) from NEC TOKIN                                       | (37,223)                     | ) (17,353)   | ) (57,779)   |
| Equity income (loss) from NEC TOKIN   | (16,406)                     | ) (2,169)    | ) (7,090)    |
| Income (loss) from continuing operations  | (53,629)                     | ) (19,522)   | ) (64,869)   |
| Income (loss) from discontinued operations, net of income tax expense (benefit) of \$0, \$1,976, and \$(98), respectively | —                            | 5,379        | (3,634)      |
| Net income (loss)   | \$(53,629)                   | ) \$(14,143) | ) \$(68,503) |
| Net income (loss) per basic share:  |                              |              |              |
| Income (loss) from continuing operations  | \$(1.17)                     | ) \$(0.43)   | ) \$(1.44)   |
| Income (loss) from discontinued operations, net of income tax expense (benefit)   | \$—                          | \$0.12       | \$(0.08)     |
| Net income (loss)   | \$(1.17)                     | ) \$(0.31)   | ) \$(1.52)   |
| Net income (loss) per diluted share:  |                              |              |              |
| Income (loss) from continuing operations  | \$(1.17)                     | ) \$(0.43)   | ) \$(1.44)   |
| Income (loss) from discontinued operations, net of income tax expense (benefit)   | \$—                          | \$0.12       | \$(0.08)     |
| Net income (loss)   | \$(1.17)                     | ) \$(0.31)   | ) \$(1.52)   |
| Weighted-average shares outstanding:  |                              |              |              |
| Basic   | 46,004                       | 45,381       | 45,102       |
| Diluted   | 46,004                       | 45,381       | 45,102       |

See accompanying notes to consolidated financial statements.

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## KEMET CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income (Loss)

(Amounts in thousands)

|   | Fiscal Years Ended March 31, |            |            |
|---|------------------------------|------------|------------|
|   | 2016                         | 2015       | 2014       |
| Net income (loss)   | \$(53,629)                   | \$(14,143) | \$(68,503) |
| Other comprehensive income (loss):                              |                              |            |            |
| Foreign currency translation gains (losses), net of tax         | 1,860                        | (35,467 )  | 9,797      |
| Defined benefit pension plans, net of tax impact                | 5,202                        | (12,977 )  | 276        |
| Defined benefit post-retirement plan adjustments                | (45 )                        | (305 )     | (354 )     |
| Equity interest in investee's other comprehensive income (loss) | (8,276 )                     | 766        | 771        |
| Foreign exchange contracts                                      | (1,370 )                     | 1,003      | —          |
| Other comprehensive income (loss)                               | (2,629 )                     | (46,980 )  | 10,490     |
| Total comprehensive income (loss)                               | \$(56,258)                   | \$(61,123) | \$(58,013) |

See accompanying notes to consolidated financial statements.

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KEMET CORPORATION AND SUBSIDIARIES  
 Consolidated Statements of Changes in Stockholders' Equity  
 (Amounts in thousands)

|                                   | Shares<br>Outstanding | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Treasury<br>Stock | Total<br>Stockholders'<br>Equity |
|-----------------------------------|-----------------------|-----------------|----------------------------------|---------------------|--|-------------------|----------------------------------|
| Balance at March 31, 2013         | 44,989                | \$ 465          | \$467,096                        | \$(163,235)         | \$ 7,694   | \$(35,104)        | \$ 276,916                       |
| Net income (loss)                 | —                     | —               | —                                | (68,503 )           | —  | —                 | (68,503 )                        |
| Other comprehensive income (loss) | —                     | —               | —                                | —                   | 10,490   | —                 | 10,490                           |
| Issuance of restricted shares     | 129                   | —               | (3,164 )                         | —                   | —  | 2,986             | (178 )                           |
| Stock-based compensation          | —                     | —               | 2,909                            | —                   | —  | —                 | 2,909                            |
| Exercise of stock options         | 89                    | —               | (1,814 )                         | —                   | —  | 2,064             | 250                              |
| Balance at March 31, 2014         | 45,207                | 465             | 465,027                          | (231,738 )          | 18,184   | (30,054 )         | 221,884                          |
| Net income (loss)                 | —                     | —               | —                                | (14,143 )           | —  | —                 | (14,143 )                        |
| Other comprehensive income (loss) | —                     | —               | —                                | —                   | (46,980 )  | —                 | (46,980 )                        |
| Issuance of restricted shares     | 239                   | —               | (8,238 )                         | —                   | —  | 7,623             | (615 )                           |
| Stock-based compensation          | —                     | —               | 4,512                            | —                   | —  | —                 | 4,512                            |
| Exercise of stock options         | 6                     | —               | (110 )                           | —                   | —  | 134               | 24                               |
| Balance at March 31, 2015         | 45,452                | 465             | 461,191                          | (245,881 )          | (28,796 )  | (22,297 )         | 164,682                          |
| Net income (loss)                 | —                     | —               | —                                | (53,629 )           | —  | —                 | (53,629 )                        |
| Other comprehensive income (loss) | —                     | —               | —                                | —                   | (2,629 )   | —                 | (2,629 )                         |
| Issuance of restricted shares     | 445                   | —               | (13,144 )                        | —                   | —  | 12,427            | (717 )                           |
| Stock-based compensation          | —                     | —               | 4,774                            | —                   | —  | —                 | 4,774                            |
| Exercise of stock options         | —                     | —               | —                                | —                   | —  | —                 | —                                |
| Balance at March 31, 2016         | 45,897                | \$ 465          | \$452,821                        | \$(299,510)         | \$ (31,425 )   | \$(9,870 )        | \$ 112,481                       |

See accompanying notes to consolidated financial statements.



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## KEMET CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(Amounts in thousands)

|   | Fiscal Years Ended March 31, |            |            |
|---|------------------------------|------------|------------|
|   | 2016                         | 2015       | 2014       |
| Sources (uses) of cash and cash equivalents   |                              |            |            |
| Operating activities:   |                              |            |            |
| Net income (loss)   | \$(53,629)                   | \$(14,143) | \$(68,503) |
| Adjustments to reconcile net 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)      | ) 336      |
| Depreciation and amortization   | 39,016                       | 40,768     | 49,527     |
| Non-cash debt and financing costs   | 859                          | 2,032      | 3,596      |
| Gain on early extinguishment of debt  | —                            | (1,003)    | ) —        |
| Equity (income) loss from NEC TOKIN   | 16,406                       | 2,169      | 7,090      |
| Change in value of NEC TOKIN options  | 26,300                       | (2,100)    | ) (3,111)  |
| Net (gain) loss on sales and disposals of assets  | 375                          | (221)      | ) 32       |
| Stock-based compensation expense  | 4,774                        | 4,512      | 2,909      |
| Non-cash pension and other post-retirement benefits                                       | 3,013                        | 2,742      | 2,642      |
| Deferred income taxes   | 495                          | (2,084)    | ) (6,369)  |
| Write down of long-lived assets   | —                            | —          | 4,476      |
| Write down of receivables   | 24                           | 52         | 1,484      |
| Other, net  | 306                          | (7)        | ) (521)    |
| Changes in assets and liabilities:  |                              |            |            |
| Accounts receivable   | (2,346)                      | ) 8,220    | (4,618)    |
| Inventories   | 3,338                        | 8,559      | 14,891     |
| Prepaid expenses and other assets   | 13,588                       | (8,404)    | ) 3,748    |
| Accounts payable  | (5,982)                      | ) (2,879)  | ) (2,070)  |
| Accrued income taxes  | (382)                        | ) (232)    | ) 252      |
| Other operating liabilities   | (13,790)                     | ) (7,256)  | ) (12,537) |
| Net cash provided by (used in) operating activities                                       | 32,365                       | 24,402     | (6,746)    |
| Investing activities:   |                              |            |            |
| Capital expenditures  | (20,469)                     | ) (22,232) | ) (32,147) |
| Change in restricted cash   | 1,802                        | 11,509     | 4,047      |
| Acquisitions, net of cash received  | (2,892)                      | ) —        | —          |
| Proceeds from sale of discontinued operations   | —                            | 9,564      | —          |
| Proceeds from sale of assets  | 971                          | 4,788      | 2,847      |
| Net cash provided by (used in) investing activities                                       | (20,588)                     | ) 3,629    | (25,253)   |

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## Consolidated Statements of Cash Flows (Continued)

|  | Fiscal Years Ended March 31, |           |           |
|--|------------------------------|-----------|-----------|
|  | 2016                         | 2015      | 2014      |
| Financing activities:  |                              |           |           |
| Proceeds from revolving line of credit                       | \$10,000                     | \$42,340  | \$21,000  |
| Payments of revolving line of credit                         | (9,600 )                     | (27,342 ) | (2,551 )  |
| Deferred acquisition payments                                | (3,000 )                     | (19,527 ) | (21,977 ) |
| Payment of long-term debt                                    | (481 )                       | (21,733 ) | (3,599 )  |
| Proceeds from exercise of stock options                      | —                            | 24        | 250       |
| Purchase of treasury stock                                   | (722 )                       | (630 )    | —         |
| Net cash provided by (used in) financing activities          | (3,803 )                     | (26,868 ) | (6,877 )  |
| Net increase (decrease) in cash and cash equivalents         | 7,974                        | 1,163     | (38,876 ) |
| Effect of foreign currency fluctuations on cash              | 668                          | (2,730 )  | 827       |
| Cash and cash equivalents at beginning of fiscal year        | 56,362                       | 57,929    | 95,978    |
| Cash and cash equivalents at end of fiscal year              | \$65,004                     | \$56,362  | \$57,929  |
| Supplemental Cash Flow Statement Information:                |                              |           |           |
| Interest paid, net of capitalized interest                   | \$39,091                     | \$39,008  | \$38,809  |
| Income taxes paid  | \$4,892                      | \$6,611   | \$5,521   |
| See accompanying notes to consolidated financial statements. |                              |           |           |

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KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1: Organization and Significant Accounting Policies

Nature of Business and Organization

KEMET Corporation, which together with its subsidiaries is referred to herein as "KEMET" or the "Company" is a leading manufacturer of tantalum capacitors, multilayer ceramic capacitors, film capacitors, electrolytic capacitors, paper capacitors and solid aluminum capacitors. The Company is headquartered in Simpsonville, South Carolina, which is part of the greater Greenville metropolitan area, and has manufacturing plants and distribution centers located in the United States, Mexico, Europe and Asia. Additionally, the Company has wholly-owned foreign subsidiaries which primarily provide sales support for KEMET's products in foreign markets.

KEMET is organized into two business groups: the Solid Capacitor Business Group ("Solid Capacitors") 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 related research and development efforts.

Basis of Presentation

Certain amounts for fiscal years 2015 and 2014 have been reclassified to conform to the fiscal year 2016 presentation of the line item "Change in the value of NEC TOKIN options" instead of including the activity within the line item "Non-operating (income) expense, net on the Consolidated Statement of Operations. In addition, certain amounts for fiscal years 2015 and 2014 have been reclassified within the operating section of the Consolidated Statement of Cash Flows to conform to the fiscal year 2016 presentation and the condensed consolidating balance sheet for fiscal year 2015 has been revised to conform with the fiscal year 2016 presentation.

Principles of Consolidation

The accompanying consolidated financial statements of the Company include the accounts of its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Investment in entities in which the Company can exercise significant influence, but does not own a majority equity interest or otherwise control, are accounted for using the equity method and are included as investments in equity interests on the consolidated balance sheets.

Cash Equivalents

Cash equivalents of \$0.7 million at March 31, 2016 and 2015 consist of money market accounts with an original term of three months or less. The Company considers all liquid debt instruments with original maturities of three months or less to be cash equivalents.

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 Value-Added Tax registration in The Netherlands. The bank guarantee was in the amount of €1.5 million (\$1.7 million). An interest-bearing deposit was placed with a European bank for €1.7 million (\$1.8 million). The deposit was in KEMET's name and KEMET received all interest earned by this deposit. However, the deposit was pledged to the European bank, and the bank could use the money should a valid claim be made. The bank guarantee was discharged by the beneficiary in February 2016 and, subsequently, the €1.7 million (\$1.8 million) was re-classified and is included in the line item "Cash and cash equivalents" on the Consolidated Balance Sheets at March 31, 2016. The Company no longer has any restricted cash.

Inventories

Inventories are stated at the lower of cost or market. The carrying value of inventory is reviewed and adjusted based on slow moving and obsolete items, historical shipments, customer forecasts and backlog and technology developments. Inventory costs include material, labor and manufacturing overhead and most inventory costs are determined by the "first-in, first-out" ("FIFO") method. For tool crib, a component of the Company's raw material inventory, cost is determined under the average cost method. The Company has consigned inventory at certain customer locations totaling \$8.5 million and \$10.8 million at March 31, 2016 and 2015, respectively.



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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 1: Organization and Significant Accounting Policies (Continued)

## Property, Plant and Equipment

Property and equipment are carried at cost. Depreciation is calculated principally using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful lives of the assets or the terms of the respective leases. Maintenance costs are expensed; expenditures for renewals and improvements are generally capitalized. Upon sale or retirement of property and equipment, the related cost and accumulated depreciation are removed and any gain or loss is recognized. A long-lived asset classified as held for sale is initially measured and reported at the lower of its carrying amount or fair value less cost to sell. Long-lived assets to be disposed of other than by sale are classified as held and used until the long-lived asset is disposed of. Depreciation expense, including amortization of capital leases, was \$36.9 million, \$38.7 million and \$47.5 million for the fiscal years ended March 31, 2016, 2015 and 2014, respectively.

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Reviews are regularly performed to determine whether facts and circumstances exist which indicate the carrying amount of assets may not be recoverable. The Company assesses the recoverability of its assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. If it is determined that the book value of a long-lived asset or asset group is not recoverable, an impairment loss would be calculated equal to the excess of the carrying amount of the long-lived asset over its fair value. The fair value is calculated as the discounted cash flows of the underlying assets or appraisal values. The Company has to make certain assumptions as to the future cash flows to be generated by the underlying assets. Those assumptions include the amount of volume increases, average selling price decreases, anticipated cost reductions, and the estimated remaining useful life of the equipment. Future changes in assumptions may negatively impact future valuations. Fair market value is based on the undiscounted cash flows that the assets will generate over their remaining useful lives or other valuation techniques. In future tests for recoverability, adverse changes in undiscounted cash flow assumptions could result in an impairment of certain long-lived assets that would require a non-cash charge to the Consolidated Statements of Operations and may have a material effect on the Company's financial condition and operating results. See Note 9 "Impairment Charges" for further discussion of property, plant and equipment impairment charges.

## Goodwill and Other Intangible Assets

Goodwill and other intangible assets with indefinite useful lives are not amortized but are subject to annual impairment tests during the fourth quarter of each fiscal year and when otherwise warranted. The Company evaluates its goodwill on a reporting unit basis which requires the Company to estimate the fair value of the reporting units based on the future net cash flows expected to be generated. The impairment test involves a comparison of the fair value of each reporting unit, with the corresponding carrying amounts. If the reporting unit's carrying amount exceeds its fair value, then an indication exists that the reporting unit's goodwill and intangible asset with indefinite useful lives may be impaired. The impairment to be recognized is measured by the amount by which the carrying value of the reporting unit's goodwill being measured exceeds its implied fair value. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the sum of the amounts assigned to identified net assets. As a result, the implied fair value of goodwill is generally the residual amount that results from subtracting the value of net assets including all tangible assets and identified intangible assets from the fair value of the reporting unit's fair value. The Company determined the fair value of its reporting units using an income-based, discounted cash flow ("DCF") analysis, and market-based approaches (Guideline Publicly Traded Company Method and Guideline Transaction Method) which examine transactions in the marketplace involving the sale of the stocks of similar publicly owned companies, or the sale of entire companies engaged in operations similar to KEMET. The Company evaluates the value of its other indefinite-lived intangible assets (trademarks) using an income-based, relief from royalty analysis. In addition to the previously described reporting unit valuation techniques, the Company's goodwill and intangible assets with indefinite useful lives impairment assessment also considers the Company's aggregate fair value based upon the

value of the Company's outstanding shares of common stock.

The impairment review of goodwill and intangible assets with indefinite useful lives are subjective and involve the use of estimates and assumptions in order to calculate the impairment charges. Estimates of business enterprise fair value use discounted cash flow and other fair value appraisal models and involve making assumptions for future sales trends, market conditions, growth rates, cost reduction initiatives and cash flows for the next several years. Future changes in assumptions may negatively impact future valuations.

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KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 1: Organization and Significant Accounting Policies (Continued)

Equity Method Investment

Investments and ownership interests are accounted for under the equity method of accounting if the Company has the ability to exercise significant influence, but not control, over the entity. Investments accounted for under the equity method are initially recorded at cost, and the difference between the basis of the Company's investment and the underlying equity in the net assets of NEC TOKIN at the investment date, is amortized over the lives of the related assets that gave rise to the difference. The Company's share of earnings or losses under the equity method investments and basis difference amortization is reported in the consolidated statements of operations as "Equity income (loss) from NEC TOKIN." The Company reviews its investments and ownership interests accounted for under the equity method of accounting for impairment whenever events or changes in circumstances indicate a loss in the value of the investment may be other than temporary.

Deferred Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in fiscal years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

Stock-based Compensation

Stock-based compensation for stock options is estimated on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes model takes into account volatility in the price of the Company's stock, the risk-free interest rate, the estimated life of the equity-based award, the closing market price of the Company's stock on the grant date and the exercise price. The estimates utilized in the Black-Scholes calculation involve inherent uncertainties and the application of management judgment. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those options expected to vest. Stock-based compensation cost for restricted stock is measured based on the closing fair market value of the Company's common stock on the date of grant. The Company recognizes stock-based compensation cost for arrangements with cliff vesting as expense ratably on a straight-line basis over the requisite service period. The Company recognizes stock-based compensation cost for arrangements with graded vesting as expense on an accelerated basis over the requisite service period.

Concentrations of Credit and Other Risks

The Company sells to customers globally. Credit evaluations of its customers' financial condition are performed periodically, and the Company generally does not require collateral from its customers. One customer, TTI, Inc., an electronics distributor, accounted for \$99.3 million, \$124.4 million and \$128.4 million of the Company's net sales in fiscal years ended March 31, 2016, 2015, and 2014, respectively. There were no customers' accounts receivable balances exceeding 10% of gross accounts receivable at March 31, 2016 or March 31, 2015.

Consistent with industry practice, the Company utilizes electronics distributors for a large percentage of its sales. Electronics distributors are an effective means to distribute the products to end-users. For fiscal years ended March 31, 2016, 2015, and 2014, net sales to electronics distributors accounted for 42%, 45% and 45%, respectively, of the Company's total net sales.

Foreign Subsidiaries

Financial statements of certain of the Company's foreign subsidiaries are prepared using the U.S. dollar as their functional currency. Translation of these foreign operations, as well as gains and losses from non-U.S. dollar foreign currency transactions, such as those resulting from the settlement of foreign receivables or payables, are reported in the Consolidated Statements of Operations.

Translation of other foreign operations to U.S. dollars occurs using the current exchange rate for balance sheet accounts and an average exchange rate for results of operations. Such translation gains or losses are recognized as a component of equity in accumulated other comprehensive income ("AOCI").



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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 1: Organization and Significant Accounting Policies (Continued)

## Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (losses), currency translation gains (losses), defined benefit plan adjustments including those adjustments which result from changes in net prior service credit and actuarial gains (losses), equity interest in investee's other comprehensive income (loss), and gains (losses) on derivatives held as cash flow hedges, and is presented in the Consolidated Statements of Comprehensive Income (Loss).

The following summary sets forth the components of accumulated other comprehensive income (loss) contained in the stockholders' equity section of the Consolidated Balance Sheets (amounts in thousands):

|   | Foreign<br>Currency<br>Translation<br>Gains<br>(Losses) | Defined<br>Benefit<br>Post-retirement<br>Plan<br>Adjustments | Defined<br>Benefit<br>Pension<br>Plans (3) | Ownership<br>Share of<br>Equity<br>Method<br>Investees'<br>Other<br>Comprehensive<br>Income<br>(Loss) | Foreign<br>Exchange<br>Contracts | Net<br>Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) |
|---|---|--|--|---|----------------------------------|--|
| Balance at March 31, 2014   | \$ 23,335   | \$ 1,464   | \$ (7,386 )                                | \$ 771  | \$ —                             | \$ 18,184  |
| Other comprehensive income (loss)<br>before reclassifications (1) | (35,467 )   | (119 )   | (13,404 )                                  | 766   | 1,003                            | (47,221 )  |
| Amounts reclassified in (out) of AOCI<br>(1)                      | —   | (186 )   | 427  | —   | —                                | 241  |
| Other comprehensive income (loss)                                 | (35,467 )   | (305 )   | (12,977 )                                  | 766   | 1,003                            | (46,980 )  |
| Balance at March 31, 2015   | (12,132 )   | 1,159  | (20,363 )                                  | 1,537   | 1,003                            | (28,796 )  |
| Other comprehensive income (loss)<br>before reclassifications (2) | 1,860   | 146  | 3,865                                      | (8,276 )  | 2,618                            | 213  |
| Amounts reclassified in (out) of AOCI<br>(2)                      | —   | (191 )   | 1,337                                      | —   | (3,988 )                         | (2,842 )   |
| Other comprehensive income (loss)                                 | 1,860   | (45 )  | 5,202                                      | (8,276 )  | (1,370 )                         | (2,629 )   |
| Balance at March 31, 2016   | \$(10,272 )   | \$ 1,114   | \$(15,161 )                                | \$( 6,739 )   | \$( 367 )                        | \$( 31,425 )   |

(1) Activity within foreign currency translation gains and defined benefit pension plans are net of a tax benefit of \$0.3 million and \$0.1 million, respectively.

(2) Activity within foreign currency translation losses and defined benefit pension plans are net of a tax expense of zero and \$0.3 million, respectively.

(3) Balance is net of a tax benefit of \$2.0 million, \$2.3 million, and \$2.2 million as of March 31, 2016, March 31, 2015, and March 31, 2014, respectively.

## Stock Warrant

Concurrent with the consummation of a credit facility in May 2009, the Company issued K Financing, LLC ("K Financing") a warrant (the "Platinum Warrant") to purchase up to 26,848,484 shares of the Company's common stock, subject to certain adjustments, representing approximately 49.9% of the Company's outstanding common stock at the time of issuance on a post-exercise basis. The Platinum Warrant was subsequently transferred to K Equity, LLC ("K Equity"). The Platinum Warrant is exercisable at a purchase price of \$1.05 per share. The Platinum 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, by cashless exercise to the extent of appreciation in the value of the Company's common stock above the exercise price of the Platinum Warrant, or by 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 Platinum Warrant issued to K Financing under the Platinum Credit Facility (as defined below) does not meet the definition of a derivative as it is indexed to the Company's own stock, as such, the Platinum Warrant is classified as a component of equity.

There were 8,416,815 shares subject to the Platinum Warrant as of March 31, 2016. The Platinum Warrant expires on June 30, 2019.

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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 1: Organization and Significant Accounting Policies (Continued)

## Fair Value Measurement

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

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

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

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

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

Assets and liabilities are measured at fair value on a recurring basis as of March 31, 2016 and 2015 are as follows (amounts in thousands):

|                            | Carrying Value<br>March 31,<br>2016 | Fair Value<br>March 31,<br>2016 | Fair Value<br>Measurement<br>Using |                |          |
|----------------------------|-------------------------------------|---------------------------------|------------------------------------|----------------|----------|
|                            |                                     |                                 | Level 1                            | Level 2<br>(2) | Level 3  |
| Assets and Liabilities:    |                                     |                                 |                                    |                |          |
| Money markets (1)          | \$ 738                              | \$ 738                          | \$ 738                             | \$ —           | \$ —     |
| Total debt                 | (390,597)                           | (284,261)                       | (254,711)                          | (29,548)       | —        |
| NEC TOKIN options, net (3) | (20,600 )                           | (20,600 )                       | —                                  | —              | (20,600) |

|                            | Carrying Value<br>March 31,<br>2015 | Fair Value<br>March 31,<br>2015 | Fair Value<br>Measurement<br>Using |                |         |
|----------------------------|-------------------------------------|---------------------------------|------------------------------------|----------------|---------|
|                            |                                     |                                 | Level 1                            | Level 2<br>(2) | Level 3 |
| Assets and Liabilities:    |                                     |                                 |                                    |                |         |
| Money markets (1)          | \$ 738                              | \$ 738                          | \$ 738                             | \$ —           | \$ —    |
| Total debt                 | (391,371)                           | (391,283)                       | (362,988)                          | (28,295)       | —       |
| NEC TOKIN options, net (3) | 5,700                               | 5,700                           | —                                  | —              | 5,700   |

(1) Included in the line item "Cash and cash equivalents" on the 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 5, "Investment in NEC TOKIN," for a description of the NEC TOKIN options. The value of the options is interrelated and depends on the enterprise value of NEC TOKIN Corporation and its EBITDA over the duration (3) of the instruments. Therefore, the options have been valued using option pricing methods in a Monte Carlo simulation. Changes to the Monte Carlo simulation inputs could have a material effect on the value of the NEC TOKIN options.



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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 1: Organization and Significant Accounting Policies (Continued)

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

|                                      |            |
|--------------------------------------|------------|
| March 31, 2014                       | \$3,600    |
| Change in value of NEC TOKIN options | 2,100      |
| March 31, 2015                       | \$5,700    |
| Change in value of NEC TOKIN options | (26,300 )  |
| March 31, 2016                       | \$(20,600) |

## 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. Based on product availability, customer requirements and customer consent, KEMET may ship products earlier than the initial planned ship date. Shipping and handling costs are included in cost of sales.

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

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

KEMET's SFSD program provides authorized distributors with the flexibility to meet marketplace prices by allowing them, upon a case-by-case pre-approved basis, to adjust their purchased inventory cost to correspond with current market demand. Requests for SFSD adjustments are considered on an individual basis, require a pre-approved cost adjustment quote from their local KEMET sales representative and apply only to a specific customer, part, a specified special price amount, a specified quantity, and is only valid for a specific period of time. To estimate potential SFSD adjustments corresponding with current period sales, KEMET records a sales reserve based on historical SFSD credits, distributor inventory levels, and certain accounting assumptions, all of which are reviewed quarterly.

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 patterns of the distributors and records an allowance on the 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 Consolidated Statements of Operations, while the associated reserves are included in the line item "Accounts receivable, net" on the Consolidated Balance Sheets. Estimates used in determining sales allowances are subject to various factors. This includes, but is not limited to, changes in economic conditions, pricing changes, product demand, inventory levels in the supply chain, the effects of technological change, and other variables that might result in changes to 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 were less than 1% of net sales for the fiscal years ended March 31, 2016, 2015 and 2014. The Company recognizes warranty costs when losses are both probable and reasonably estimable.

## Allowance for Doubtful Accounts

The Company evaluates the collectability of trade receivables through the analysis of customer accounts. When the Company becomes aware that a specific customer has filed for bankruptcy, has begun closing or liquidation

proceedings, has become insolvent or is in financial distress, the Company records a specific allowance for the doubtful account to reduce the related receivable to the amount the Company believes is collectible. If circumstances related to specific customers change, the

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KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 1: Organization and Significant Accounting Policies (Continued)

Company's estimates of the recoverability of receivables could be adjusted. Accounts are written off after all means of collection, including legal action, have been exhausted.

Shipping and Handling Costs

The Company's shipping and handling costs are reflected in the line item "Cost of sales" on the Consolidated Statements of Operations. Shipping and handling costs were \$16.1 million, \$17.9 million, and \$19.9 million in the fiscal years ended March 31, 2016, 2015 and 2014, respectively.

Income (Loss) per Share

Basic income (loss) per share is computed using the weighted-average number of shares outstanding. Diluted income (loss) per share is computed using the weighted-average number of shares outstanding adjusted for the incremental shares attributed to the Platinum Warrant, outstanding options to purchase common stock if such effects are dilutive.

Environmental Cost

The Company recognizes liabilities for environmental remediation when it is probable that a liability has been incurred and can be reasonably estimated. The Company determines its liability on a site-by-site basis, and it is not discounted or reduced for anticipated recoveries from insurance carriers. In the event of anticipated insurance recoveries, such amounts would be presented on a gross basis in other current or non-current assets, as appropriate. Expenditures that extend the life of the related property or mitigate or prevent future environmental contamination are capitalized.

Derivative Financial Instruments

Derivative financial instruments have been utilized by the Company to reduce exposures to volatility of foreign currencies impacting the sales and costs of its products.

The Company accounts for derivatives and hedging activities in accordance with Accounting Standards Codification 815 ("ASC 815"), "Derivatives and Hedging." See Note 13 for further discussion of derivative financial instruments.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make a number of estimates and assumptions. 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. Significant items subject to such estimates and assumptions include impairment of property and equipment, intangibles and goodwill; allowances for doubtful accounts, price protection and customers' returns, and deferred income taxes; and assets and obligations related to employee benefits. Actual results could differ from these estimates and assumptions.

Impact of Recently Issued Accounting Standards

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, Compensation-Stock Compensation. This guidance changes several aspects of the accounting for share-based payment award transactions, including: (1) Accounting and Cash Flow Classification for Excess Tax Benefits and Deficiencies, (2) Forfeitures, and (3) Tax Withholding Requirements and Cash Flow Classification. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016. Early application is permitted, KEMET adopted ASU No. 2016-09 as of April 1, 2016. This new guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The ASU requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than short-term leases). The guidance is to be applied using a modified retrospective approach at the beginning of the earliest comparative period in the financial statements. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2018. Early application is permitted. We are currently in the process of assessing the impact the adoption of this guidance will have on our consolidated financial statements.





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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 1: Organization and Significant Accounting Policies (Continued)

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes. The Company has adopted the provisions of ASU No. 2015-17 which requires deferred tax liabilities and assets be classified as either a noncurrent asset or noncurrent liability in the accompanying balance sheet. Prior to the issuance of this ASU, an entity would present deferred taxes as a net current asset or liability and a net noncurrent asset or liability. The new accounting guidance simplifies financial reporting by reducing the presentation of deferred taxes into a single line and reduces complexities in determining when the recognized deferred tax amounts are expected to be recovered or settled. The balance sheet as of March 31, 2015 has been adjusted to reflect retrospective application of the new accounting guidance as follows:

|  | As<br>Previously<br>Reported | Retrospective<br>Adjustment | As<br>Adjusted |
|--|------------------------------|-----------------------------|----------------|
| Assets   |                              |                             |                |
| Deferred income taxes (current)                          | 10,762                       | (10,762 )                   | —              |
| Total current assets                                     | 371,327                      | (10,762 )                   | 360,565        |
| Deferred income taxes (non-current)                      | 5,111                        | 4,663                       | 9,774          |
| Total assets   | 752,792                      | (6,099 )                    | 746,693        |
| Income taxes payable and deferred income taxes (current) | 1,017                        | (133 )                      | 884            |
| Total current liabilities                                | 132,220                      | (133 )                      | 132,087        |
| Deferred income taxes (non-current)                      | 8,350                        | (5,966 )                    | 2,384          |
| Total liabilities and stockholders' equity               | 752,792                      | (6,099 )                    | 746,693        |

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 is effective for interim and annual reporting periods beginning April 1, 2016. Early application is permitted. The Company will apply the new standard to measurement period adjustments related to future 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 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

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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 1: Organization and Significant Accounting Policies (Continued)

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 may have a significant impact on the Company's Consolidated Financial Statements.

## Note 2: Debt

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

|   | March 31, |           |
|---|-----------|-----------|
|   | 2016      | 2015      |
| 10.5% Senior Notes, net of premium of \$1,716 and \$2,461 as of March 31, 2016 and 2015, respectively | \$356,716 | \$357,461 |
| Revolving line of credit  | 33,881    | 33,481    |
| Other   | —         | 429       |
| Total debt  | 390,597   | 391,371   |
| Current maturities  | (2,000 )  | (962 )    |
| Total long-term debt  | \$388,597 | \$390,409 |

The line item "Interest expense" on the Consolidated Statements of Operations for the fiscal years 2016, 2015 and 2014, respectively, is as follows (amounts in thousands):

|   | Fiscal Years Ended March 31, |          |          |
|---|------------------------------|----------|----------|
|   | 2016                         | 2015     | 2014     |
| Contractual interest expense                        | \$39,087                     | \$38,953 | \$38,918 |
| Capitalized interest                                | (509 )                       | (237 )   | (1,552 ) |
| Amortization of debt issuance costs                 | 1,392                        | 1,480    | 1,704    |
| Amortization of debt (premium) discount             | (745 )                       | (407 )   | 105      |
| Imputed interest on acquisition related obligations | 212                          | 741      | 1,787    |
| Interest expense on capital leases                  | 168                          | 171      | —        |
| Total interest expense                              | \$39,605                     | \$40,701 | \$40,962 |

## 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 \$50.0 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). A portion of the U.S. facility and the Singapore facility can be used to issue letters of credit. On December 19, 2014, the Loan and Security Agreement was amended and as a result the expiration was extended to December 19, 2019. Under the terms of amended Loan and Security Agreement, the revolving credit facility has increased to \$60.0 million, bifurcated into a U.S. facility (for which KEC is the Borrower) and a Singapore facility (for which KEMET Singapore is the Borrower). The amendment contains an accordion feature permitting the U.S. Borrowers to increase commitments under the facility by an aggregate principal amount up to \$15.0 million (for a total facility of \$75.0 million), subject to terms and documentation acceptable to the Agent and/or the Lenders. In addition, KEMET Foil Manufacturing, LLC ("KEMET Foil"), KEMET Blue Powder Corporation ("KEMET Blue Powder") and The Forest Electric Company were included as Borrowers under the U.S. facility. The principal features of the Loan and Security Agreement as amended are reflected in the description below.



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KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 2: Debt (continued)

The size of the U.S. facility and Singapore facility can fluctuate as long as the Singapore facility does not exceed \$30.0 million and the total facility does not exceed \$60.0 million.

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

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

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

Interest is payable on borrowings monthly at a rate equal to the London Interbank Offer Rate ("LIBOR") or the base rate, plus an applicable margin, as selected by the Borrower. Depending upon the fixed charge coverage ratio of KEMET Corporation and its subsidiaries on a consolidated basis as of the latest test date, the applicable margin under the U.S. facility varies between 2.00% and 2.50% for LIBOR advances and 1.00% and 1.50% for base rate advances, and under the Singapore facility varies between 2.25% and 2.75% for LIBOR advances and 1.25% and 1.75% for base rate advances.

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

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

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

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

KEMET and the Company's 100% owned domestic subsidiaries ("Guarantor Subsidiaries") 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 Guarantor Subsidiaries (other than assets that secure the 10.5% Senior Notes due 2018). The collection accounts of the Borrowers and Guarantor Subsidiaries 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) 12.5% 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 Guarantor Subsidiaries 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. KEMET Singapore's bank accounts are maintained at Bank of America and upon a Cash Dominion Trigger Event will become subject to full cash dominion in favor of the administrative agent.



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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 2: Debt (continued)

A fixed charge coverage ratio of at least 1.0:1.0 must be maintained as of the last day of each fiscal quarter ending immediately prior to or during any period in which any of the following occurs and is continuing until none of the following occurs for a period of at least forty-five consecutive days: (i) an event of default, (ii) aggregate availability of all facilities has been less than the greater of (A) 12.5% 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 and its subsidiaries on a consolidated basis.

In addition, the Loan and Security Agreement includes various covenants that, subject to exceptions, limit the ability of KEMET and its direct and indirect subsidiaries to, among other things: incur additional indebtedness; create liens on assets; 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 \$0.2 million and \$0.3 million as of March 31, 2016 and 2015, respectively; these costs will be amortized over the term of the Loan and Security Agreement.

The Company had the following activity for the twelve month period ended March 31, 2016 and resulting balances under the revolving line of credit (amounts in thousands, excluding percentages):

|                           | March 31,<br>2015         | Twelve Month Period<br>Ended March 31,<br>2016 |            | March 31, 2016            |          |                   |
|---------------------------|---------------------------|--|------------|---------------------------|----------|-------------------|
|                           | Outstanding<br>Borrowings | Additional<br>Borrowings                       | Repayments | Outstanding<br>Borrowings | Rate (1) | Due Date          |
| U.S. Facility             | \$ 21,481                 | \$8,000  | \$ 9,600   | \$ 19,881                 | 4.750%   | December 19, 2019 |
| Singapore Facility        |                           |  |            |                           |          |                   |
| Singapore Borrowing 1 (3) | 12,000                    | —  | —          | 12,000                    | 3.250%   | August 22, 2016   |
| Singapore Borrowing 2 (3) | —                         | 2,000  | —          | 2,000                     | 3.250%   | July 11, 2016     |
| Total Facilities          | \$ 33,481                 | \$ 10,000                                      | \$ 9,600   | \$ 33,881                 |          |                   |

(1) For U.S. borrowings, Base Rate plus 1.5%, as defined in the Loan and Security Agreement.

(2) For Singapore borrowings, LIBOR, plus a spread of 2.50% as of March 31, 2016.

(3) 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, and the Company's available borrowing capacity under the Loan and Security Agreement was \$25.6 million as of March 31, 2016. The borrowing capacity has increased from the prior year due to an improvement in the fixed charged coverage ratio and an increase in the eligible account receivable collateral.

## 10.5% Senior Notes

On May 5, 2010, the Company issued 10.5% Senior Notes with an aggregate principal amount of \$230.0 million which resulted in net proceeds to the Company of \$222.2 million.

The 10.5% Senior Notes were issued pursuant to an Indenture (the "10.5% Senior Notes Indenture"), dated as of May 5, 2010, as amended, by and among the Company, Guarantor Subsidiaries 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

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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 2: Debt (continued)

Notes are senior obligations of the Company and will be guaranteed by each of the Guarantor Subsidiaries 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, 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 Company is in compliance with these debt covenants.

At any time, at its option, the Company may redeem the 10.5% Senior Notes, in whole or in part, at the redemption price of 100% of the Principal amount. The Company may also at any time and from time to time purchase 10.5% Senior Notes in the open market, subject to compliance with the Indenture.

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 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.

On March 27, 2012 and April 3, 2012, the Company completed the issuance of \$110.0 million and \$15.0 million aggregate principal amount of its 10.5% Senior Notes due May 1, 2018, respectively, at an issue price of 105.5% of the principal amount plus accrued interest from November 1, 2011. The issuance resulted in a debt premium of \$6.1 million which will be amortized over the term of the 10.5% Senior Notes. The Senior Notes were issued as additional notes under the indenture, dated May 5, 2010, among the Company, the Guarantor Subsidiaries party thereto and Wilmington Trust Company, as trustee.

In total, debt issuance costs related to the 10.5% Senior Notes, net of amortization, were \$2.8 million and \$4.1 million as of March 31, 2016 and 2015; these costs will be amortized over the term of the 10.5% Senior Notes. The Company had interest payable related to the 10.5% Senior Notes included in the line item "Accrued expenses" on its Consolidated Balance Sheets of \$15.5 million at March 31, 2016 and 2015. The effective interest rate for the Senior Notes was 10.3% for the years ended March 31, 2016 and 2015.

The following table highlights the Company's annual cash maturities of debt (amounts in thousands):

|                          | Annual Maturities of Debt Fiscal Years Ended |      |            |          |      |            |
|--------------------------|--|------|------------|----------|------|------------|
|                          | March 31,                                    |      |            |          |      |            |
|                          | 2017   | 2018 | 2019       | 2020     | 2021 | Thereafter |
| 10.5% Senior Notes       | \$2,000                                      | \$ — | -\$353,000 | \$ —     | \$ — | —          |
| Revolving line of credit | —  | —    | —          | 33,881   | —    | —          |
|                          | \$2,000                                      | \$ — | -\$353,000 | \$33,881 | \$ — | —          |



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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 3: Restructuring

In the second quarter of fiscal year 2010, the Company initiated the first phase of a plan to restructure the Film and Electrolytic Business Group ("Film and Electrolytic") and to reduce overhead within the Company. Since that time, the restructuring plan has been expanded to all business groups and includes implementing programs to make the Company more competitive by removing excess capacity, relocating production to lower cost locations, and eliminating unnecessary costs throughout the Company.

A summary of the expenses aggregated on the Consolidated Statements of Operations line item "Restructuring charges" in the fiscal years ended March 31, 2016, 2015 and 2014, is as follows (amounts in thousands):

|   | Fiscal Years Ended |          |          |
|---|--------------------|----------|----------|
|   | March 31,          |          |          |
|   | 2016               | 2015     | 2014     |
| Manufacturing and sales office relocation costs | \$2,375            | \$2,672  | \$3,555  |
| Personnel reduction costs                       | 1,803              | 10,345   | 10,567   |
| Restructuring charges                           | \$4,178            | \$13,017 | \$14,122 |

## Fiscal Year Ended March 31, 2016

The Company incurred \$4.2 million in restructuring charges in the fiscal year ended March 31, 2016 including \$1.8 million of personnel reduction costs and \$2.4 million of relocation costs.

The personnel reduction costs correspond with the following: \$0.9 million for headcount reductions in Matamoros, Mexico related to the relocation of certain Solid Capacitor manufacturing from Matamoros, Mexico to Victoria, Mexico, \$0.6 million related to a headcount reduction in Suzhou, China for the Film & Electrolytic production line transfer from Suzhou, China to Anting, China, \$0.5 million related to the consolidation of certain Solid Capacitor manufacturing in Victoria, Mexico, \$0.5 million for headcount reductions related to the outsourcing of the Company's information technology function and overhead reductions in North America and Europe, and \$0.3 million for headcount reductions in Europe (primarily Landsberg, Germany). These personnel reduction costs were partially offset by a \$1.0 million credit to expense in Italy due to the partial reversal of a severance accrual. 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 \$2.4 million relocation costs include \$1.1 million for the Landsberg, Germany shut-down including relocating equipment to Pontecchio, Italy and Skopje, Macedonia; \$0.4 million for the relocation of certain Solid Capacitor manufacturing equipment in Victoria, Mexico; \$0.4 million for the exit of Film & Electrolytic manufacturing from Suzhou, China; and \$0.5 million for other costs related to shut-downs in Europe, North America, and Asia.

## Fiscal Year Ended March 31, 2015

The Company incurred \$13.0 million in restructuring charges in the fiscal year ended March 31, 2015 including \$10.3 million related to personnel reduction costs which is primarily comprised of the following: \$4.1 million related to headcount reductions in Europe (primarily Landsberg, Germany) as the Company relocates production to lower cost regions; \$3.2 million is related to a headcount reduction of 50 employees due to the consolidation of manufacturing facilities in Italy; \$1.9 million related to the reduction of certain Solid Capacitor production workforce from Matamoros, Mexico to Victoria, Mexico; and \$1.1 million related to headcount reductions taken as the Company begins to outsource its information technology function.

In addition to these personnel reduction costs, the Company incurred manufacturing relocation costs of \$2.7 million comprised of the following: \$1.4 million for the exit of solid capacitors in Evora, Portugal and the relocation of certain Solid Capacitors manufacturing operations from Evora, Portugal to Victoria, Mexico; \$0.4 million for the Landsberg, Germany shut-down including relocating equipment to Pontecchio, Italy; \$0.3 million for the relocation of certain Film & Electrolytic lines from Monterrey, Mexico and Skopje, Macedonia to Suzhou China and \$0.5 million for other cost related to shut-downs in Europe and Asia.



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## KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 3: Restructuring (Continued)

Fiscal Year Ended March 31, 2014

The Company incurred \$14.1 million in restructuring charges in the fiscal year ended March 31, 2014 including personnel reduction costs of \$10.6 million and manufacturing relocation costs of \$3.6 million. The personnel reduction costs are comprised of the following: \$1.9 million related to the closure of a portion of our innovation center in the U.S.; \$1.2 million related to the reduction of the Solid Capacitor production workforce in Mexico; \$1.1 million related to the Company's initiative to reduce overhead; \$0.5 million in termination benefits associated with converting the Weymouth, United Kingdom manufacturing facility into a technology center; \$4.5 million related to headcount reductions of 126 employees in Evora, Portugal due to the relocation of certain Solid Capacitors manufacturing operations to Mexico; \$0.9 million is related to a headcount reduction of 31 employees due to the consolidation of manufacturing facilities in Italy and \$0.4 million related to an additional Cassia Integrazione Guadagni Straordinaria ("CIGS") plan in Italy.

The additional expense related to CIGS is as a result of an agreement with the labor union which allowed the Company to place up to 170 workers, on a rotation basis, on the CIGS plan to save labor costs. CIGS is a temporary plan to save labor costs whereby a company may temporarily "lay off" employees while the government continues to pay their wages for a maximum of 12 months during the program. The employees who are in CIGS are not working, but are still employed by the Company. Only employees that are not classified as management or executive level personnel can participate in the CIGS program and upon termination of the plan, the affected employees return to work.

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

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 Consolidated Balance Sheets were as follows (amounts in thousands):

|                            | Personnel<br>Reductions | Manufacturing<br>and Sales<br>Office<br>Relocation<br>Costs |
|----------------------------|-------------------------|---|
| Balance at March 31, 2013  | \$ 13,509               | \$ 567  |
| Costs charged to expense   | 10,567                  | 3,555   |
| Costs paid or settled      | (18,235 )               | (4,122 )  |
| Change in foreign exchange | 376                     | —   |
| Balance at March 31, 2014  | 6,217                   | —   |
| Costs charged to expense   | 10,345                  | 2,672   |
| Costs paid or settled      | (7,995 )                | (2,672 )  |
| Change in foreign exchange | (1,328 )                | —   |
| Balance at March 31, 2015  | 7,239                   | —   |
| Costs charged to expense   | 1,803                   | 2,375   |
| Costs paid or settled      | (8,273 )                | (2,375 )  |
| Change in foreign exchange | 207                     | —   |
| Balance at March 31, 2016  | \$ 976                  | \$ —  |

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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 4: Goodwill and Intangible Assets

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

|   | March 31, 2016  |                          | March 31, 2015  |                          |
|---|-----------------|--------------------------|-----------------|--------------------------|
|   | Carrying Amount | Accumulated Amortization | Carrying Amount | Accumulated Amortization |
| Indefinite Lived Intangible Assets:                                     |                 |                          |                 |                          |
| Trademarks  | \$7,207         | \$ —                     | \$7,207         | \$ —                     |
| Amortizing Intangibles:   |                 |                          |                 |                          |
| Purchased technology, customer relationships and patents (3 - 18 years) | 43,089          | 16,995                   | 40,489          | 14,414                   |
|   | \$50,296        | \$ 16,995                | \$47,696        | \$ 14,414                |

For fiscal years ended March 31, 2016, 2015 and 2014 amortization related to intangibles was \$2.2 million, \$2.1 million and \$2.1 million, respectively. The weighted-average useful life of amortized intangibles was 16.6 years in the fiscal years ended March 31, 2016 and 16 years in the fiscal year ended March 31, 2015. The weighted-average period prior to the next renewal for patents was 1.5 years and 2.5 years in the fiscal years ended March 31, 2016 and March 31, 2015, respectively. Estimated amortization of intangible assets for each of the next five fiscal years is \$2.2 million and, thereafter, amortization will total \$15.1 million.

For fiscal year 2016, the Company completed its impairment test on goodwill and intangible assets with indefinite useful lives as of January 1, 2016 and concluded that goodwill and indefinite-lived assets were not impaired.

The changes in the carrying amount of goodwill for the years ended March 31, 2016 and 2015 are as follows (amounts in thousands):

|   | Fiscal Year 2016 |                       |               | Fiscal Year 2015 |                       |  |
|---|------------------|-----------------------|---------------|------------------|-----------------------|--|
|   | Solid Capacitors | Film and Electrolytic | Corporate (1) | Solid Capacitors | Film and Electrolytic |  |
| Gross balance at beginning of fiscal year |                  |                       |               |                  |                       |  |
| Goodwill                                  | \$35,584         | \$ 1,092              | \$ —          | \$35,584         | \$ 1,092              |  |
| Accumulated impairment losses             | —                | (1,092)               | —             | —                | (1,092)               |  |
| Net balance at the end of the year        | \$35,584         | \$ —                  | \$ —          | \$35,584         | \$ —                  |  |
| Acquisitions                              | \$—              | \$ —                  | \$ 4,710      | \$—              | \$ —                  |  |
| Impairment charges                        | \$—              | \$ —                  | \$ —          | \$—              | \$ —                  |  |
| Balance at the end of the year            |                  |                       |               |                  |                       |  |
| Goodwill                                  | \$35,584         | \$ 1,092              | \$ 4,710      | \$35,584         | \$ 1,092              |  |
| Accumulated impairment losses             | —                | (1,092)               | —             | —                | (1,092)               |  |
| Balance at the end of the year, net       | \$35,584         | \$ —                  | \$ 4,710      | \$35,584         | \$ —                  |  |

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

## Note 5: 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



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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 5: Investment in NEC TOKIN (Continued)

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 fiscal year ended March 31, 2016, 2015 and 2014 recognized a \$26.3 million loss, \$2.1 million gain, and \$3.1 million gain respectively, which was included on the line item "Change in value of the NEC TOKIN options" in the Consolidated Statement of Operations. The line item "Other non-current obligations" on the Consolidated Balance Sheets includes \$20.6 million as of March 31, 2016 and the line item "Other assets" on the Consolidated Balance Sheets includes \$5.7 million as of March 31, 2015 related to the options.



KEC's total investment in NEC TOKIN including the net call forward contract described above on February 1, 2013 was \$54.5 million which includes \$50.0 million cash consideration plus approximately \$4.5 million in transaction expenses (fees for legal, accounting, due diligence, investment banking and other various services necessary to complete the transactions). The Company has made an allocation of the aggregate purchase price, which were based upon estimates that the Company believes are reasonable.

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## KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 5: Investment in NEC TOKIN (Continued)

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

|                        | March 31, March 31, |            |
|------------------------|---------------------|------------|
|                        | 2016                | 2015       |
| Current assets         | \$ 240,427          | \$ 223,495 |
| Noncurrent assets      | 260,614             | 273,785    |
| Current liabilities    | 179,360             | 143,523    |
| Noncurrent liabilities | 335,500             | 296,873    |

|                   | Fiscal    | Fiscal    | Fiscal    |
|-------------------|-----------|-----------|-----------|
|                   | Year      | Year      | Year      |
|                   | March 31, | March 31, | March 31, |
|                   | 2016      | 2015      | 2014      |
| Net sales         | \$458,032 | \$487,282 | \$490,369 |
| Gross profit      | 98,709    | 103,773   | 86,227    |
| Net income (loss) | (42,995 ) | (24,091 ) | (42,937 ) |

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

|  | Fiscal Year | Fiscal Year | Fiscal Year |
|--|-------------|-------------|-------------|
|  | March 31,   | March 31,   | March 31,   |
|  | 2016        | 2015        | 2014        |
| NEC TOKIN net income (loss)                            | \$(42,995)  | \$(24,091)  | \$(42,937)  |
| KEMET's equity ownership %                             | 34          | % 34        | % 34        |
| Equity income (loss) from NEC TOKIN before Adjustments | \$(14,618)  | \$(8,191 )  | \$(14,599)  |
| Adjustments:   |             |             |             |
| Amortization and depreciation                          | (1,625 )    | (2,270 )    | (1,390 )    |
| Gain on sale of long-lived assets adjustment           | —           | —           | (5,998 )    |
| Loss on impairment of long-lived assets adjustment     | —           | —           | 14,643      |
| Inventory valuation adjustment                         | —           | —           | 254         |
| Indemnity asset  | —           | 8,500       | —           |
| Inventory profit elimination                           | (163 )      | (208 )      | —           |
| Equity income (loss) from NEC TOKIN                    | \$(16,406)  | \$(2,169 )  | \$(7,090 )  |

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## KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 5: Investment in NEC TOKIN (Continued)

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

|   | March<br>31, 2016 | March<br>31, 2015 |
|---|-------------------|-------------------|
| Investment in NEC TOKIN                     | \$20,334          | \$45,016          |
| Purchase price accounting basis adjustment: |                   |                   |
| Property, plant and equipment (1)           | 3,365             | 3,334             |
| Technology (1)                              | (10,134)          | (10,889)          |
| Long-term debt (1)                          | (1,975)           | (2,707)           |
| Goodwill                                    | (7,555)           | (7,082)           |
| Indemnity asset for legal investigation     | (8,500)           | (8,500)           |
| Inventory profit elimination (2)            | 371               | 208               |
| Other                                       | (604)             | (39)              |
| KEMET's 34% interest of NEC TOKIN's equity  | \$(4,698)         | \$19,341          |

(1) Depreciated or amortized over the estimated lives.

(2) Adjusted each period for any activity.

As of March 31, 2016, 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, any accounts receivable balance due from NEC TOKIN and obligations in the Put Option.

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

|                            | Twelve Month Periods<br>Ended<br>March 31, |          |         |
|----------------------------|--|----------|---------|
|                            | 2016                                       | 2015     | 2014    |
| KEC's sales to NEC TOKIN   | \$21,061                                   | \$13,500 | \$6,040 |
| NEC TOKIN's sales to KEMET | 5,912                                      | 3,605    | 1,789   |

|   | March 31,<br>2016 | March 31,<br>2015 |
|---|-------------------|-------------------|
| Accounts receivable                         | \$ 5,220          | \$ 3,344          |
| Accounts payable                            | 1,019             | 765               |
| Management service agreement receivable (1) | 748               | 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.

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 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. The first payment was made in February 2016.

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KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 5: Investment in NEC TOKIN (Continued)

On December 9, 2015, the Taiwan Fair Trade Commission (“TFTC”) publicly announced that NEC TOKIN would be fined 1,218.2 million New Taiwan dollars (“NTD”) (approximately U.S. \$37.7 million) for violations of the Taiwan Fair Trade Act. Subsequently, the TFTC indicated the fine would be reduced to NTD609.1 million (approximately U.S. \$18.9 million). In February, 2016, NEC TOKIN commenced an administrative suit in Taiwan, challenging the validity of the amount of the fine.

On March 29, 2016, the Japan Fair Trade Commission published an order by which NEC TOKIN was fined ¥127.2 million (approximately U.S. \$1.1 million) for violation of the Japanese Antimonopoly Act. Payment of the fine is due by October 31, 2016.

The remaining governmental investigations are continuing at various stages.

On May 2, 2016, NEC TOKIN reached a preliminary settlement in two antitrust suits pending in the United States District Court, Northern District of California as In re: Capacitors Antitrust Litigation, No. 3:14-cv-03264-JD (the “Class Action Suits”). Pursuant to the terms of the settlement, in consideration of the release of NEC TOKIN and its subsidiaries (including NEC TOKIN America, Inc.) from claims asserted in the Class Action Suits, NEC TOKIN will pay an aggregate \$37.3 million to a settlement class of direct purchasers of capacitors and a settlement class of indirect purchasers of capacitors. Payments will be made in installments, with the initial installment being due shortly after the execution of the definitive settlement agreement, subsequent payments due each year thereafter for three years, and a final, fifth payment due by December 31, 2019.

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.

In the fiscal year ended March 31, 2016, KEMET incurred a loss of \$17.5 million related to NEC TOKIN's antitrust and civil litigation, based upon its 34% economic interest in NEC TOKIN, which is included in the line item "Equity income (loss) from NEC TOKIN" on the Condensed Consolidated Statements of Operations.

As of March 31, 2016, NEC TOKIN's accrual for antitrust and civil litigation totaled \$84.0 million. This amount includes the best estimate of losses which may result from the ongoing antitrust investigations and civil litigation. However, the actual outcomes could differ from what has been accrued.

Note 6: Segment and Geographic Information

The Company is organized into two business groups: Solid Capacitors and Film and Electrolytic based primarily on product lines. Each business group is responsible for their respective manufacturing operations and research and development efforts. All research and development expenses are direct costs to the respective business group.

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

Film and Electrolytic operates ten manufacturing sites throughout Europe, Asia and the United States and produces film, paper, and electrolytic capacitors which are sold globally. In addition, the business group has product innovation centers in the United Kingdom, Italy, Germany and Sweden.

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## KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 6: Segment and Geographic Information (Continued)

The following tables summarize information about each segment's net sales, operating income (loss), depreciation and amortization, capital expenditures and total assets (amounts in thousands):

|                                    | Fiscal Years Ended March 31, |           |             |
|------------------------------------|------------------------------|-----------|-------------|
|                                    | 2016                         | 2015      | 2014        |
| Net sales:                         |                              |           |             |
| Solid Capacitors                   | \$556,303                    | \$621,275 | \$626,494   |
| Film and Electrolytic              | 178,520                      | 201,917   | 207,172     |
|                                    | \$734,823                    | \$823,192 | \$833,666   |
| Operating income (loss) (1)(2)(3): |                              |           |             |
| Solid Capacitors                   | \$129,909                    | \$135,946 | \$91,848    |
| Film and Electrolytic              | (71 )                        | (16,685 ) | (17,587 )   |
| Corporate                          | (97,512 )                    | (96,883 ) | (92,472 )   |
|                                    | \$32,326                     | \$22,378  | \$(18,211 ) |
| Depreciation and amortization:     |                              |           |             |
| Solid Capacitors                   | \$21,318                     | \$21,202  | \$28,081    |
| Film and Electrolytic              | 11,984                       | 13,886    | 14,557      |
| Corporate                          | 5,714                        | 5,680     | 6,889       |
|                                    | \$39,016                     | \$40,768  | \$49,527    |
| Capital expenditures:              |                              |           |             |
| Solid Capacitors                   | \$10,098                     | \$12,552  | \$10,498    |
| Film and Electrolytic              | 5,902                        | 7,752     | 14,494      |
| Corporate                          | 4,469                        | 1,928     | 7,155       |
|                                    | \$20,469                     | \$22,232  | \$32,147    |

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

|                       | Fiscal Years Ended |          |          |
|-----------------------|--------------------|----------|----------|
|                       | March 31,          |          |          |
|                       | 2016               | 2015     | 2014     |
| Total restructuring:  |                    |          |          |
| Solid Capacitors      | \$1,916            | \$3,297  | \$8,108  |
| Film and Electrolytic | 1,714              | 8,221    | 5,657    |
| Corporate             | 548                | 1,499    | 357      |
|                       | \$4,178            | \$13,017 | \$14,122 |

(2) Impairment charges and write downs included in Operating income (loss) were as follows (amounts in thousands):

|   | Fiscal Years |          |
|---|--------------|----------|
|   | Ended        |          |
|   | March 31,    |          |
|   | 2015         | 2014     |
| Impairment and write down of long-lived assets: |              |          |
| Solid Capacitors                                | \$—          | —\$3,920 |
| Film and Electrolytic                           | —            | 556      |
|   | \$—          | —\$4,476 |





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## KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 6: Segment and Geographic Information (Continued)

(3) (Gain) loss on sales and disposals of assets included in Operating income (loss) were as follows (amounts in thousands):

|   | Fiscal Years Ended |         |         |
|---|--------------------|---------|---------|
|   | March 31,          |         |         |
|   | 2016               | 2015    | 2014    |
| (Gain) loss on sales and disposals of assets: |                    |         |         |
| Solid Capacitors                              | \$ 536             | \$ 606  | \$(705) |
| Film and Electrolytic                         | (270 )             | (1,008) | 767     |
| Corporate                                     | 109                | 181     | (30 )   |
|   | \$ 375             | \$(221) | \$ 32   |

|                       | March 31,  |            |
|-----------------------|------------|------------|
|                       | 2016       | 2015       |
| Total assets:         |            |            |
| Solid Capacitors      | \$ 426,751 | \$ 447,540 |
| Film and Electrolytic | 235,493    | 235,044    |
| Corporate             | 40,300     | 64,109     |
|                       | \$ 702,544 | \$ 746,693 |

The following highlights net sales by geographic location (amounts in thousands):

|                     | Fiscal Years Ended |            |            |
|---------------------|--------------------|------------|------------|
|                     | March 31,(1)       |            |            |
|                     | 2016               | 2015       | 2014       |
| United States       | \$ 201,878         | \$ 238,840 | \$ 245,032 |
| Hong Kong           | 133,117            | 131,109    | 135,570    |
| Germany             | 83,589             | 107,859    | 105,261    |
| Europe (2)          | 57,362             | 58,879     | 70,895     |
| China               | 65,043             | 65,289     | 67,460     |
| Asia Pacific (2)    | 61,414             | 62,864     | 51,467     |
| United Kingdom      | 28,083             | 32,127     | 36,085     |
| Netherlands         | 31,218             | 38,853     | 33,581     |
| Singapore           | 16,260             | 22,516     | 27,777     |
| Italy               | 14,391             | 19,013     | 20,249     |
| Hungary             | 17,766             | 22,745     | 18,332     |
| Mexico              | 23,041             | 21,164     | 17,886     |
| Other Countries (2) | 1,661              | 1,934      | 4,071      |
|                     | \$ 734,823         | \$ 823,192 | \$ 833,666 |

Revenues are attributed to countries or regions based on the location of the customer. Net Sales to one customer exceeded 10% of total net sales as follows: \$99.3 million, \$124.4 million and \$128.4 million in fiscal years 2016, (1) 2015 and 2014, respectively. Solid Capacitor sales to one customer over 10% were \$85.3 million, \$109.1 million and \$115.5 million in fiscal years 2016, 2015 and 2014, respectively. Film and Electrolytic sales to one customer over 10% were \$14.0 million, \$15.3 million and \$12.9 million in fiscal years 2016, 2015 and 2014, respectively.

(2) Excluding the specific countries listed in this table, no country included in this caption exceeded 3% of consolidated net sales for fiscal years 2016, 2015 and 2014.



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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 6: Segment and Geographic Information (Continued)

The following geographic information includes Property, plant and equipment, net, based on physical location (amounts in thousands):

|               | March 31, |           |
|---------------|-----------|-----------|
|               | 2016      | 2015      |
| United States | \$54,658  | \$59,754  |
| Mexico        | 61,859    | 66,120    |
| Italy         | 44,699    | 44,595    |
| China         | 26,705    | 29,871    |
| Portugal      | 23,449    | 17,352    |
| Macedonia     | 14,131    | 13,726    |
| Indonesia     | 4,556     | 5,335     |
| Finland       | 989       | 1,439     |
| Other (1)     | 10,793    | 11,449    |
|               | \$241,839 | \$249,641 |

(1) Excluding the specific countries listed in this table, no country included in this caption exceeded 3% of consolidated Property, plant and equipment net for fiscal years 2016, 2015 and 2014.

## Note 7. 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) offset by a loss from machinery operations of \$0.3 million during the fiscal year ended March 31, 2015 resulting in net income from discontinued operations of \$5.4 million.

Net sales and net operating loss from the Company's discontinued operation for years ended March 31, 2016, 2015 and 2014 were as follows (in thousands):

|                         | Fiscal Years Ended |          |
|-------------------------|--------------------|----------|
|                         | March 31,          |          |
|                         | 2016               | 2015     |
| Net sales               | \$-\$104           | \$11,489 |
| Operating income (loss) | —(265 )            | (3,730 ) |

## Note 8: 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 as the acquisition was not material to the consolidated financial statements.



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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 8: Acquisitions (Continued)

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<br>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       |

The following table presents the amounts assigned to intangible assets (amounts in thousands except useful life data):

|                      | Fair<br>Value | Useful<br>Life (years) |
|----------------------|---------------|------------------------|
| Developed technology | \$1,820       | 10                     |

The useful life of 10 years is based on IntelliData's history with the first major iteration of the underlying technology, including its reliability, performance, and ongoing maintenance requirements. In determining the value of the developed technology, the Company considered any remaining value of the first major iteration of the technology as well as the value of the substantial development work that had already gone into the second major iteration of the technology as of the acquisition date. The second major iteration of the technology is scheduled to be implemented in the second quarter of fiscal year 2017.

## Note 9: Impairment Charges

During fiscal years 2016 and 2015 the Company incurred no impairment charges. During fiscal year 2014, the Company incurred impairment charges of \$4.5 million. The impairment charges are recorded on the Consolidated Statements of Operations line item "Write down of long-lived assets" in fiscal year 2014.

In fiscal year 2014, Solid Capacitors incurred \$3.9 million (\$0.09 per basic and diluted share) in additional impairment charges related to the relocation of certain Solid Capacitor manufacturing operations from the Evora, Portugal facility to a manufacturing facility in Mexico due to a decrease in forecasted revenues related to the accelerated timing of the relocation to Mexico. In addition, during fiscal year 2014, Film and Electrolytic incurred impairment charges totaling \$0.6 million (\$0.01 per basic and diluted share) related to manufacturing equipment in Italy.

## Note 10: Pension and Other Post-retirement Benefit Plans

The Company sponsors nine defined benefit pension plans: six in Europe, one in Singapore and two in Mexico. The Company funds the pension liabilities in accordance with laws and regulations applicable to those plans.

In fiscal year 2016, the Company recognized a curtailment gain of \$0.7 million due to headcount reductions in Landsberg, Germany corresponding with the relocation of production to lower cost regions.

In addition, the Company maintains two frozen post-retirement benefit plans: health care and life insurance benefits for certain retired United States employees who reached retirement age while working for the Company. The health care plan is contributory, with participants' contributions adjusted annually. The life insurance plan is non-contributory.

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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 10: Pension and Other Post-retirement Benefit Plans (Continued)

A summary of the changes in benefit obligations and plan assets is as follows (amounts in thousands):

|  | Pension    |            | Other Benefits |         |
|--|------------|------------|----------------|---------|
|  | 2016       | 2015       | 2016           | 2015    |
| <b>Change in Benefit Obligation</b>            |            |            |                |         |
| Benefit obligation at beginning of the year    | \$49,342   | \$42,715   | \$846          | \$785   |
| Service cost                                   | 1,507      | 1,286      | —              | —       |
| Interest cost                                  | 1,347      | 1,819      | 19             | 29      |
| Plan participants' contributions               | —          | —          | 464            | 474     |
| Plan amendments                                | 342        | 1,006      | —              | —       |
| Actuarial (gain) loss                          | (4,922 )   | 13,673     | (146 )         | 118     |
| Foreign currency exchange rate change          | 221        | (9,988 )   | —              | —       |
| Gross benefits paid                            | (1,425 )   | (1,111 )   | (560 )         | (560 )  |
| Curtailments and settlements                   | (696 )     | (58 )      | —              | —       |
| Benefit obligation at end of year              | \$45,716   | \$49,342   | \$623          | \$846   |
| <b>Change in Plan Assets</b>                   |            |            |                |         |
| Fair value of plan assets at beginning of year | \$10,483   | \$9,946    | \$—            | \$—     |
| Actual return on plan assets                   | (46 )      | 1,737      | —              | —       |
| Foreign currency exchange rate changes         | (242 )     | (1,353 )   | —              | —       |
| Employer contributions                         | 1,528      | 1,303      | 96             | 86      |
| Settlements                                    | (30 )      | (39 )      | —              | —       |
| Plan participants' contributions               | —          | —          | 464            | 474     |
| Gross benefits paid                            | (1,425 )   | (1,111 )   | (560 )         | (560 )  |
| Fair value of plan assets at end of year       | \$10,268   | \$10,483   | \$—            | \$—     |
| <b>Funded status at end of year</b>            |            |            |                |         |
| Fair value of plan assets                      | \$10,268   | \$10,483   | \$—            | \$—     |
| Benefit obligations                            | (45,716 )  | (49,342 )  | (623 )         | (846 )  |
| Amount recognized at end of year               | \$(35,448) | \$(38,859) | \$(623)        | \$(846) |

The Company expects to contribute \$1.7 million to the pension plans in fiscal year 2017, which includes direct contributions to be made for funded plans and benefit payments to be made for unfunded plans.

The Company does not prefund its post-retirement health care and life insurance benefit plans. As a result, the Company is responsible annually for the payment of benefits as incurred by the plans. The Company anticipates making payments of \$83 thousand during fiscal year 2017.

Amounts recognized in the Consolidated Balance Sheets consist of the following (amounts in thousands):

|                                | Pension    |            | Other Benefits |         |
|--------------------------------|------------|------------|----------------|---------|
|                                | 2016       | 2015       | 2016           | 2015    |
| Current liability              | \$(833 )   | \$(626 )   | \$(82 )        | \$(97 ) |
| Noncurrent liability           | (34,615 )  | (38,233 )  | (541 )         | (749 )  |
| Amount recognized, end of year | \$(35,448) | \$(38,859) | \$(623)        | \$(846) |

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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 10: Pension and Other Post-retirement Benefit Plans (Continued)

Amounts recognized in Accumulated other comprehensive income (loss) consist of the following (amounts in thousands):

|   | Pension  |          | Other Benefits |           |
|---|----------|----------|----------------|-----------|
|   | 2016     | 2015     | 2016           | 2015      |
| Net actuarial loss (gain)                     | \$15,585 | \$21,408 | \$(1,114)      | \$(1,159) |
| Prior service cost                            | 1,582    | 1,300    | —              | —         |
| Accumulated other comprehensive (income) loss | \$17,167 | \$22,708 | \$(1,114)      | \$(1,159) |

Although not reflected in the table above, the tax effect on the balances was \$2.0 million and \$2.3 million as of March 31, 2016 and 2015, respectively.

Components of benefit costs (credit) consist of the following (amounts in thousands):

|                                    | Pension |         |         | Other Benefits |         |         |
|------------------------------------|---------|---------|---------|----------------|---------|---------|
|                                    | 2016    | 2015    | 2014    | 2016           | 2015    | 2014    |
| Net service cost                   | \$1,507 | \$1,286 | \$1,308 | \$—            | \$—     | \$—     |
| Interest cost                      | 1,347   | 1,819   | 1,734   | 19             | 29      | 23      |
| Expected return on plan assets     | (433 )  | (499 )  | (486 )  | —              | —       | —       |
| Amortization:                      |         |         |         |                |         |         |
| Actuarial (gain) loss              | 704     | 277     | 318     | (191 )         | (187 )  | (259 )  |
| Prior service cost                 | 60      | 17      | 4       | —              | —       | —       |
| Net periodic benefit cost (credit) | \$3,185 | \$2,900 | \$2,878 | \$(172)        | \$(158) | \$(236) |

The estimated amounts related to pensions that will be amortized from accumulated other comprehensive income into net periodic benefit costs in fiscal year 2017 are actuarial losses of \$460 thousand, and prior service costs of \$85 thousand.

The asset allocation for the Company's defined benefit pension plans at March 31, 2016 and the target allocation for 2016, by asset category, are as follows:

| Asset Category         | Target Allocation (%) | Plan Assets at March 31, 2016 (%) |
|------------------------|-----------------------|-----------------------------------|
| Insurance (1)          | 10                    | 6                                 |
| International equities | 15                    | 15                                |
| International bonds    | 60                    | 63                                |
| Other                  | 15                    | 16                                |
| Total                  | 100                   | 100                               |

(1) Comprised of assets held by the defined benefit pension plan in Germany.

The Company's investment strategy for its defined benefit pension plans is to maximize long-term rate of return on plan assets within an acceptable level of risk in order to minimize the cost of providing pension benefits. The investment policy establishes a target allocation range for each asset class and the fund is managed within those ranges. The plans use a number of investment approaches including insurance products, equity and fixed income funds in which the underlying securities are marketable in order to achieve this target allocation. Certain plans invest solely in insurance products. The Company continuously monitors the performance of the overall pension asset portfolio, asset allocation policies, and the performance of individual pension asset managers and makes adjustments and changes, as required. The Company does not manage any assets internally, does not have any passive investments in index funds, and does not directly utilize futures, options, or other derivative instruments or hedging strategies with regard to the pension plans; however, the investment mandate of some pension asset managers allows the use of the foregoing as components of their portfolio management strategies.





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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 10: Pension and Other Post-retirement Benefit Plans (Continued)

The expected rate of return was determined by modeling the expected long-term rates of return for broad categories of investments held by the plan against a number of various potential economic scenarios.

Other changes in plan assets and benefit obligations recognized in Accumulated other comprehensive income (loss) are as follows (amounts in thousands):

|   | Pension   |          |         | Other Benefits |       |       |
|---|-----------|----------|---------|----------------|-------|-------|
|   | 2016      | 2015     | 2014    | 2016           | 2015  | 2014  |
| Current year actuarial (gain) loss  | \$(5,125) | \$12,397 | \$(190) | \$(146)        | \$118 | \$95  |
| Amortization of actuarial gain (loss)   | (698)     | (258)    | (286)   | 191            | 187   | 259   |
| Current year prior service cost   | 342       | 1,006    | 285     | —              | —     | —     |
| Amortization of prior service cost  | (60)      | (17)     | (4)     | —              | —     | —     |
| Total recognized in other comprehensive income                                      | \$(5,541) | \$13,128 | \$(195) | \$45           | \$305 | \$354 |
| Total recognized in net periodic benefit cost and other comprehensive income (loss) | \$(2,356) | \$16,028 | \$2,683 | \$(127)        | \$147 | \$118 |

Each of these changes has been factored into the following benefit payments schedule for the next ten fiscal years. The Company expects to have benefit payments in the future as follows (amounts in thousands):

|                  | Expected benefit payments |         |         |         |         |           |
|------------------|---------------------------|---------|---------|---------|---------|-----------|
|                  | 2017                      | 2018    | 2019    | 2020    | 2021    | 2021-2025 |
| Pension benefits | \$1,627                   | \$1,438 | \$1,654 | \$1,725 | \$1,699 | \$10,651  |
| Other benefits   | 83                        | 78      | 73      | 67      | 61      | 219       |
| Total            | \$1,710                   | \$1,516 | \$1,727 | \$1,792 | \$1,760 | \$10,870  |

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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 10: Pension and Other Post-retirement Benefit Plans (Continued)

The following weighted-average assumptions were used to determine the projected benefit obligation at the measurement date and the net periodic cost for the pension and post-retirement plan (amounts in thousands except percentages):

|  | Pension |   | 2015 |   | Other Benefits                                  |   | 2015  |   |
|--|---------|---|------|---|---|---|---|---|
|  | 2016    |   |      |   | 2016  |   |   |   |
| Projected benefit obligation:  |         |   |      |   |   |   |   |   |
| Discount rate  | 3.2     | % | 2.8  | % | 2.8   | % | 2.9   | % |
| Rate of compensation increase  | 3.4     | % | 3.5  | % | —   | % | —   | % |
| Health care cost trend on covered charges                                    | —       |   | —    |   | 7.0% decreasing to ultimate trend of 5% in 2021 |   | 7.0% decreasing to ultimate trend of 5% in 2019 |   |
| Net periodic benefit cost:   |         |   |      |   |   |   |   |   |
| Discount rate  | 2.8     | % | 4.6  | % | 2.9   | % | 3.4   | % |
| Rate of compensation increase  | 3.5     | % | 3.4  | % | —   | % | —   | % |
| Expected return on plan assets   | 4.0     | % | 4.9  | % | —   | % | —   | % |
| Health care cost trend on covered charges                                    | —       |   | —    |   | 7.0% decreasing to ultimate trend of 5% in 2019 |   | 7.0% decreasing to ultimate trend of 5% in 2018 |   |
| Sensitivity of retiree welfare results                                       |         |   |      |   |   |   |   |   |
| Effect of a one percentage point increase in assumed health care cost trend: |         |   |      |   |   |   |   |   |
| —On total service and interest costs components                              |         |   |      |   | \$  | — | \$  | — |
| —On post-retirement benefits obligation                                      |         |   |      |   | 6   |   | 18  |   |

Effect of a one  
percentage point  
decrease in  
assumed health care  
cost trend:

—On total service and  
interest costs  
components

—

—On post-retirement  
benefits obligation

(6 ) (17 )

The measurement date used to determine pension and post-retirement benefits is March 31.

The Company evaluated input from its third-party actuary to determine the appropriate discount rate. The determination of the discount rate is based on various factors such as the rate on bonds, term of the expected payouts, and long-term inflation factors.

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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 10: Pension and Other Post-retirement Benefit Plans (Continued)

The following table sets forth by level, within the fair value hierarchy as described in Note 1, the pension plan's assets, required to be carried at fair value on a recurring basis as of March 31, 2016 and March 31, 2015 (amounts in thousands):

|                           | Fair Value<br>March 31,<br>2016 | Fair Value<br>Measurement Level<br>Level 1 | Fair Value<br>Measurement Using<br>Level 2<br>(1) | Fair Value<br>Measurement Using<br>Level 3<br>(2) | Fair Value<br>March 31,<br>2015 | Fair Value<br>Measurement Level<br>Level 1 | Fair Value<br>Measurement Using<br>Level 2 | Fair Value<br>Measurement Using<br>Level 3 |
|---------------------------|---------------------------------|--|---|---|---------------------------------|--|--|--|
| Cash and cash equivalents | \$ 129                          | \$ 129                                     | \$ —  | \$ —  | \$ 149                          | \$ 149                                     | \$ —                                       | \$ —                                       |
| Equity securities:        |                                 |  |   |   |                                 |  |  |  |
| International equities    | 1,567                           | —  | 1,567   | —   | 3,626                           | —  | 3,626                                      | —  |
| Fixed income securities:  |                                 |  |   |   |                                 |  |  |  |
| International bonds       | 6,469                           | —  | 6,469   | —   | 6,132                           | —  | 6,132                                      | —  |
| Insurance contracts       | 611                             | —  | —   | 611   | 576                             | —  | —  | 576  |
| Diversified growth funds  | 1,492                           | —  | 1,492   | —   | —                               | —  | —  | —  |
|                           | \$ 10,268                       | \$ 129                                     | \$ 9,528  | \$ 611  | \$ 10,483                       | \$ 149                                     | \$ 9,758                                   | \$ 576                                     |

(1) Level 2 plan assets consist of pooled investment funds which are unquoted and have no restriction on redemption. Fair value was determined using daily, weekly, or monthly trading activity which derives the unit price of the pooled fund.

(2) Level 3 plan assets are invested in reinsurance contracts whose value is the sum of the actuarial reserve and the profit participation of each contract. The actuarial reserve is the sum of discounted cash flows associated with future benefits and premiums.

The table below sets forth a summary of changes in the fair value of the defined benefit pension plan's Level 3 assets for the fiscal years ended March 31, 2015 and March 31, 2016 (amounts in thousands):

|                                       |        |
|---------------------------------------|--------|
| Balance at March 31, 2014             | \$ 706 |
| Actual return on plan assets          | 39     |
| Employer contributions                | 366    |
| Settlements                           | —      |
| Benefits paid                         | (375 ) |
| Foreign currency exchange rate change | (160 ) |
| Balance at March 31, 2015             | \$ 576 |
| Actual return on plan assets          | 14     |
| Employer contributions                | 189    |
| Settlements                           | —      |
| Benefits paid                         | (202 ) |
| Foreign currency exchange rate change | 34     |
| Balance at March 31, 2016             | \$ 611 |

The Company also sponsors a deferred compensation plan for highly compensated employees. The plan is non-qualified and allows certain employees to contribute to the plan. Gains net of the Company matches related to the deferred compensation plan were \$5 thousand in fiscal year 2016, \$115 thousand in fiscal year 2015, and \$189 thousand in fiscal year 2014. Total benefits accrued under this plan were \$1.5 million and \$1.5 million at March 31, 2016 and March 31, 2015, respectively.

In addition, the Company has a defined contribution retirement plan (the "Savings Plan") in which all United States employees who meet certain eligibility requirements may participate. A participant may direct the Company to contribute amounts, based on a percentage of the participant's compensation, to the Savings Plan through the execution of salary reduction agreements. In addition, the participants may elect to make after-tax contributions. The

Company matches contributions to the Savings Plan up to 6% of the employee's salary. The Company made matching contributions of \$2.1 million, \$2.2 million and \$2.2 million in fiscal years 2016, 2015, and 2014, respectively.

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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## 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.

The major components of stock-based compensation expense are as follows (amounts in thousands):

|  | Fiscal Year Ended<br>March 31, 2016 |                     |         | Fiscal Year Ended<br>March 31, 2015 |                     |         | Fiscal Year Ended<br>March 31, 2014 |                     |         |
|--|-------------------------------------|---------------------|---------|-------------------------------------|---------------------|---------|-------------------------------------|---------------------|---------|
|  | Stock<br>Options                    | Restricted<br>Stock | LTIPs   | Stock<br>Options                    | Restricted<br>Stock | LTIPs   | Stock<br>Options                    | Restricted<br>Stock | LTIPs   |
| Cost of sales                                | \$81                                | \$ 617              | \$720   | \$233                               | \$ 269              | \$1,075 | \$421                               | \$ 62               | \$523   |
| Selling, general and administrative expenses | 78                                  | 1,352               | 1,732   | 306                                 | 787                 | 1,547   | 413                                 | 580                 | 712     |
| Research and development                     | 4                                   | 23                  | 167     | 13                                  | 3                   | 279     | 5                                   | —                   | 193     |
|  | \$163                               | \$ 1,992            | \$2,619 | \$552                               | \$ 1,059            | \$2,901 | \$839                               | \$ 642              | \$1,428 |

## Employee Stock Options

As of March 31, 2016, the 2014 Amendment and Restatement of the KEMET Corporation 2011 Omnibus Equity Incentive Plan (the "2011 Incentive Plan"), approved by the Company's stockholders in 2014, is the only plan the Company has to issue equity based awards to executives and key employees. Upon adoption of the 2011 Incentive Plan, no further awards were permitted to be granted under the Company's prior plans, including the 1992 Key Employee Stock Option Plan, the 1995 Executive Stock Option Plan, and the 2004 Long-Term Equity Incentive Plan (collectively, the "Prior Plans").

The 2011 Incentive Plan authorized the grant of up to 7.4 million shares of the Company's Common Stock, comprised of 6.6 million shares under the 2011 Incentive Plan and 0.8 million shares remaining from the Prior Plans and authorizes the Company to provide equity-based compensation in the form of:

- stock options, including incentive stock options, entitling the optionee to favorable tax treatment under Section 422 of the Code;
- stock appreciation rights;
- restricted stock and restricted stock units;
- other share-based awards; and,
- performance awards.

Options issued under these plans vest within one to three years and expire ten years from the grant date. For the stock options granted to the Company's Chief Executive Officer on January 27, 2010, 50% vested on June 30, 2014 and 50% vested on June 30, 2015.

If available, the Company issues shares of Common Stock from treasury stock upon exercise of stock options and vesting of restricted stock units. The Company has no plans to purchase additional shares in conjunction with its employee stock option plans in the near future.

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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 11: Stock-Based Compensation (Continued)

Employee stock option activity for fiscal year 2016 is as follows:

|  | Options (in thousands) | Weighted-Average Exercise Price |
|--|------------------------|---------------------------------|
| Outstanding at March 31, 2015  | 1,451                  | \$ 8.49                         |
| Granted  | —                      | —                               |
| Exercised  | —                      | —                               |
| Forfeited  | (20 )                  | 5.45                            |
| Expired  | (177 )                 | 14.96                           |
| Outstanding at March 31, 2016  | 1,254                  | 7.63                            |
| Exercisable at March 31, 2016  | 1,170                  | \$ 7.76                         |
| Remaining weighted average contractual life of options exercisable (years) |                        | 4.9                             |
| Remaining weighted average contractual life of options outstanding (years) |                        | 5.1                             |

Amounts included in the following table are in thousands, except weighted average fair value and weighted average exercise price:

|  | Fiscal Years Ended March 31, |        |        |
|--|------------------------------|--------|--------|
|  | 2016                         | 2015   | 2014   |
| Weighted average grant-date fair value of non-vested shares                            | \$2.72                       | \$2.73 | \$3.13 |
| Weighted average grant-date fair value of shares                                       |                              |        |        |
| Granted  | —                            | —      | 2.71   |
| Vested   | 2.73                         | 3.50   | 4.55   |
| Forfeited  | 2.81                         | 3.25   | 5.47   |
| Total estimated fair value of shares vested  | 548                          | 1,000  | 1,100  |
| Intrinsic value  |                              |        |        |
| Stock options exercised  | —                            | —      | 200    |
| Options outstanding  | 15                           |        |        |
| Options currently exercisable  | 15                           |        |        |
| Total unrecognized compensation cost, net of estimated forfeitures, non-vested options | 46                           |        |        |
| Weighted-average period of recognition for unrecognized compensation cost (in years)   | 0.6                          |        |        |
| Weighted average exercise price of stock options expected to vest                      | 5.89                         |        |        |

The Company measures the fair value of each employee stock option grant at the date of grant using a Black-Scholes option pricing model. This model requires the input of assumptions regarding a number of complex and subjective variables that will usually have a significant impact on the fair value estimate.

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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 11: Stock-Based Compensation (Continued)

The following table summarizes the weighted average assumptions used in the Black-Scholes valuation model to value stock option grants:

|                                    | Fiscal Years |      |       |
|------------------------------------|--------------|------|-------|
|                                    | Ended        |      |       |
|                                    | March 31,    |      |       |
|                                    | 2016         | 2015 | 2014  |
| Assumptions:                       |              |      |       |
| Expected volatility (1)            | N/A          | N/A  | 59.8% |
| Risk-free interest rate (2)        | N/A          | N/A  | 1.0 % |
| Expected option lives in years (3) | N/A          | N/A  | 4.0   |
| Dividend yield (4)                 | N/A          | N/A  | —     |

(1) Expected volatility is based on a historical volatility calculation of the Company's stock price.

(2) Risk-free rate is based on the U.S. Treasury yield with a maturity commensurate with the expected term.

(3) Expected term is based on the Company's historical option term which considers the weighted-average vesting, contractual term and vesting schedule.

(4) Dividend yield is based on a set dividend rate of 0.0% as the Company has not paid and does not anticipate paying dividends.

Stock-based compensation expense is calculated based on the number of awards that are ultimately expected to vest, and therefore has been reduced for estimated forfeitures. The Company's estimate of expected forfeitures is based on the Company's actual historical annual forfeiture rate of 2.7%. The estimated forfeiture rate, which is evaluated each balance sheet date throughout the life of the award, provides a time-based adjustment of forfeited shares. The estimated forfeiture rate is reassessed at each balance sheet date and may change based on new facts and circumstances. All option plans provide that options to purchase shares be supported by the Company's authorized but unissued common stock or treasury stock. All restricted stock and performance awards are also supported by the Company's authorized but unissued common stock or treasury stock. The prices of the options granted pursuant to these plans are not less than 100% of the value of the shares on the date of the grant.

**Performance Vesting Stock Options**

During fiscal year 2006, the Company issued 166,667 performance awards with a weighted-average exercise price of \$24.15 to the Chief Executive Officer which entitle him to receive shares of common stock if and when the stock price achieves and maintains certain thresholds. These awards are open ended until they vest and have a ten-year life after vesting or expire on the third year following retirement, whichever comes first. Effective March 4, 2010, 83,333 of these awards were voluntarily relinquished and no concurrent grant, replacement award or other valuable consideration was provided.

**Restricted Stock Units ("RSU's")**

Restricted stock unit activity for fiscal year 2016 is as follows (amounts in thousands except fair value):

|   | Shares | Weighted-<br>average<br>Fair Value<br>on<br>Grant<br>Date |
|---|--------|---|
| Non-vested restricted stock at March 31, 2015 | 1,000  | \$ 4.57   |
| Granted                                       | 748    | 2.72  |
| Vested  | (304 ) | 4.98  |
| Forfeited                                     | (14 )  | 5.31  |
| Non-vested restricted stock at March 31, 2016 | 1,430  | \$ 3.51   |



The Company grants RSU's to members of the Board of Directors, the Chief Executive Officer and a limited group of executives. In fiscal year 2016, RSU's granted to the Board of Directors vest in one year, RSU's granted to certain officers vest over 3 years and RSU's granted under the key manager stock program vest approximately 33% per year over three years. Once vested, RSU's are converted into restricted shares of common stock, except for RSU's granted to members of the Board of Directors, who can elect to defer settlement of the RSU's to a later date. Restricted shares cannot be sold until 90 days after the Chief Executive Officer, executive, key manager, or member of the Board of Directors, as applicable, resigns from his or her position, or until the KEMET employee achieves the targeted ownership under the Company's stock ownership guidelines, and

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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 11: Stock-Based Compensation (Continued)

only to the extent that such ownership exceeds the target. As of March 31, 2016 and 2015, unrecognized compensation costs related to the unvested restricted stock share based compensation arrangements granted were \$3.0 million and \$3.1 million, respectively. The expense is being recognized over the respective vesting periods.

## Long-term Incentive Plans ("LTIP")

Historically the Board of Directors of the Company has approved annual Long Term Incentive Plans which cover a two year performance period. A portion of the LTIPs awarded restricted stock units which vest over the course of three years from the anniversary of the establishment of the plan and a portion of the award is based upon the achievement of an Adjusted EBITDA range 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. 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 (for the cash portion of the LTIP) is reflected in the line item "Accrued expenses" on the Consolidated Balance Sheets and any restricted stock commitment is reflected in the line item "Additional paid-in capital" on the Consolidated Balance Sheets. The performance portion of the 2014/2015 LTIP achieved the lower range which resulted in 80 thousand shares issued in fiscal year 2016 with the remaining 73 thousand shares to be issued in fiscal year 2017 (subject to the respective participant's continued employment with KEMET). The performance portion of the 2015/2016 LTIP achieved the lower range which will result in 207 thousand shares being issued in both fiscal years 2017 and 2018 (subject to the respective participant's continued employment with KEMET). Under the performance component of the 2016/2017 LTIP the Company could issue 426 thousand shares if the two-year Adjusted EBITDA measure is achieved as of March 31, 2017 (potentially more shares could be issued if financial results exceed the two-year Adjusted EBITDA target).

The following is the time-based vesting schedule of RSU under each respective LTIP, subject to the respective participant's continued employment with KEMET (shares in thousands):

|   | 2016/2017<br>(1) | 2015/2016 | 2014/2015 | 2013/2014 |
|---|------------------|-----------|-----------|-----------|
| Time-based award vested fiscal year 2016                | —                | 124       | 139       | 90        |
| Potential time-based award vesting fiscal year 2017 (2) | 187              | 111       | 130       | —         |
| Potential time-based award vesting fiscal year 2018 (2) | 187              | 114       | —         | —         |
| Potential time-based award vesting fiscal year 2019 (2) | 193              | —         | —         | —         |

(1) Potential performance-based award assuming the target is achieved.

(2) Subject to participants' continued employment with KEMET.

In the Operating activities section of the Consolidated Statements of Cash Flows, stock-based compensation expense was treated as an adjustment to net income (loss) for fiscal years 2016, 2015 and 2014.

## Note 12: Income Taxes

The components of Income (loss) from continuing operations before income taxes and equity loss from NEC TOKIN are as follows (amounts in thousands):

|                        | Fiscal Years Ended March 31, |            |            |
|------------------------|------------------------------|------------|------------|
|                        | 2016                         | 2015       | 2014       |
| Domestic (U.S.)        | \$(38,581)                   | \$(26,238) | \$(89,529) |
| Foreign (Outside U.S.) | 7,364                        | 14,112     | 33,232     |
| Total                  | \$(31,217)                   | \$(12,126) | \$(56,297) |

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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 12: Income Taxes (Continued)

The provision (benefit) for Income tax expense is as follows (amounts in thousands):

|   | Fiscal Years Ended |          |          |
|---|--------------------|----------|----------|
|   | March 31,          |          |          |
|   | 2016               | 2015     | 2014     |
| Current:  |                    |          |          |
| Federal   | \$—                | \$—      | \$—      |
| State and local   | 95                 | (92 )    | 35       |
| Foreign   | 5,416              | 7,403    | 7,816    |
| Total current income tax expense from continuing operations | 5,511              | 7,311    | 7,851    |
| Deferred:   |                    |          |          |
| Federal   | (647 )             | 270      | (1,694 ) |
| State and local   | 172                | 39       | 406      |
| Foreign   | 970                | (2,393 ) | (5,081 ) |
| Deferred tax expense (benefit) from continuing operations   | 495                | (2,084 ) | (6,369 ) |
| Provision for income taxes                                  | \$6,006            | \$5,227  | \$1,482  |

The Company realized a deferred tax expense (benefit) for fiscal years ended 2016, 2015 and 2014 of \$1.4 million, \$(2.1) million and \$(2.7) million, respectively, in certain foreign jurisdictions based on changes in judgment about the realizability of deferred tax assets in future years.

Differences between the provision for income taxes on earnings from continuing operations and the amount computed using the U.S. Federal statutory income tax rate are as follows (amounts in thousands):

|  | Fiscal Years Ended |          |          |
|--|--------------------|----------|----------|
|  | March 31,          |          |          |
|  | 2016               | 2015     | 2014     |
| Amount computed using the statutory rate of 35%      | (10,926)           | (4,245 ) | (19,704) |
| Change in U.S. valuation allowance                   | 4,099              | (19,691) | 21,788   |
| Unremitted earnings of foreign subsidiaries          | (231 )             | 18,502   | —        |
| Effect of prior year adjustments (1)                 | (286 )             | 5,766    | (786 )   |
| Effect of business combination                       | (648 )             | —        | —        |
| Taxable foreign source income                        | 2,415              | 4,660    | 3,392    |
| Call option expiration                               | 7,381              | —        | —        |
| Other non-deductible expenses                        | 126                | 217      | 149      |
| State income taxes, net of federal taxes             | 267                | (53 )    | 441      |
| Change in foreign operations tax exposure reserves   | 998                | 1,119    | 773      |
| Change in foreign tax law                            | 981                | —        | —        |
| Change in foreign operations valuation allowance (2) | (200 )             | 1,378    | (2,733 ) |
| Other effect of foreign operations                   | 2,030              | (2,426 ) | (1,838 ) |
| Provision for income taxes                           | 6,006              | 5,227    | 1,482    |

(1) The effect of prior year adjustments is offset by a full valuation allowance resulting in no impact on the provision for income taxes.

The change in foreign operations valuation allowance excludes other comprehensive income and currency (2) translation adjustments of \$0.6 million, \$(3.4) million, and \$1.0 million for fiscal years ended 2016, 2015 and 2014, respectively which has no impact on the provision for income taxes.

The foreign jurisdictions having the greatest effect on the provision for income taxes are China and Mexico. The statutory tax rates for China and Mexico are 25% and 30%, respectively. The provision for income taxes for China and Mexico for fiscal years ended 2016, 2015 and 2014 is \$3.2 million, \$6.4 million, and \$2.2 million, respectively.



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## KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 12: Income Taxes (Continued)

The components of deferred tax assets and liabilities are as follows (amounts in thousands):

|  | March 31,  |            |
|--|------------|------------|
|  | 2016       | 2015       |
| Deferred tax assets:                                 |            |            |
| Net operating loss carry forwards                    | \$ 173,041 | \$ 162,691 |
| Sales allowances and inventory reserves              | 16,918     | 21,696     |
| Medical and employee benefits                        | 11,234     | 15,982     |
| Tax credits  | 9,840      | 10,025     |
| Stock-based compensation                             | 2,576      | 3,578      |
| Other  | 2,988      | 3,411      |
| Total deferred tax assets before valuation allowance | 216,597    | 217,383    |
| Less valuation allowance                             | (170,917 ) | (167,594 ) |
| Total deferred tax assets                            | 45,680     | 49,789     |
| Deferred tax liabilities:                            |            |            |
| Unremitted earnings of subsidiaries                  | (18,271 )  | (18,502 )  |
| Depreciation and differences in basis                | (11,718 )  | (12,166 )  |
| Amortization of intangibles and debt discounts       | (7,107 )   | (7,261 )   |
| NEC TOKIN put/call option                            | —          | (1,860 )   |
| Non-amortized intangibles                            | (2,556 )   | (2,556 )   |
| Other  | (451 )     | (54 )      |
| Total deferred tax liabilities                       | (40,103 )  | (42,399 )  |
| Net deferred tax assets                              | \$ 5,577   | \$ 7,390   |

The following table presents the annual activities included in the deferred tax valuation allowance:

|                              | Valuation<br>Allowance<br>for<br>Deferred<br>Tax<br>Assets |
|------------------------------|--|
| Balance at March 31, 2013    | \$ 169,270   |
| Charge to costs and expenses | 21,515   |
| Deductions                   | (1,509 )   |
| Balance at March 31, 2014    | 189,276  |
| Charge to costs and expenses | (19,900 )  |
| Deductions                   | (1,782 )   |
| Balance at March 31, 2015    | 167,594  |
| Charge to costs and expenses | 4,072  |
| Deductions                   | (749 )   |
| Balance at March 31, 2016    | \$ 170,917   |

In fiscal year 2016, the valuation allowance increased \$3.3 million primarily primarily due to the reversal of the deferred tax liability related to the NT Options offset by the increase in federal net operating loss carryforwards. In fiscal year 2015, the valuation allowance decreased \$21.7 million primarily from the recognition of a deferred tax liability for unremitted earnings of the Company's foreign subsidiaries and other adjustments relating to prior years, and from currency translation adjustments. In fiscal year 2014, the valuation allowance increased \$20.0 million primarily as a result of the increase in federal net operating loss carryforwards offset by a decrease in net operating loss carryforwards in certain foreign jurisdictions. Deductions in fiscal years 2016, 2015 and 2014 resulted primarily

from expiring net operating loss carryforwards and expiring tax credits in certain U.S. state and foreign jurisdictions.

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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 12: Income Taxes (Continued)

The change in net deferred income tax asset (liability) for the current year is presented below (amounts in thousands):

|   |          |
|---|----------|
| Balance at March 31, 2015                                   | \$7,390  |
| Deferred income taxes related to continuing operations      | (495 )   |
| Deferred income taxes resulting from business combination   | (648 )   |
| Deferred income taxes related to other comprehensive income | 915      |
| Foreign currency translation                                | (1,585 ) |
| Balance at March 31, 2016                                   | \$5,577  |

As of March 31, 2016 and 2015, the Company's gross deferred tax assets are reduced by a valuation allowance of \$170.9 million and \$167.6 million, respectively. A valuation allowance on U.S. deferred tax assets was determined to be necessary based on the existence of significant negative evidence such as a cumulative three-year loss of the U.S. consolidated group. The amount of future income required for the Company to realize its deferred tax assets is \$29.0 million. The realization of \$1.3 million of deferred tax assets in Italy is dependent on the sale of land and buildings in Italy.

In assessing the realizability of deferred tax assets in foreign jurisdictions, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances as of March 31, 2016. However, the amount of deferred tax assets considered realizable could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

As of March 31, 2016, the Company had U.S. federal net operating loss carryforwards of \$417.9 million. These U.S. federal net operating losses were incurred from 2004 through 2016 and are available to offset future federal taxable income, if any, through 2036. The Company had state net operating losses of \$497.7 million, of which \$3.0 million will expire in one year if unused. These state net operating losses are available to offset future state taxable income, if any, through 2036. Foreign subsidiaries, primarily in Finland, Italy, Portugal and Sweden had net operating loss carryforwards totaling \$59.6 million. The net operating losses in Portugal and Finland are available to offset future taxable income through 2027 and 2019, respectively. The net operating losses in Italy and Sweden are available indefinitely to offset future taxable income. For the U.S. federal and state jurisdictions there is a greater likelihood of not realizing the future tax benefits of these deferred tax assets, and accordingly, the Company has recorded valuation allowances related to the net deferred tax assets in these jurisdictions. For the foreign jurisdictions with net operating loss carryforwards, a valuation allowance has been recorded where the Company does not expect to fully realize the deferred tax assets in the future.

Utilization of the Company's net operating loss carryforwards may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended (the "Code") and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss and tax credit carryforwards before utilization. The issuance of the Platinum Warrant may have given rise to an "ownership change" for purposes of Section 382 of the Code. If such an ownership change were deemed to have occurred, the amount of our taxable income that could be offset by the Company's net operating loss carryovers in taxable years after the ownership change would be severely limited. While the Company believes that the issuance of the Platinum Warrant did not result in an ownership change for purposes of Section 382 of the Code, there is no assurance that the Company's view will be unchallenged. Moreover, a future exercise of part or all of the Platinum Warrant may give rise to an ownership change in the future. Blue Powder was acquired which has substantial federal net operating losses that will now be limited due to the ownership change which occurred.





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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 12: Income Taxes (Continued)

At March 31, 2016, the U.S. consolidated group of companies had the following tax credit carryforwards available (amounts in thousands):

|                             | Tax<br>Credits<br>(\$) | Fiscal Year<br>of Expiration |
|-----------------------------|------------------------|------------------------------|
| U.S. foreign tax credits    | 5,173                  | 2017                         |
| U.S. research credits       | 1,425                  | 2023                         |
| Texas franchise tax credits | 3,242                  | 2026                         |

The Company conducts business in Macedonia through a subsidiary that qualifies for a tax holiday. The tax holiday will terminate on January 1, 2023. For calendar years 2014, 2015, and 2016, the statutory rate of 10% was reduced to zero. For the fiscal year ended March 31, 2016 the Company realized no income tax benefit from the tax holiday.

At March 31, 2016, the Company makes no assertion that unremitted earnings from subsidiaries outside the United States are indefinitely reinvested. This assertion changed during fiscal year 2015 based on an analysis of cash needs in the U.S. related to a planned acquisition and current debt funding. Due to the valuation allowance in the U.S., this assertion did not result in a cash tax impact. The Company has recognized a deferred tax liability relating to its investments in subsidiaries outside the United States.

At March 31, 2016, the Company had \$7.1 million of unrecognized tax benefits. A reconciliation of gross unrecognized tax benefits (excluding interest and penalties) is as follows (amounts in thousands):

|   | Fiscal Years Ended |         |         |
|---|--------------------|---------|---------|
|   | March 31,          |         |         |
|   | 2016               | 2015    | 2014    |
| Beginning of fiscal year                        | \$6,377            | \$5,691 | \$5,395 |
| Additions for tax positions of the current year | 763                | 1,115   | 639     |
| Additions for tax positions of prior years      | —                  | —       | 19      |
| Reductions for tax positions of prior years     | —                  | (56 )   | (28 )   |
| Lapse in statute of limitations                 | (10 )              | (203 )  | —       |
| Settlements                                     | (27 )              | (170 )  | (334 )  |
| End of fiscal year                              | \$7,103            | \$6,377 | \$5,691 |

At March 31, 2016, \$2.5 million of the \$7.1 million of unrecognized income tax benefits would affect the Company's effective income tax rate, if recognized. It is reasonably possible that the total unrecognized tax benefit could decrease by \$1.8 million in fiscal year 2017 if the advanced pricing arrangement for one of the Company's foreign subsidiaries is agreed to by the foreign tax authority.

The Company files income tax returns in the U.S. and multiple foreign jurisdictions, including various state and local jurisdictions. The U.S. Internal Revenue Service concluded its examinations of the Company's U.S. federal tax returns for all tax years through 2003. Because of net operating losses, the Company's U.S. federal returns for 2003 and later years will remain subject to examination until the losses are utilized. The Company is subject to income tax examinations for the years 2008 and forward in Mexico and Portugal; and 2010 and forward in China and Italy. The Company records potential interest and penalty expenses related to unrecognized income tax benefits within its global operations in income tax expense. The Company had \$0.4 million and \$0.3 million of accrued interest and penalties respectively at March 31, 2016 and 2015, which is included as a component of income tax expense. To the extent interest and penalties are not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision.

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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 13: Derivatives

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

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 \$37.7 million in peso contracts (notional value) outstanding at March 31, 2016.

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 no yen contracts outstanding at March 31, 2016, as the yen hedge program has ended.

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 March 31, 2016, 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.

The Company records and presents the fair values of all of its derivative assets and liabilities in the Consolidated Balance Sheets on a net basis, since they are subject to master netting agreements. However, if the Company were to offset and record the asset and liability balances of its forward foreign currency exchange contracts on a gross basis, the amounts presented in the Consolidated Balance Sheets would be adjusted from the current net presentation to the gross amounts as detailed in the following table. The balance sheet classifications and fair value of derivative instruments as of March 31, 2016 and 2015 are as follows (amounts in thousands):

|                                  | Fair Value of Derivative Instruments |        |         |                |        |          |
|----------------------------------|--------------------------------------|--------|---------|----------------|--------|----------|
|                                  | March 31, 2016                       |        |         | March 31, 2015 |        |          |
|                                  | As                                   |        | As      | As             |        | As       |
| Balance Sheet Presentation       | Presented                            | Offset | Gross   | Presented      | Offset | Gross    |
|                                  | (1)                                  |        |         | (1)            |        |          |
| Prepaid and other current assets | \$—                                  | \$523  | \$523   | \$1,003        | \$—    | —\$1,003 |
| Accrued expenses                 | (367 )                               | (523 ) | (890 )  | —              | —      | —        |
|                                  | \$(367)                              | \$—    | \$(367) | \$1,003        | \$—    | —\$1,003 |

(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.

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## KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 13: Derivatives (Continued)

The impact on the Consolidated Statement of Operations for the twelve month period ended March 31, 2016 is as follows (amounts in thousands):

Impact of Foreign Exchange Contracts on  
Condensed Consolidated Statement of  
Operations

| Statement Caption                  | Twelve<br>Month<br>Period<br>Ended<br>March<br>31, 2016 |
|------------------------------------|---|
| Net Sales                          | \$(789 )  |
| Operating costs and expenses:      |   |
| Cost of sales                      | 3,199   |
| Total operating costs and expenses | 3,199   |
| Operating income (loss)            | \$(3,988)   |

Unrealized gains and losses associated with the change in value of these financial instruments are recorded in AOCI. 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.

Note 14: Supplemental Balance Sheets and Statements of Operations Detail (amounts in thousands)

|   | March 31,  |            |
|---|------------|------------|
|   | 2016       | 2015       |
| Accounts receivable:                    |            |            |
| Trade                                   | \$ 116,146 | \$ 115,504 |
| Allowance for doubtful accounts reserve | (1,002 )   | (925 )     |
| Ship-from-stock and debit reserve       | (17,362 )  | (19,360 )  |
| Returns reserves                        | (3,324 )   | (3,190 )   |
| Rebates reserves                        | (872 )     | (780 )     |
| Price protection reserves               | (418 )     | (270 )     |
| Other                                   | —          | (122 )     |
| Accounts receivable, net                | \$93,168   | \$90,857   |

The Company has agreements with distributors and certain other customers that, under certain conditions, allow for returns of overstocked inventory, provide protection against price reductions initiated by the Company and grant other sales allowances. Allowances for these commitments are included in the Consolidated Balance Sheets as reductions in trade accounts receivable. The Company adjusts sales based on historical experience.

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## KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 14: Supplemental Balance Sheets and Statements of Operations Detail (amounts in thousands) (Continued)

The following table presents the annual activities included in the allowance for these commitments:

|                            |           |
|----------------------------|-----------|
| Balance at March 31, 2013  | \$18,518  |
| Cost charged to expense    | 89,909    |
| Actual adjustments applied | (83,911 ) |
| Other                      | 144       |
| Balance at March 31, 2014  | 24,660    |
| Cost charged to expense    | 91,091    |
| Actual adjustments applied | (90,909 ) |
| Other                      | (195 )    |
| Balance at March 31, 2015  | 24,647    |
| Cost charged to expense    | 95,212    |
| Actual adjustments applied | (96,932 ) |
| Other                      | 51        |
| Balance at March 31, 2016  | \$22,978  |

|                            | March 31, |           |
|----------------------------|-----------|-----------|
|                            | 2016      | 2015      |
| Inventories:               |           |           |
| Raw materials and supplies | \$80,289  | \$83,372  |
| Work in process            | 46,631    | 52,759    |
| Finished goods             | 58,060    | 53,211    |
| Inventory gross            | 184,980   | 189,342   |
| Inventory reserves         | (16,101 ) | (17,499 ) |
| Inventory, net             | \$168,879 | \$171,843 |

The following table presents the annual activities included in the inventory reserves:

|                           |           |
|---------------------------|-----------|
| Balance at March 31, 2013 | \$18,464  |
| Costs charged to expense  | 11,846    |
| Write-offs                | (3,880 )  |
| Other                     | 396       |
| Balance at March 31, 2014 | 26,826    |
| Costs charged to expense  | 9,291     |
| Write-offs                | (17,520 ) |
| Other                     | (1,098 )  |
| Balance at March 31, 2015 | 17,499    |
| Costs charged to expense  | 5,696     |
| Write-offs                | (7,326 )  |
| Other                     | 232       |
| Balance at March 31, 2016 | \$16,101  |

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## KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 14: Supplemental Balance Sheets and Statements of Operations Detail (amounts in thousands) (Continued)

|                                    | Useful life<br>(years) | March 31,<br>2016 | 2015       |
|------------------------------------|------------------------|-------------------|------------|
| Property, plant and equipment:     |                        |                   |            |
| Land and land improvements         | 20                     | \$22,380          | \$22,017   |
| Buildings                          | 20 - 40                | 148,805           | 149,451    |
| Machinery and equipment            | 10                     | 793,250           | 798,112    |
| Furniture and fixtures             | 4 - 10                 | 69,442            | 60,903     |
| Construction in progress           |                        | 21,197            | 21,260     |
| Other                              |                        | 2,103             | 2,184      |
| Total property and equipment       |                        | 1,057,177         | 1,053,927  |
| Accumulated depreciation           |                        | (815,338 )        | (804,286 ) |
| Property, plant and equipment, net |                        | \$241,839         | \$249,641  |

|   | March 31,<br>2016 | 2015     |
|---|-------------------|----------|
| Accrued expenses:                           |                   |          |
| Salaries, wages, and related employee costs | \$20,708          | \$26,117 |
| Interest                                    | 15,683            | 15,678   |
| Restructuring                               | 946               | 6,591    |
| Vacation                                    | 7,892             | 6,286    |
| Other                                       | 5,091             | 5,784    |
| Total accrued expenses                      | \$50,320          | \$60,456 |

|                                       | March 31,<br>2016 | 2015     |
|---------------------------------------|-------------------|----------|
| Other non-current obligations:        |                   |          |
| Pension plans                         | 35,156            | 38,982   |
| Employee separation liability         | 9,352             | 10,638   |
| Deferred compensation                 | 1,544             | 1,548    |
| Long-term obligation on land purchase | —                 | 1,594    |
| Restructuring                         | 30                | 648      |
| NEC TOKIN option valuation            | 20,600            | —        |
| Long-term service contracts           | 2,343             | —        |
| Other                                 | 5,867             | 3,721    |
| Total other non-current obligations   | \$74,892          | \$57,131 |

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## KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 14: Supplemental Balance Sheets and Statements of Operations Detail (amounts in thousands) (Continued)

|   | Fiscal Years Ended |           |        |
|---|--------------------|-----------|--------|
|   | March 31,          |           |        |
|   | 2016               | 2015      | 2014   |
| Non-operating (income) expense, net:      |                    |           |        |
| Net foreign exchange (gains) losses       | (3,036 )           | (4,249 )  | (304 ) |
| Gain on early extinguishment of debt      | —                  | (1,003 )  | —      |
| Offering memorandum fees                  | —                  | 1,142     | —      |
| Other                                     | 688                | 28        | 734    |
| Total non-operating (income) expense, net | \$(2,348)          | \$(4,082) | \$430  |

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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 15: Income/Loss Per Share

Basic earnings per share calculation is based on the weighted-average number of common shares outstanding. Diluted earnings per share calculation is based on the weighted-average number of common shares outstanding adjusted by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued. Potentially dilutive shares of common stock include stock options and Platinum Warrant.

The following table presents the basic and diluted weighted-average number of shares of common stock (amounts in thousands, except per share data):

|  | Fiscal Years Ended March 31, |            |            |
|--|------------------------------|------------|------------|
|  | 2016                         | 2015       | 2014       |
| Numerator  |                              |            |            |
| Income (loss) from continuing operations   | \$(53,629)                   | \$(19,522) | \$(64,869) |
| Income (loss) from discontinued operations, net of income tax expense (benefit) of \$0, \$1,976, and \$(98), respectively  | —                            | 5,379      | (3,634 )   |
| Net income (loss)  | \$(53,629)                   | \$(14,143) | \$(68,503) |
| Denominator:   |                              |            |            |
| Weighted-average common shares outstanding:  |                              |            |            |
| Basic  | 46,004                       | 45,381     | 45,102     |
| Assumed conversion of employee stock options   | —                            | —          | —          |
| Assumed conversion of Platinum Warrant   | —                            | —          | —          |
| Weighted-average shares outstanding (diluted)  | 46,004                       | 45,381     | 45,102     |
| Net income (loss) per basic share:   |                              |            |            |
| Income (loss) from continuing operations   | \$(1.17 )                    | \$(0.43 )  | \$(1.44 )  |
| Income (loss) from discontinued operations, net of income tax expense (benefit)  | \$—                          | \$0.12     | \$(0.08 )  |
| Net income (loss)  | \$(1.17 )                    | \$(0.31 )  | \$(1.52 )  |
| Net income (loss) per diluted share:   |                              |            |            |
| Income (loss) from continuing operations   | \$(1.17 )                    | \$(0.43 )  | \$(1.44 )  |
| Income (loss) from discontinued operations, net of income tax expense (benefit)  | \$—                          | \$0.12     | \$(0.08 )  |
| Net income (loss)  | \$(1.17 )                    | \$(0.31 )  | \$(1.52 )  |
| Common stock equivalents that could potentially dilute net income per basic share in the future, but were not included in the computation of diluted earnings per share because the impact would have been antidilutive, were as follows (amounts in thousands): |                              |            |            |

|  | Fiscal Years<br>Ended<br>March 31, |       |       |
|--|------------------------------------|-------|-------|
|  | 2016                               | 2015  | 2014  |
| Assumed conversion of employee stock options | 3,329                              | 1,783 | 1,761 |
| Assumed conversion of Platinum Warrant       | 4,951                              | 6,287 | 6,704 |

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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 16: Commitments and Contingencies

The Company's leases are primarily for distribution facilities or sales offices that expire principally between 2016 and 2023. A number of leases require the Company to pay certain executory costs (taxes, insurance, and maintenance) and contain certain renewal and purchase options. Annual rental expenses for operating leases were included in results of operations and were \$7.1 million, \$7.6 million and \$9.9 million in fiscal years 2016, 2015, and 2014, respectively. Future minimum lease payments over the next five fiscal years and thereafter under non-cancellable operating leases at March 31, 2016, are as follows (amounts in thousands):

|                        | Fiscal Years Ended March 31, |       |       |      |      |            |
|------------------------|------------------------------|-------|-------|------|------|------------|
|                        | 2017                         | 2018  | 2019  | 2020 | 2021 | Thereafter |
| Minimum lease payments | 3,653                        | 2,922 | 1,909 | 628  | 496  | 1,201      |

The Company or its subsidiaries are at any one time parties to a number of lawsuits arising out of their respective operations, including workers' compensation or work place safety cases, some of which involve claims of substantial damages. Although there can be no assurance, based upon information known to the Company, the Company does not believe that any liability which might result from an adverse determination of such lawsuits would have a material adverse effect on the Company's financial condition or results of operations.

## Note 17: Quarterly Results of Operations (Unaudited)

The following table sets forth certain quarterly information for fiscal years 2016 and 2015. This information, in the opinion of the Company's management, reflects all adjustments (consisting only of normal recurring adjustments) necessary to present fairly this information when read in conjunction with the consolidated financial statements and notes thereto included elsewhere herein (amounts in thousands except per share data):

|  | Fiscal Year 2016 Quarters Ended |           |           |           |
|--|---------------------------------|-----------|-----------|-----------|
|  | Jun-30                          | Sep-30    | Dec-31    | Mar-31    |
| Net sales                                  | \$187,590                       | \$186,123 | \$177,184 | \$183,926 |
| Operating income (loss) (1)                | 1,243                           | 13,987    | 8,493     | 8,603     |
| Income (loss) from continuing operations   | (37,050 )                       | 7,194     | (8,600 )  | (15,173 ) |
| Income (loss) from discontinued operations | —                               | —         | —         | —         |
| Net income (loss)                          | (37,050 )                       | 7,194     | (8,600 )  | (15,173 ) |
| Net income (loss) per basic share:         |                                 |           |           |           |
| Loss from continuing operations            | \$(0.81 )                       | \$0.16    | \$(0.19 ) | \$(0.33 ) |
| Income (loss) from discontinued operations | \$—                             | \$—       | \$—       | \$—       |
| Net income (loss)                          | \$(0.81 )                       | \$0.16    | \$(0.19 ) | \$(0.33 ) |
| Net income (loss) per diluted share:       |                                 |           |           |           |
| Income (loss) from continuing operations   | \$(0.81 )                       | \$0.14    | \$(0.19 ) | \$(0.33 ) |
| Income (loss) from discontinued operations | \$—                             | \$—       | \$—       | \$—       |
| Net income (loss)                          | \$(0.81 )                       | \$0.14    | \$(0.19 ) | \$(0.33 ) |



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## KEMET CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Note 17: Quarterly Results of Operations (Unaudited) (Continued)

|  | Fiscal Year 2015 Quarters Ended |           |           |           |
|--|---------------------------------|-----------|-----------|-----------|
|  | Jun-30                          | Sep-30    | Dec-31    | Mar-31    |
| Net sales                                  | \$212,881                       | \$215,293 | \$201,310 | \$193,708 |
| Operating income (loss) (1)                | (606 )                          | 12,770    | 9,302     | 912       |
| Income (loss) from continuing operations   | (10,483 )                       | 7,730     | 3,078     | (19,847 ) |
| Income (loss) from discontinued operations | 6,943                           | (1,400 )  | (164 )    | —         |
| Net income (loss)                          | (3,540 )                        | 6,330     | 2,914     | (19,847 ) |
| Net income (loss) per basic share:         |                                 |           |           |           |
| Income (loss) from continuing operations   | \$(0.23 )                       | \$0.17    | \$0.07    | \$(0.44 ) |
| Income (loss) from discontinued operations | \$0.15                          | \$(0.03 ) | \$—       | \$—       |
| Net income (loss)                          | \$(0.08 )                       | \$0.14    | \$0.07    | \$(0.44 ) |
| Net income (loss) per diluted share:       |                                 |           |           |           |
| Income (loss) from continuing operations   | \$(0.23 )                       | \$0.15    | \$0.06    | \$(0.44 ) |
| Income (loss) from discontinued operations | \$0.15                          | \$(0.03 ) | \$—       | \$—       |
| Net income (loss)                          | \$(0.08 )                       | \$0.12    | \$0.06    | \$(0.44 ) |

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Operating income (loss) as a percentage of net sales fluctuates from quarter to quarter due to a number of factors, including net sales fluctuations, foreign currency exchange, restructuring charges, product mix, the timing and (1) expense of moving product lines to lower-cost locations, the write-down of long lived assets, the net gain/loss on sales and disposals of assets and the relative mix of sales among distributors, original equipment manufacturers, and electronic manufacturing service providers.

## Note 18: Condensed Consolidating Financial Statements

As discussed in Note 2, "Debt", the Company's 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 the Company's foreign restricted subsidiaries ("Non-Guarantor Subsidiaries"). The Company's Guarantor Subsidiaries are not consistent with the Company's business groups or geographic operations; accordingly, this basis of presentation is not intended to present the Company's financial condition, results of operations or cash flows for any purpose other than to comply with the specific requirements for subsidiary guarantor reporting. We are required to present condensed consolidating financial information in order for the Guarantor Subsidiaries 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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## KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 18: Condensed Consolidating Financial Statements (Continued)

## Condensed Consolidating Balance Sheet

March 31, 2016

|   | Parent    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Reclassifications<br>and<br>Eliminations | Consolidated |
|---|-----------|---------------------------|-------------------------------|--|--------------|
| <b>ASSETS</b>                               |           |                           |                               |  |              |
| Current assets:                             |           |                           |                               |  |              |
| Cash and cash equivalents                   | \$640     | \$ 36,209                 | \$ 28,155                     | \$ —                                     | \$ 65,004    |
| Accounts receivable, net                    | —         | 41,025                    | 52,143                        | —  | 93,168       |
| Intercompany receivable                     | 30,210    | 132,523                   | 170,224                       | (332,957)                                | —            |
| Inventories, net                            | —         | 113,289                   | 55,590                        | —  | 168,879      |
| Prepaid expenses and other                  | 3,325     | 12,161                    | 12,974                        | (2,964)                                  | 25,496       |
| Total current assets                        | 34,175    | 335,207                   | 319,086                       | (335,921)                                | 352,547      |
| Property and equipment, net                 | 255       | 93,936                    | 147,648                       | —  | 241,839      |
| Investments in NEC TOKIN                    | —         | 20,334                    | —                             | —  | 20,334       |
| Investments in subsidiaries                 | 382,108   | 429,723                   | 93,359                        | (905,190)                                | —            |
| Goodwill                                    | —         | 40,294                    | —                             | —  | 40,294       |
| Intangible assets, net                      | —         | 27,252                    | 6,049                         | —  | 33,301       |
| Deferred income taxes                       | —         | 800                       | 7,597                         | —  | 8,397        |
| Other assets                                | 2,764     | 2,452                     | 616                           | —  | 5,832        |
| Long-term intercompany receivable           | 67,500    | 41,428                    | 1,088                         | (110,016)                                | —            |
| Total assets                                | \$486,802 | \$ 991,426                | \$ 575,443                    | \$ (1,351,127)                           | \$ 702,544   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |           |                           |                               |  |              |
| Current liabilities:                        |           |                           |                               |  |              |
| Current portion of long-term debt           | \$2,000   | \$ —                      | \$ —                          | \$ —                                     | \$ 2,000     |
| Accounts payable, trade                     | 20        | 34,618                    | 36,343                        | —  | 70,981       |
| Intercompany payable                        | 280       | 275,498                   | 57,179                        | (332,957)                                | —            |
| Accrued expenses                            | 17,305    | 11,807                    | 21,208                        | —  | 50,320       |
| Income taxes payable                        | —         | 2,983                     | 434                           | (2,964)                                  | 453          |
| Total current liabilities                   | 19,605    | 324,906                   | 115,164                       | (335,921)                                | 123,754      |
| Long-term debt, less current portion        | 354,716   | 19,881                    | 14,000                        | —  | 388,597      |
| Other non-current obligations               | —         | 25,797                    | 49,095                        | —  | 74,892       |
| Deferred income taxes                       | —         | 2,242                     | 578                           | —  | 2,820        |
| Long-term intercompany payable              | —         | 67,500                    | 42,516                        | (110,016)                                | —            |
| Stockholders' equity                        | 112,481   | 551,100                   | 354,090                       | (905,190)                                | 112,481      |
| Total liabilities and stockholders' equity  | \$486,802 | \$ 991,426                | \$ 575,443                    | \$ (1,351,127)                           | \$ 702,544   |

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## KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 18: Condensed Consolidating Financial Statements (Continued)

## Condensed Consolidating Balance Sheet

March 31, 2015

|   | Parent     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Reclassifications<br>and<br>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       |
| Total current assets                        | 325,064    | 612,541                   | 346,254                       | (923,294 )                               | 360,565      |
| Property and equipment, net                 | 293        | 100,844                   | 148,504                       | —  | 249,641      |
| Investment in NEC TOKIN                     | —          | 45,016                    | —                             | —  | 45,016       |
| Investment in subsidiaries                  | 401,062    | 423,737                   | 93,359                        | (918,158 )                               | —            |
| Goodwill                                    | —          | 35,584                    | —                             | —  | 35,584       |
| Intangible assets, net                      | —          | 26,998                    | 6,284                         | —  | 33,282       |
| Restricted cash                             | —          | —                         | —                             | —  | —            |
| Deferred income taxes                       | —          | 971                       | 8,803                         | —  | 9,774        |
| 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 | \$ 1,292,666              | \$ 605,211                    | \$ (1,945,479 )                          | \$ 746,693   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |            |                           |                               |  |              |
| Current liabilities:                        |            |                           |                               |  |              |
| Current portion of long-term debt           | \$ —       | \$ 500                    | \$ 462                        | \$ —                                     | \$ 962       |
| Accounts payable, trade                     | 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                        | —          | 2,928                     | 942                           | (2,986 )                                 | 884          |
| Total current liabilities                   | 272,152    | 634,955                   | 148,274                       | (923,294 )                               | 132,087      |
| 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                       | —          | 2,241                     | 143                           | —  | 2,384        |
| Long-term intercompany payable              | —          | 63,789                    | 40,238                        | (104,027 )                               | —            |
| Stockholders' equity                        | 164,682    | 567,746                   | 350,412                       | (918,158 )                               | 164,682      |
| Total liabilities and stockholders' equity  | \$ 794,295 | \$ 1,292,666              | \$ 605,211                    | \$ (1,945,479 )                          | \$ 746,693   |

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## KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 18: Condensed Consolidating Financial Statements (Continued)

## Condensed Consolidating Statements of Operations

Fiscal Year Ended March 31, 2016

|  | Parent     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Reclassifications<br>and<br>Eliminations | Consolidated |
|--|------------|---------------------------|-------------------------------|--|--------------|
| Net sales  | \$—        | \$ 866,163                | \$ 703,690                    | \$ (835,030 )                            | \$ 734,823   |
| Operating costs and expenses:  |            |                           |                               |  |              |
| Cost of sales  | 1,194      | 708,143                   | 642,362                       | (780,156 )                               | 571,543      |
| Selling, general and administrative expenses   | 38,071     | 74,521                    | 43,728                        | (54,874 )                                | 101,446      |
| Research and development   | 79         | 17,313                    | 7,563                         | —  | 24,955       |
| Restructuring charges  | —          | 2,564                     | 1,614                         | —  | 4,178        |
| Net (gain) loss on sales and disposals of assets   | (7 )       | (484 )                    | 866                           | —  | 375          |
| Total operating costs and expenses   | 39,337     | 802,057                   | 696,133                       | (835,030 )                               | 702,497      |
| Operating income (loss)  | (39,337 )  | 64,106                    | 7,557                         | —  | 32,326       |
| Other (income) expense:  |            |                           |                               |  |              |
| Interest income  | —          | —                         | (14 )                         | —  | (14 )        |
| Interest expense   | 37,856     | 1,189                     | 560                           | —  | 39,605       |
| Change in value of NEC TOKIN options   | —          | 26,300                    | —                             | —  | 26,300       |
| Non-operating (income) expense, net  | (36,183 )  | 34,188                    | (353 )                        | —  | (2,348 )     |
| Equity in earnings of subsidiaries   | 12,619     | —                         | —                             | (12,619 )                                | —            |
| Income (loss) from continuing operations before<br>income taxes and equity income (loss) from<br>NEC TOKIN | (53,629 )  | 2,429                     | 7,364                         | 12,619                                   | (31,217 )    |
| Income tax expense (benefit)   | —          | (269 )                    | 6,275                         | —  | 6,006        |
| Income (loss) from continuing operations before<br>equity income (loss) from NEC TOKIN                     | (53,629 )  | 2,698                     | 1,089                         | 12,619                                   | (37,223 )    |
| Equity income (loss) from NEC TOKIN  | —          | (16,406 )                 | —                             | —  | (16,406 )    |
| Income (loss) from continuing operations   | (53,629 )  | (13,708 )                 | 1,089                         | 12,619                                   | (53,629 )    |
| Income (loss) from discontinued operations   | —          | —                         | —                             | —  | —            |
| Net income (loss)  | \$(53,629) | \$(13,708)                | \$ 1,089                      | \$ 12,619                                | \$(53,629)   |
| Condensed Consolidating Statements of Comprehensive Income (Loss)  |            |                           |                               |  |              |
| Fiscal Year Ended March 31, 2016   |            |                           |                               |  |              |
| Other comprehensive income (loss)  | \$(49,918) | \$(24,832)                | \$5,873                       | \$12,619                                 | \$(56,258)   |

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## KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 18: Condensed Consolidating Financial Statements (Continued)

## Condensed Consolidating Statements of Operations

Fiscal Year Ended March 31, 2015

|  | Parent     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Reclassifications<br>and<br>Eliminations | Consolidated |
|--|------------|---------------------------|-------------------------------|--|--------------|
| Net sales  | \$ 195     | \$ 978,705                | \$ 773,504                    | \$ (929,212 )                            | \$ 823,192   |
| Operating costs and expenses:  |            |                           |                               |  |              |
| Cost of sales  | 2,468      | 823,429                   | 707,493                       | (869,707 )                               | 663,683      |
| Selling, general and administrative expenses   | 41,783     | 70,074                    | 46,181                        | (59,505 )                                | 98,533       |
| Research and development   | 436        | 17,588                    | 7,778                         | —  | 25,802       |
| Restructuring charges  | —          | 3,310                     | 9,707                         | —  | 13,017       |
| Net (gain) loss on sales and disposals of assets   | (10 )      | 181                       | (392 )                        | —  | (221 )       |
| Total operating costs and expenses   | 44,677     | 914,582                   | 770,767                       | (929,212 )                               | 800,814      |
| Operating income (loss)  | (44,482 )  | 64,123                    | 2,737                         | —  | 22,378       |
| Other (income) expense:  |            |                           |                               |  |              |
| Interest income  | —          | —                         | (15 )                         | —  | (15 )        |
| Interest expense   | 38,632     | 998                       | 1,071                         | —  | 40,701       |
| Change in value of NEC TOKIN options   | —          | (2,100 )                  | —                             | —  | (2,100 )     |
| Non-operating (income) expense, net  | (40,903 )  | 49,069                    | (12,248 )                     | —  | (4,082 )     |
| Equity in earnings of subsidiaries   | (27,998 )  | —                         | —                             | 27,998                                   | —            |
| Income (loss) from continuing operations before<br>income taxes and equity income (loss) from<br>NEC TOKIN | (14,213 )  | 16,156                    | 13,929                        | (27,998 )                                | (12,126 )    |
| Income tax expense (benefit)   | (70 )      | 576                       | 4,721                         | —  | 5,227        |
| Income (loss) from continuing operations before<br>equity income (loss) from NEC TOKIN                     | (14,143 )  | 15,580                    | 9,208                         | (27,998 )                                | (17,353 )    |
| Equity income (loss) from NEC TOKIN  | —          | (2,169 )                  | —                             | —  | (2,169 )     |
| Income (loss) from continuing operations   | (14,143 )  | 13,411                    | 9,208                         | (27,998 )                                | (19,522 )    |
| Income (loss) from discontinued operations   | —          | 102                       | 5,277                         | —  | 5,379        |
| Net income (loss)  | \$(14,143) | \$ 13,513                 | \$ 14,485                     | \$ (27,998 )                             | \$(14,143 )  |
| Condensed Consolidating Statements of Comprehensive Income (Loss)  |            |                           |                               |  |              |
| Fiscal Year Ended March 31, 2015   |            |                           |                               |  |              |
| Comprehensive income (loss)  | \$(32,103) | \$ 19,650                 | \$(20,672)                    | \$(27,998)                               | \$(61,123)   |

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## KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 18: Condensed Consolidating Financial Statements (Continued)

## Condensed Consolidating Statements of Operations

Fiscal Year Ended March 31, 2014

|  | Parent     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Reclassifications<br>and<br>Eliminations | Consolidated |
|--|------------|---------------------------|-------------------------------|--|--------------|
| Net sales  | \$218      | \$966,369                 | \$817,945                     | \$(950,866)                              | \$833,666    |
| Operating costs and expenses:  |            |                           |                               |  |              |
| Cost of sales  | 1,336      | 878,308                   | 729,105                       | (895,824)                                | 712,925      |
| Selling, general and administrative expenses   | 41,359     | 61,896                    | 47,643                        | (55,042)                                 | 95,856       |
| Research and development   | 229        | 16,849                    | 7,388                         | —  | 24,466       |
| Restructuring charges  | —          | 2,858                     | 11,264                        | —  | 14,122       |
| Write down of long-lived assets  | —          | 1,118                     | 3,358                         | —  | 4,476        |
| Net (gain) loss on sales and disposals of assets   | —          | (625)                     | 657                           | —  | 32           |
| Net (gain) loss on intercompany asset transfer   | —          | 14,564                    | (14,564)                      | —  | —            |
| Total operating costs and expenses   | 42,924     | 974,968                   | 784,851                       | (950,866)                                | 851,877      |
| Operating income (loss)  | (42,706)   | (8,599)                   | 33,094                        | —  | (18,211)     |
| Other (income) expense:  |            |                           |                               |  |              |
| Interest income  | (12)       | (4)                       | (179)                         | —  | (195)        |
| Interest expense   | 40,069     | 1,130                     | (237)                         | —  | 40,962       |
| Change in value of NEC TOKIN options   | —          | (3,111)                   | —                             | —  | (3,111)      |
| Other (income) expense, net  | (40,642)   | 39,852                    | 1,220                         | —  | 430          |
| Equity in earnings of subsidiaries   | 26,332     | —                         | —                             | (26,332)                                 | —            |
| Income (loss) from continuing operations before<br>income taxes and equity income (loss) from<br>NEC TOKIN | (68,453)   | (46,466)                  | 32,290                        | 26,332                                   | (56,297)     |
| Income tax expense (benefit)   | —          | (1,302)                   | 2,784                         | —  | 1,482        |
| Income (loss) from continuing operations before<br>equity income (loss) from NEC TOKIN                     | (68,453)   | (45,164)                  | 29,506                        | 26,332                                   | (57,779)     |
| Equity income (loss) from NEC TOKIN  | —          | (7,090)                   | —                             | —  | (7,090)      |
| Income (loss) from continuing operations   | (68,453)   | (52,254)                  | 29,506                        | 26,332                                   | (64,869)     |
| Income (loss) from discontinued operations   | (50)       | (1,195)                   | (2,389)                       | —  | (3,634)      |
| Net income (loss)  | \$(68,503) | \$(53,449)                | \$27,117                      | \$26,332                                 | \$(68,503)   |
| Condensed Consolidating Statements of Comprehensive Income (Loss)  |            |                           |                               |  |              |
| Fiscal Year Ended March 31, 2014   |            |                           |                               |  |              |
| Comprehensive income (loss)  | \$(62,676) | \$(57,309)                | \$35,640                      | \$26,332                                 | \$(58,013)   |

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## KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 18: Condensed Consolidating Financial Statements (Continued)

## Condensed Consolidating Statements of Cash Flows

Fiscal Year Ended March 31, 2016

|   | Parent   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Reclassifications<br>and<br>Eliminations | Consolidated |
|---|----------|---------------------------|-------------------------------|--|--------------|
| Sources (uses) of cash and cash equivalents           |          |                           |                               |  |              |
| Net cash provided by (used in) operating activities   | \$3,722  | \$ 15,107                 | \$ 13,536                     | \$                                       | —\$ 32,365   |
| Investing activities:                                 |          |                           |                               |  |              |
| Capital expenditures                                  | —        | (9,550 )                  | (10,919 )                     | —  | (20,469 )    |
| Change in restricted cash                             | —        | 1,802                     | —                             | —  | 1,802        |
| Proceeds from sale of assets                          | —        | 248                       | 723                           | —  | 971          |
| Acquisitions, net of cash received                    | —        | (2,892 )                  | —                             | —  | (2,892 )     |
| Net cash provided by (used in) investing activities   | —        | (10,392 )                 | (10,196 )                     | —  | (20,588 )    |
| Financing activities:                                 |          |                           |                               |  |              |
| Proceeds from revolving line of credit                | —        | 8,000                     | 2,000                         | —  | 10,000       |
| Payments of revolving line of credit                  | —        | (9,600 )                  | —                             | —  | (9,600 )     |
| Deferred acquisition payments                         | (3,000 ) | —                         | —                             | —  | (3,000 )     |
| Payments of long-term debt                            | —        | —                         | (481 )                        | —  | (481 )       |
| Proceeds from exercise of stock options               | —        | —                         | —                             | —  | —            |
| Purchase of treasury stock                            | (722 )   | —                         | —                             | —  | (722 )       |
| Net cash provided by (used in) financing activities   | (3,722 ) | (1,600 )                  | 1,519                         | —  | (3,803 )     |
| Net increase (decrease) in cash and cash equivalents  | —        | 3,115                     | 4,859                         | —  | 7,974        |
| Effect of foreign currency fluctuations on cash       | —        | —                         | 668                           | —  | 668          |
| Cash and cash equivalents at beginning of fiscal year | 640      | 33,094                    | 22,628                        | —  | 56,362       |
| Cash and cash equivalents at end of fiscal year       | \$640    | \$ 36,209                 | \$ 28,155                     | \$                                       | —\$ 65,004   |

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## KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 18: Condensed Consolidating Financial Statements (Continued)

## Condensed Consolidating Statements of Cash Flows

Fiscal Year Ended March 31, 2015

|   | Parent    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Reclassifications<br>and<br>Eliminations | Consolidated |
|---|-----------|---------------------------|-------------------------------|--|--------------|
| Sources (uses) of cash and cash equivalents           |           |                           |                               |  |              |
| Net cash provided by (used in) operating activities   | \$39,575  | \$ (4,085 )               | \$ (11,088 )                  | \$                                       | —\$ 24,402   |
| Investing activities:                                 |           |                           |                               |  |              |
| Capital expenditures                                  | —         | (12,930 )                 | (9,302 )                      | —  | (22,232 )    |
| Change in restricted cash                             | —         | 11,509                    | —                             | —  | 11,509       |
| Proceeds from sale of assets                          | —         | 2,403                     | 2,385                         | —  | 4,788        |
| Proceeds from sale of discontinued operations         | —         | —                         | 9,564                         | —  | 9,564        |
| Net cash provided by (used in) investing activities   | —         | 982                       | 2,647                         | —  | 3,629        |
| Financing activities:                                 |           |                           |                               |  |              |
| Proceeds from revolving line of credit                | —         | 37,340                    | 5,000                         | —  | 42,340       |
| Payments on revolving line of credit                  | —         | (22,342 )                 | (5,000 )                      | —  | (27,342 )    |
| Deferred acquisition payments                         | (18,527 ) | (1,000 )                  | —                             | —  | (19,527 )    |
| Payments of long-term debt                            | (20,417 ) | —                         | (1,316 )                      | —  | (21,733 )    |
| Proceeds from exercise of stock options               | 24        | —                         | —                             | —  | 24           |
| Purchase of treasury stock                            | (630 )    | —                         | —                             | —  | (630 )       |
| Net cash provided by (used in) financing activities   | (39,550 ) | 13,998                    | (1,316 )                      | —  | (26,868 )    |
| Net increase (decrease) in cash and cash equivalents  | 25        | 10,895                    | (9,757 )                      | —  | 1,163        |
| Effect of foreign currency fluctuations on cash       | (1 )      | (1 )                      | (2,728 )                      | —  | (2,730 )     |
| Cash and cash equivalents at beginning of fiscal year | 616       | 22,200                    | 35,113                        | —  | 57,929       |
| Cash and cash equivalents at end of fiscal year       | \$640     | \$ 33,094                 | \$ 22,628                     | \$                                       | —\$ 56,362   |



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## KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 18: Condensed Consolidating Financial Statements (Continued)

## Condensed Consolidating Statements of Cash Flows

Fiscal Year Ended March 31, 2014

|   | Parent   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Reclassifications<br>and<br>Eliminations | Consolidated |
|---|----------|---------------------------|-------------------------------|--|--------------|
| Sources (uses) of cash and cash equivalents           |          |                           |                               |  |              |
| Net cash provided by (used in) operating activities   | \$7,724  | \$ (26,984 )              | \$ 12,514                     | \$                                       | —\$ (6,746 ) |
| Investing activities:                                 |          |                           |                               |  |              |
| Capital expenditures                                  | —        | (13,348 )                 | (18,799 )                     | —  | (32,147 )    |
| Change in restricted cash                             | —        | 4,047                     | —                             | —  | 4,047        |
| Proceeds from sale of assets                          | —        | 996                       | 1,851                         | —  | 2,847        |
| Net cash provided by (used in) investing activities   | —        | (8,305 )                  | (16,948 )                     | —  | (25,253 )    |
| Financing activities:                                 |          |                           |                               |  |              |
| Proceeds from revolving line of credit                | —        | 9,000                     | 12,000                        | —  | 21,000       |
| Payments on revolving line of credit                  | —        | (2,551 )                  | —                             | —  | (2,551 )     |
| Deferred acquisition payments                         | (20,977) | (1,000 )                  | —                             | —  | (21,977 )    |
| Payments of long-term debt                            | (3,583 ) | (16 )                     | —                             | —  | (3,599 )     |
| Proceeds from exercise of stock options               | 250      | —                         | —                             | —  | 250          |
| Net cash provided by (used in) financing activities   | (24,310) | 5,433                     | 12,000                        | —  | (6,877 )     |
| Net increase (decrease) in cash and cash equivalents  | (16,586) | (29,856 )                 | 7,566                         | —  | (38,876 )    |
| Effect of foreign currency fluctuations on cash       | —        | —                         | 827                           | —  | 827          |
| Cash and cash equivalents at beginning of fiscal year | 17,202   | 52,056                    | 26,720                        | —  | 95,978       |
| Cash and cash equivalents at end of fiscal year       | \$616    | \$ 22,200                 | \$ 35,113                     | \$                                       | —\$ 57,929   |

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

KEMET CORPORATION  
(Registrant)

Date: May 24, 2016 /s/ WILLIAM M. LOWE, JR.  
William M. Lowe, Jr.  
Executive Vice President and Chief Financial Officer

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: May 24, 2016 /s/ PER-OLOF LÖÖF  
Per-Olof Lööf  
Chief Executive Officer and Director (Principal Executive Officer)

Date: May 24, 2016 /s/ WILLIAM M. LOWE, JR.  
William M. Lowe, Jr.  
Executive Vice President and Chief Financial Officer (Principal Accounting and Financial Officer)

Date: May 24, 2016  
Frank G. Brandenburg  
Chairman and Director

Date: May 24, 2016 /s/ DR. WILFRIED BACKES  
Dr. Wilfried Backes  
Director

Date: May 24, 2016 /s/ GURMINDER S. BEDI  
Gurminder S. Bedi  
Director

Date: May 24, 2016 /s/ JOSEPH V. BORRUSO  
Joseph V. Borruso  
Director

Date: May 24, 2016 /s/ JACOB KOZUBEI  
Jacob Kozubei  
Director

Date: May 24, 2016 /s/ E. ERWIN MADDREY, II  
E. Erwin Maddrey, II  
Director

Date: May 24, 2016 /s/ ROBERT G. PAUL

Robert G. Paul  
Director