KEMET CORP
Form 10-K
May 25, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended March 31, 2010

Or

o **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: 0-20289

KEMET Corporation

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**57-0923789** (I.R.S. Employer Identification No.)
2835 Kemet Way, Simpsonville, South Carolina (Address of principal executive offices)	**29681** (Zip Code)

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

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

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, par value $0.01**

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

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 o No ý

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 332.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark 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. ý

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

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

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

Aggregate market value of voting common stock held by non-affiliates of the registrant as of September 30, 2009, computed by reference to the closing sale price of the registrant's common stock was approximately $122,419,962

Number of shares of each class of common stock outstanding as of May 24, 2010: common stock, $0.01 par value, 81,135,009.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement to be delivered to stockholders in connection with the Annual Meeting of Shareholders to be held July 28, 2010 are incorporated by reference in Part III and Part IV of this report.

PART I

ITEM 1. BUSINESS

General

KEMET Corporation is a leading global manufacturer of a wide variety of capacitors. Our product offerings include tantalum, multilayer ceramic, solid and electrolytic aluminum, film and paper capacitors. Capacitors are fundamental components of most electronic circuits and are found in communication systems, data processing equipment, personal computers, cellular phones, automotive electronic systems, defense and aerospace systems, consumer electronics, power management systems and many other electronic devices and systems. Capacitors are typically used to filter out interference, smooth the output of power supplies, block the flow of direct current while allowing alternating current to pass and for many other purposes. We manufacture a broad line of capacitors in many different sizes and configurations using a variety of raw materials. Our product line consists of nearly 250,000 distinct part configurations distinguished by various attributes, such as dielectric (or insulating) material, configuration, encapsulation, capacitance level and tolerance, performance characteristics and packaging. Most of our customers have multiple capacitance requirements, often within each of their products. Our broad offering allows us to meet the majority of those needs independent of application and end use. In fiscal year 2010, we shipped approximately 31 billion capacitors and in fiscal year 2009, we shipped approximately 32 billion capacitors. We believe the medium-to-long term demand for the various types of capacitors offered by us will grow on a regional and global basis due to a variety of factors, including increasing demand for and complexity of electronics products, growing demand for technology in emerging markets and the ongoing development of new solutions for energy generation and conservation. As used in this report, the terms "we", "us", "our", "KEMET" and the "Company" refer to KEMET Corporation and its predecessors, subsidiaries and affiliates, unless the context indicates otherwise. For the fiscal year ended March 31, 2010 ("fiscal year 2010"), KEMET generated net sales of $736.3 million, down 8.5% from $804.4 million for the fiscal year 2009 ("fiscal year 2009").

KEMET's business strategy is to be the preferred capacitor supplier to the world's most successful electronics original equipment manufacturers, electronics manufacturing services providers, and electronics distributors. Our customers are global in nature and include leaders in both the design and manufacture of electronic devices and equipment. Our primary channel for servicing these customers is a direct, salaried sales force strategically located around the world.

Background of Company

KEMET's operations began in 1919 as a business of Union Carbide Corporation ("Union Carbide") to manufacture component parts for vacuum tubes. In the 1950s, Bell Laboratories invented solid-state transistors along with tantalum capacitors and other passive components necessary for their operation. As vacuum tubes were gradually replaced by transistors, we changed our manufacturing focus from vacuum tube parts to tantalum capacitors. We entered the market for tantalum capacitors in 1958 as one of approximately 25 United States manufacturers. By 1966, we were the United States' market leader in tantalum capacitors. In 1969, we began production of ceramic capacitors as one of approximately 35 United States manufacturers, and opened our first manufacturing facility in Mexico. In 2003, we expanded operations into Asia, opening our first facility in Suzhou, China. In fiscal year 2007, we acquired the tantalum business unit of EPCOS AG. In fiscal year 2008, we acquired Evox Rifa Group Oyj ("Evox Rifa") and Arcotronics Italia S.p.A. ("Arcotronics") and, as a result, entered into the markets for film, electrolytic and paper capacitors. We are organized into three segments: the Tantalum Business Group ("Tantalum"), the Ceramic Business Group ("Ceramic") and the Film and Electrolytic Business Group ("Film and Electrolytic").

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

Recent Developments

Net sales for the quarter ended March 31, 2010 were $213.0 million, which is a 56.6% increase over the same quarter last fiscal year and a 6.5% increase over the prior fiscal quarter ended December 31, 2009. Net income was $0.3 million, or $0.00 per share for the fourth quarter of fiscal year 2010 compared to net income of $2.4 million or $0.03 per share for the same quarter last year and compared to net loss of $1.8 million or $(0.02) per share for the prior fiscal quarter ended December 31, 2009.

On April 8, 2010, we reported that we reached an agreement with three labor unions in Italy and with the regional government in Emilia Romagna, Italy to proceed with our planned restructuring process. The Company intends to focus on producing specialty products in Europe and the U.S. and shift standard and commodity production to lower cost regions.

In December 2009, in an effort consistent with our cost reduction measures, we plan to relocate our Amsterdam Hub facility from the Netherlands to the Czech Republic, effective July 2010. We expect this relocation to allow shipping lane optimization and customer consolidation (bi-weekly or weekly) for all import shipments. Our European manufacturing plants will continue to ship direct to 'local' customers (i.e. customers located in the same country as the plant).

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

The private placement of the 10.5% Senior Notes resulted in proceeds to the Company of $222.2 million. We used a portion of the proceeds of the private placement to repay all of its outstanding indebtedness under our credit facility with K Financing, LLC. Our €60 million credit facility and €35 million credit facility with UniCredit Corporate Banking S.p.A. ("UniCredit") and our term loan with Vishay Intertechnology, Inc. ("Vishay") and we used a portion of the remaining proceeds to fund a previously announced tender offer to purchase $40.5 million in aggregate principal amount of our 2.25% Convertible Notes due 2026 (the "Convertible Notes") and to pay the costs incurred in connection with the private placement, the tender offer and the foregoing repayments. We incurred approximately $6.4 million in costs related to the execution of the offering, these costs are capitalized and will be amortized over the term of the 10.5% Senior Notes.

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

The terms of the 10.5% Senior Notes Indenture will, among other things, limit our ability and the ability of our restricted subsidiaries to (i) incur additional indebtedness or issue certain preferred stock;

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

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

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

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

On May 17, 2010, we consummated a tender offer to purchase $40.5 million in aggregate principal amount of our Convertible Notes. We used $37.9 million from the bond offering discussed above to extinguish the tendered notes. We incurred approximately $0.2 million in costs related to the execution of this tender offer; these costs will be included in the loss on extinguishment.

Registration Rights Agreement

On May 5, 2010, in connection with the private placement of the 10.5% Senior Notes, the Company, the Guarantors and the initial purchasers of the 10.5% Senior Notes entered into a Registration Rights Agreement (the "Registration Rights Agreement"). The terms of the Registration Rights Agreement require the Company and the Guarantors to (i) use their commercially reasonable efforts to file with the Securities and Exchange Commission within 210 days after the date of the initial issuance of the 10.5% Senior Notes, a registration statement with respect to an offer to exchange the 10.5% Senior Notes for a new issue of debt securities registered under the Securities Act, with terms substantially identical to those of the 10.5% Senior Notes (except for provisions relating to the transfer restrictions and payment of additional interest); (ii) use our commercially reasonable efforts to consummate such exchange offer within 270 days after the date of the initial issuance of the 10.5% Senior Notes; and (iii) in certain circumstances, file a shelf registration statement for the resale of the

10.5% Senior Notes. If the Company and the Guarantors fail to satisfy our registration obligations under the Registration Rights Agreement, then we will be required to pay additional interest to the holders of the 10.5% Senior Notes, up to a maximum additional interest rate of 1.0% per annum.

The foregoing description of the 10.5% Senior Notes Indenture and the Registration Rights Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the 10.5% Senior Notes Indenture and Registration Rights Agreement.

The Capacitor Industry

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

Within the capacitor market there exists several types of capacitor technologies, the largest segments of which include ceramic, tantalum, aluminum and film and paper. Ceramic and tantalum capacitors are commonly used in conjunction with integrated circuits and the same circuit may, and frequently does, contain both ceramic and tantalum capacitors. Tantalum is a chemical element and popular in capacitors because of its ability to put high capacitance in a small volume. Generally, ceramic capacitors are more cost-effective at lower capacitance values, and tantalum capacitors are more cost-effective at higher capacitance values. Solid aluminum capacitors can be more effective in special applications. Film, paper and electrolytic capacitors can also 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.

The capacitor industry represents a large and growing market. According to an industry report, the global capacitor market was approximately $17.5 billion in fiscal year 2008. Although the recent economic downturn has resulted in reduced sales volume, according to the an industry report, the global capacitor market is expected to gradually improve and by fiscal year 2013 achieve a sales volume similar to that achieved in fiscal year 2008. This report also estimates that from fiscal years 2008 to 2013, the industry will see a total increase in unit volume demand of 21% (1.4 trillion pieces growing to 1.7 trillion pieces), representing a compound annual growth rate of 4.6%. This is in comparison to a unit volume compound annual growth rate of 13% from fiscal year 2003 through fiscal year 2008. The tantalum, ceramic, aluminum and paper and film capacitor markets were estimated at $2.2 billion, $8.3 billion, $3.9 billion and $2.6 billion in fiscal year 2008, respectively.

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

- the development of new products and applications, such as global positioning devices, alternative and renewable energy systems, hybrid transportation systems and electronic controls for engines and industrial machinery, smart phones and mobile personal computers;
- 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.

Capacitors

Capacitors are electronic components consisting of conducting materials separated by a dielectric, or insulating material, which allows a capacitor to act as a filtering or an energy storage/delivery device. We manufacture a full line of capacitors, including tantalum, multilayer ceramic, film, paper, and aluminum (both wet electrolytic and solid polymer). We manufacture these types of capacitors in many different sizes and configurations. These configurations include surface-mount capacitors, which are attached directly to the circuit board without lead wires, leaded capacitors, which are attached to the circuit board using lead wires, and other attachment methods such as screw terminal and snap-in.

The choice of capacitor dielectric is driven by the engineering specifications and the application of the component product into which the capacitor is incorporated. Product design engineers in the electronics industry typically select capacitors on the basis of capacitance levels, voltage requirements, size and cost. Tantalum and ceramic capacitors are commonly used in conjunction with integrated circuits, and the same circuit may, and frequently does, contain both ceramic and tantalum capacitors. Generally, ceramic capacitors are more cost-effective at lower capacitance values, tantalum capacitors are more cost-effective at higher capacitance values, and solid aluminum capacitors can be more effective in special applications. Film, paper and electrolytic capacitors can also be used to support integrated circuits; a significant area of usage is the field of power electronics to provide energy for applications such as motor start, power factor correction, pulse power, electromagnetic interference filtering and safety.

Management believes that sales of surface-mount capacitors, including multilayer ceramic, tantalum, film, paper, electrolytic and solid aluminum capacitors will grow more rapidly than other types of capacitors in both the United States and worldwide markets, because technological breakthroughs in electronics are regularly expanding the number and type of applications for these products. Management also believes that sales of film, paper and electrolytic capacitors will grow, driven by growth in industrial power applications, hybrid electric vehicles, automotive electronics, alternative energy generation, as well as other electronic application.

Markets and Customers

Our products are sold to a variety of Original Equipment Manufacturers ("OEMs") in a broad range of industries including the computer, communications, automotive, military, consumer, industrial and aerospace industries. We also sell products to Electronic Manufacturing Service ("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. TTI, Inc., a distributor, accounted for over 10% of our net sales in fiscal years 2010, 2009 and 2008. If our relationship with TTI, Inc. were to terminate, we would need to determine alternative means of delivering our products to the end-customers served by TTI, Inc. Our top 50 customers accounted for 75.9% of our net sales during fiscal year 2010.

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	Audio systems, tire pressure monitoring systems, power train electronics, instrumentation, airbag systems, anti-lock braking systems, electronic engine controls, air conditioning controls, and security systems
Business Equipment	Copiers, point-of-sale terminals, and fax machines
Communications	Cellular phones, telephones, switching equipment, relays, base stations, and wireless infrastructure
Computer-related	Personal computers, workstations, mainframes, computer peripheral equipment, power supplies, disk drives, printers, and local area networks
Industrial	Electronic controls, measurement equipment, instrumentation, solar and wind energy generation, and medical electronics
Consumer	DVD players, MP3 players, game consoles, LCD televisions, global positioning systems and digital still cameras
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 due to approximately 50% of our external sales being sold to electronics distributors.

KEMET in the United States

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

Commodity manufacturing in the United States has been substantially relocated to our lower-cost manufacturing facilities in Mexico and China. Production that remains in the United States will focus primarily on early-stage manufacturing of new products and other specialty products for which customers are predominantly located in North America.

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

KEMET in Mexico

We believe our Mexican operations are among the most cost efficient in the world, and they will continue to be our primary production facilities supporting North American and European customers for Tantalum and Ceramic. One of the strengths of KEMET Mexico is that it is a Mexican operation, including Mexican management and workers. These facilities are responsible for maintaining KEMET's traditional excellence in quality, service, and delivery, while driving costs down. The facilities in Victoria and Matamoros will remain focused primarily on tantalum capacitors, while the facilities in Monterrey will continue to focus on ceramic capacitors. During fiscal year 2011, we expect to begin production of standard and commodity Film and Electrolytic products in one of our existing facilities in Monterrey, Mexico.

KEMET in Asia Pacific

In recent years, low production costs and proximity to large, growing markets have caused many of our key customers to relocate production facilities to Asia, particularly China. We have a well-established sales and logistics network in Asia to support our customers' Asian operations. In calendar year 2003, we commenced shipments from our production facility in Suzhou, China near Shanghai ("Suzhou Plant A"). In connection with the Evox Rifa acquisition which was completed in April 2007, we added another Chinese operation in Nantong, China as well as a manufacturing operation in Batam, Indonesia. With the Arcotronics acquisition which was completed in October 2007, we have further expanded our presence in China with a manufacturing operation in Anting, China. These operations will continue to support the former Evox Rifa and Arcotronics customer bases in Asia with top quality film and electrolytic capacitors. In the fourth quarter of fiscal year 2010, we began to manufacture aluminum polymer products in a new leased facility in Suzhou, China ("Suzhou Plant B"). Manufacturing operations in China will continue to grow and we anticipate that our production capacity in China may be equivalent to Mexico in the future. The vision for KEMET China is to be a Chinese operation, with Chinese management and workers, to help achieve our objective of being a global company. These facilities will be responsible for maintaining our traditional excellence in quality, service, and delivery, while accelerating cost-reduction efforts and supporting efforts to grow our customer base in Asia.

KEMET in Europe

As previously mentioned, we acquired the tantalum business unit of EPCOS AG in April 2006, acquired Evox Rifa in April 2007, and acquired Arcotronics in October 2007. These acquisitions have provided us with manufacturing operations in Europe. We currently have one or more manufacturing locations in Bulgaria, Finland, Germany, Italy, Portugal, Sweden, and the United Kingdom. In addition, we have a research and development center in Farjestaden, Sweden. We will maintain and enhance our strong European sales and customer service infrastructure, allowing us to continue to meet the local preferences of European customers who remain an important focus for KEMET going forward.

In September 2009, we announced plans to reduce operating costs by consolidating the manufacturing of certain products and by implementing other lean initiatives. Manufacturing consolidation plans include the movement of certain standard, high-volume products to lower cost locations. We expect the plans will take approximately two to three years to complete; however the length of time required to complete the restructuring activities is dependent upon a number of factors, including the ability to continue to manufacture products required to meet customer demand while at the same time relocating certain production lines, and the progress of discussions with union and government representatives in certain European locations concerning the optimization of product mix and related headcount requirements in such manufacturing locations.

Global Sales and Logistics

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

We market and sell our products in our major markets primarily through a direct sales force. In addition, we use independent commissioned representatives. We believe our direct sales force creates a distinctive competence in the marketplace and has enabled us to establish and maintain strong relationships with our customers. With a global sales organization that is customer-focused, our direct sales personnel from around the world serve on KEMET Global Account Teams. These teams are committed to serving any customer location in the world with a dedicated KEMET representative. This approach requires a blend of accountability and responsibility for specific customer locations, guided by an overall account strategy for each customer.

Electronics distributors are an important distribution channel in the electronics industry and accounted for 48%, 47%, and 48% of our net sales in fiscal years 2010, 2009 and 2008 respectively. In fiscal years 2010, 2009 and 2008, TTI, Inc. accounted for more than 10% of net sales.

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

The SFSD program provides a mechanism for the distributor to meet a competitive price after obtaining authorization from the local Company sales office. This program allows the distributor to ship its higher-priced inventory and debit us for the difference between our list price and the lower authorized price for that specific transaction. We establish reserves for the SFSD program based primarily on historical SFSD activity and the actual inventory levels of certain distributor customers.

Sales by Geography

In fiscal year 2010, net sales by region were as follows: Americas net sales were 24%, APAC net sales were 39%, and Europe, Middle East and Africa ("EMEA") net sales were 37%. Although we believe that we are able to provide a level of delivery and service that is competitive with local suppliers, our capacitor market share in Asian and European markets tend to be significantly lower than in the United States because certain international electronics manufacturers prefer to purchase components from local producers. As a result, a large percentage of our international sales are made to foreign operations of United States manufacturers.

Inventory and Backlog

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

Our customers often encounter uncertain or changing demand for their products. They historically order products from us based on their forecast. If demand does not meet their forecasts, they may cancel or reschedule the shipments included in our backlog, in many instances without penalty. Additionally, many of our customers have started to require shorter lead times and "just in time" delivery. As a result of these factors, the twelve month order backlog is no longer a meaningful trend indicator for us.

Competition

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

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

Raw Materials

The most expensive raw materials used in the manufacture of our products are tantalum powder, palladium, aluminum, and silver. These materials are considered commodities and are subject to price volatility.

Due to market constraints, we no longer purchase tantalum powder under long-term contracts. Instead, we forecast our tantalum needs for the short-term (twelve weeks) and make purchases based upon those forecasts. We currently have purchase agreements outstanding three to six months. While the financial impact of these decisions are short-term in nature given that we are not currently party to any long-term supply agreements, they could impact our financial performance from period to period given that we do not hedge any of our raw material exposure and we may be unable to pass on to a significant number of our customers any fluctuations in our raw material costs. 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.

Presently, a limited number of suppliers process tantalum ore into capacitor-grade tantalum powder. We believe the tantalum our operations require is generally available in sufficient quantities to meet our requirements and that there are a sufficient number of tantalum processors relative to foreseeable demand. Although limited, additional suppliers have emerged in the market. This fact, along with our effort to broaden the number of qualified suppliers, should minimize our commodity price risk exposure. However, an increase in the price of tantalum that we are unable to pass on to our customers, could have an adverse affect on our profitability.

Palladium is a precious metal used in the manufacture of multilayer ceramic capacitors ("MLCC") and is mined primarily in Russia and South Africa. We are aggressively pursuing 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 of the price of palladium is driven by the market which has shown significant price fluctuations. For instance, in fiscal year 2010 the price of palladium fluctuated between $177 and $444 per troy ounce. Price increases and 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. In addition, while silver was previously primarily purchased on the spot and forward markets, we now manage silver inventory levels to maintain close to a zero balance in an effort to remain lean. An increase in the price of silver that we are unable to pass on to our customers, however, could have an adverse affect on our profitability.

Patents and Trademarks

At March 31, 2010, we held 84 United States and 31 foreign patents and 8 United States and 87 foreign trademarks. We believe that the success of our business is not materially dependent on the existence or duration of any patent, license, or trademark other than the trademarks "KEMET" and "KEMET Charged". Our engineering and research and development staffs have developed and continue to develop proprietary manufacturing processes and equipment designed to enhance our manufacturing facilities and reduce costs.

Research and Development

Research and development expenses were $22.1 million, $29.0 million and $35.7 million for fiscal years 2010, 2009 and 2008, respectively. These amounts include expenditures for product development and the design and development of machinery and equipment for new processes and cost reduction efforts. Most of our products and manufacturing processes have been designed and developed by our engineers. We continue to invest in new technology to improve product performance and production efficiencies.

Segment Reporting

We are is organized into three distinct business groups: Tantalum, Ceramic, 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 and marketing functions are shared by each of the business groups and the cost of which are allocated to the business groups based on the business groups' respective budgeted net sales. See Note 8, "Segment and Geographic Information" to our consolidated financial statements.

Tantalum Business Group

Our Tantalum Business Group is a leading manufacturer of solid tantalum and aluminum capacitors. Over the past fifty years, we have made significant investments in our tantalum capacitor business and, based on net sales, we believe that we are the largest tantalum capacitor manufacturer in the world. We are one of the leaders in the growing market for high-frequency surface mount tantalum and aluminum polymer capacitors.

Our 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, automotive and general industries. This business group operates five manufacturing sites in Portugal, Mexico and China and maintains a product innovation center in the United States. Our Tantalum Business Group employs over 4,500 employees worldwide.

Ceramic Business Group

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

Our 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, aerospace & defense, automotive and general industries. This business group operates two manufacturing sites in Mexico and a finishing plant in China and maintains a product innovation center in the United States. Our Ceramic Business Group employs over 2,500 employees worldwide.

Film and Electrolytic Business Group

Our Film and Electrolytic Business Group produces film, paper and wet aluminum electrolytic capacitors. We entered this market through the acquisitions of Evox Rifa and Arcotronics in fiscal year 2008. In January 2011, we expect to begin the production of film and electrolytic capacitors within the United States to support alternative energy products and emerging green technologies such as hybrid electric drive vehicles. Film capacitors are preferred where high reliability is a determining factor, while wet aluminum electrolytic capacitors are preferred when high capacitance at reasonable cost is required. We are one of the world's largest suppliers of film and one of the leaders in wet aluminum electrolytic capacitors for high-value custom applications.

Our Film and Electrolytic Business Group primarily serves the industrial, automotive, consumer and telecom markets. We believe that our Film and Electrolytic Business Group's product portfolio, technology and experience allow us to significantly benefit from the continued growth in alternative energy solutions. We operate thirteen film and electrolytic manufacturing sites throughout Europe and Asia and maintain a product innovation center in Sweden.

In September 2009, we announced plans to reduce operating costs by consolidating the manufacturing of certain products and by implementing other lean initiatives. Manufacturing consolidation plans include the movement of certain standard, high-volume products to lower cost manufacturing locations. We expect the plans will take approximately two to three years to complete; however the length of time required to complete the restructuring activities is dependent upon a number of factors, including the ability to continue to manufacture products required to meet customer demand while at the same time relocating certain production lines and the progress of discussions with union and government representatives in certain European locations concerning the optimization of product mix and related headcount requirements in such manufacturing locations.

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 used and generated in manufacturing electronic components. Based on the annual costs incurred over the past several years, we do not believe that compliance with these laws and regulations will have a material adverse effect on our capital expenditures, earnings, or competitive position. We believe, however, that it is reasonably likely that the trend in environmental litigation, laws, and regulations will continue to be toward stricter standards. Such changes in the laws and regulations may require us to make additional capital expenditures which, while not currently estimable with certainty, are not presently expected to have a material adverse effect on our financial condition.

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

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

We are committed to these business ethics and labor, health, safety, and environmental standards.

Employees

We have approximately 10,400 employees as of March 31, 2010, of whom 550 are located in the United States, 5,250 are located in Mexico, 2,450 in Asia and 2,150 in Europe. We believe that our future success will depend in part on our ability to recruit, retain, and motivate qualified personnel at all levels of the Company. As of March 31, 2010, we have 4,300 hourly employees in Mexico who are represented by labor unions as required by Mexican law. In addition, as of March 31, 2010, we have 300 employees represented by labor unions in China, 550 employees represented by labor unions in Indonesia, 200 employees represented by labor unions in Finland, 300 employees represented by labor unions in Portugal, 85 employees represented by labor unions in Sweden, 800 employees represented by labor unions in Italy and 260 employees represented by labor unions in Bulgaria. In fiscal year 2010, we have not experienced any major work stoppages. Our labor costs in Mexico, China, Indonesia, and various locations in Europe are denominated in the local currencies, and a significant depreciation or appreciation of the United States dollar against the local currencies would increase or decrease our labor costs.

Securities Exchange Act of 1934 Reports

We maintain an Internet website at the following address: *http://www.kemet.com.* KEMET makes available on or through our Internet website certain reports and amendments to those reports that are filed or furnished to the SEC pursuant to Section 13(a) or 15(d) in accordance with the Securities Exchange Act of 1934. These include annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K. 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.

Code of Business Integrity and Ethics

We maintain a Code of Business Integrity and Ethics (the "Code of Ethics"). Our website includes a copy of the Code of Ethics, and it can be downloaded free of charge at *http://www.kemet.com.* On May 3, 2010, we adopted a new Global Code of Conduct ("Code of Conduct"), effective August 1, 2010, which is applicable to all employees, officers, and directors of the Company. The Code of Conduct will replace and substantially elaborate on the Company's Code of Ethics. The Code of Conduct addresses among other things, ethics in the workplace and marketplace, guidance for making decisions and reporting violations of the law and the Code of Conduct, and the importance of protecting the Company's assets. The Code of Conduct was filed on May 6, 2010 with the SEC in our Current Report on Form 8-K. Effective August 1, 2010, the Code of Conduct and any amendments thereto will be immediately available at *http://www.kemet.com.*

ITEM 1A. RISK FACTORS.

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

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

Factors that may cause the actual outcome and results to differ materially from those expressed in, or implied by, these forward-looking statements include, but are not necessarily limited to the following: (i) continued uncertainty of the economy could impact our ability to realize operating plans if the demand for our products declines and could adversely affect our liquidity and ability to continue to operate; (ii) adverse economic conditions could cause further reevaluation and the write down of long-lived assets; (iii) an increase in the cost or a decrease in the availability of our principal raw materials; (iv) changes in the competitive environment; (v) certain of our capacitors are incorporated into products used in heavily regulated industries; (vi) economic, political, or regulatory changes in the countries in which we operate; (vii) difficulties, delays or unexpected costs in completing the restructuring plan; (viii) the ability to attract, train and retain effective employees and management; (ix) the ability to develop innovative products to maintain customer relationships; (x) the impact of environmental issues, laws, and regulations; (xi) volatility of financial and credit markets which would affect our access to capital; (xii) increased difficulty or expense in accessing capital because of the delisting of our common stock from the New York Stock Exchange ("NYSE"); (xiii) exposure to foreign exchange gains and losses; (xiv) need to reduce costs to offset downward price trends; (xv) potential limitation on use of net operating losses to offset possible future taxable income; (xvi) dilution as a result of the issuance of the warrant held by K Equity, LLC; and (xvii) exercise of the warrant by K Equity, LLC may result in the existence of a controlling stockholder.

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

The continued uncertainty of the economy could impact our ability to realize operating plans if the demand for our products declines and 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 could cause a shortfall in net cash generated from operations. As an example, the electronics industry is a highly cyclical industry. The demand for capacitors tends to reflect the demand for products in the electronics market. Customers' requirements for our capacitors fluctuate as a result of changes in general economic activity and other factors that affect the demand for their 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 up 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.

TTI, Inc., a distributor, accounted for over 10% of our net sales in fiscal years 2010, 2009 and 2008. If our relationship with TTI, Inc. were to terminate, we would need to determine alternative means of delivering our products to the end-customers served by TTI, Inc.

To provide financial flexibility, we may enter into negotiations to secure additional financing or sell non-core assets. However, there can be no assurances that we will be successful in either of these strategic initiatives.

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.

Adverse economic conditions could cause further reevaluation and the write down of long-lived assets.

Long-lived assets and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset or group of assets may not be recoverable. In the event that the test shows that the carrying value of certain long-lived assets are 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.

An increase in the cost or decrease in the availability of our principal raw materials could adversely affect profitability.

The principal raw materials used in the manufacture of our products are tantalum powder, palladium, aluminum and silver. These materials are considered commodities and are subject to price volatility. Due to market constraints, we no longer purchase tantalum powder under long-term contracts. Instead, we forecast our tantalum needs for the short-term (twelve weeks) and make purchases based upon those forecasts; we currently have purchase agreements outstanding for three to six months. While the financial impact of these decisions are short-term in nature given that we are not currently party to any long-term supply agreements, they could impact our financial performance from period to period given that we do not hedge any of our raw material exposure and we may be unable to pass on to a significant number of our customers any fluctuations in our raw material costs. 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.

Presently, a limited number of suppliers process tantalum ore into capacitor-grade tantalum powder. We believe the tantalum our operations require is generally available in sufficient quantities to meet our requirements and that there are a sufficient number of tantalum processors relative to foreseeable demand. Although limited, additional suppliers have emerged in the market. This fact, along with our effort to broaden the number of qualified suppliers, should minimize our commodity price risk exposure. However, an increase in the price of tantalum that we are unable to pass on to our customers, could have an adverse affect on our profitability.

Palladium is a precious metal used in the manufacture of multilayer ceramic capacitors and is mined primarily in Russia and South Africa. We are aggressively pursuing 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 of the price of palladium is driven by the market which has shown significant price fluctuations. For instance, in fiscal year 2009 the price of palladium fluctuated between $177 and $444 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. In addition, while silver was previously primarily purchased on the spot and forward markets, we now manage silver inventory levels to maintain close to a zero balance in an effort to remain lean. An increase in the price of silver that we are unable to pass on to our customers, however, could have an adverse affect on our profitability.

We face intense competition.

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

Certain of our capacitors are incorporated into products used in heavily regulated 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 future political or regulatory changes in any of these regions could adversely affect our profitability.

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

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

In the second quarter of fiscal year 2010, we initiated a restructuring plan designed to improve the operating performance of Film and Electrolytic. However, any anticipated benefits of this restructuring activity will not be realized until future periods. The plan is expected to take approximately two to three years to complete.

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 and possible inconsistencies in standards, controls and procedures. 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.

Losing the services of our executive officers or our other highly qualified and experienced employees or our inability to continue to attract and retain additional qualified personnel could harm our business.

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

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

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

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

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

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

The continued 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, such as, for example, a sale of non-core assets, would likely have a material adverse effect on our business.

We are currently listed on the OTC Bulletin Board which could have an adverse effect on our financial condition and results of operations.

Our listing on the OTC Bulletin Board could have an adverse effect on our financial condition and results of operations by, among other things, limiting:

- the liquidity of our common stock;
- the market price of our common stock;
- the number of institutional and other investors that will consider investing in our common stock;
- the availability of information concerning the trading prices and volume of our common stock;
- the number of broker-dealers willing to execute trades in shares of our common stock; and
- our ability to obtain financing for the continuation of operations.

Our inability to purchase forward exchange contracts exposes us to foreign exchange gains and losses.

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 Mexican operations 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 in the Euro or Mexican peso were hedged against the U.S. dollar. In the event we were to establish a revolving line of credit or foreign exchange line of credit, we will consider entering into forward exchange contracts.

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 using our parts. To remain competitive, we must achieve continuous cost reductions through process and product improvements.

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

Our use of net operating loss carryforwards 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 various types of ownership changes which result in more than a 50 percentage point change in ownership of a corporation within a three year period. Therefore, the future utilization of our net operating losses may be subject to limitation for regular federal income tax purposes.

The issuance of the Closing Warrant may be deemed an "ownership change" for purposes of Section 382 of the Code. If such an ownership change is deemed to occur, the amount of our taxable income that can be offset by our net operating loss carryovers in taxable years after the ownership change will be severely limited. While we believe that the issuance of the Closing Warrant did not result in an ownership change for purposes of Section 382 of the Code, there is no assurance that our view will be unchallenged. Moreover, a future exercise of part or all of the Closing Warrant may give rise to an ownership change in the future.

The application of Section 382 of the Code now or in the future could limit or deny all or a substantial part of our future utilization of available net operating losses, if any. Such limitation or denial could require us to pay substantial additional federal and state taxes and interest. Such tax and interest liabilities may adversely affect our liquidity and financial position.

Holders of our common stock are subject to the risk of dilution as a result of the warrant held by K Equity, LLC.

As part of the consideration for entering into the Platinum Credit Facility, we granted K Financing a warrant to purchase up to 80,544,685 shares of our common stock at a maximum aggregate purchase price of $40.3 million, subject to certain adjustments, representing up to 49.9% of our outstanding common stock on a post-Closing warrant basis. This warrant was subsequently transferred to K Equity, LLC. The warrant is exercisable at any time prior to the tenth anniversary of the date of issuance. The exercise of the warrant could result in dilution to the holders of our common stock. In addition to the potential dilutive effective of a warrant, there is the potential that a large number of the shares may be traded in the public market at any time, which could place significant downward pressure on the trading price of our common stock. The issuance and sale of additional shares in the public market could also impair our ability to raise capital by selling equity securities.

The exercise of the warrant by K Equity, LLC may result in the existence of a controlling stockholder that may have interests that conflict with our interests and those of our other stockholders.

On June 30, 2009, K Financing received a warrant to purchase up to 80,544,685 shares of our common stock. The initial maximum aggregate exercise price of the Closing Warrant was $40.3 million and the aggregate exercise price was subsequently adjusted pursuant to its terms to $28.2 million. This warrant was subsequently transferred to K Equity, an affiliate of K Financing. Upon exercise of the warrant, K Equity may own up to approximately 49% of our outstanding common stock. As a result, K Equity would have significant influence over our management and affairs, and would be able to control virtually all matters requiring approval by the stockholders, including the vote to approve members of our board of directors. K Equity would have significant influence over actions to be taken by us and our board of directors, including amendments to our certificate of incorporation and bylaws and approval of significant corporate transactions, including mergers and sales of substantially all of our assets. It is possible that the interests of K Equity may in some circumstances conflict with our interests and the interests of our other stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We are headquartered in Greenville, South Carolina and have a total of 21 manufacturing plants located in the United States, Mexico, Europe and Asia. Our existing manufacturing and assembly facilities have approximately 3 million square feet of floor space and are highly automated with proprietary manufacturing processes and equipment.

The Mexican facilities 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 the United States, Mexico, Europe and Asia. Our Mexican, European and Asian operations, like our United States operations, have won numerous quality, environmental and safety awards.

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

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

The following table provides certain information regarding our principal facilities:

Location	Square Footage (in thousands)	Type of Interest	Description of Use
Greenville, South Carolina	372	Owned	Headquarters, Innovation Center and Manufacturing
Tantalum Business Group			
Matamoros, Mexico	286	Owned	Manufacturing
Suzhou, China(1)	374	Leased	Manufacturing
Ciudad Victoria, Mexico	265	Owned	Manufacturing
Evora, Portugal	233	Owned	Manufacturing
Ceramic Business Group			
Monterrey, Mexico(1)	532	Owned	Manufacturing
Film and Electrolytic Business Group			
Sasso Marconi, Italy	215	Owned	Manufacturing
Granna, Sweden	132	Owned	Manufacturing
Suomussalmi, Finland	121	Leased	Manufacturing
Batam, Indonesia	86	Owned	Manufacturing
Kyustendil, Bulgaria	82	Owned	Manufacturing
Landsberg, Germany	81	Leased	Manufacturing
Weymouth, United Kingdom	96	Leased	Manufacturing
Vergato, Italy	78	Owned	Manufacturing
Monghidoro, Italy	71	Owned	Manufacturing
Anting, China	38	Owned	Manufacturing
Nantong, China	30	Leased	Manufacturing
Farjestaden, Sweden	28	Leased	Manufacturing
Northampton, England	8	Leased	Manufacturing

(1) Includes two manufacturing facilities.

In recent years, low production costs and proximity to large, growing markets have caused many of our key customers to relocate production facilities to Asia, particularly China. We have a well-established sales and logistics network in Asia to support our customers' Asian operations. In calendar year 2003, we commenced shipments from our production facility in Suzhou, China near Shanghai ("Suzhou Plant A"). In connection with the Evox Rifa acquisition which was completed in April 2007, we added another Chinese operation in Nantong, China as well as a manufacturing operation in Batam, Indonesia. With the Arcotronics acquisition which was completed in October 2007, we have further expanded our presence in China with a manufacturing operation in Anting, China. These operations will continue to support the former Evox Rifa and Arcotronics customer bases in Asia with top quality film and electrolytic capacitors. In the fourth quarter of fiscal year 2010, we began to manufacture aluminum polymer products in a new leased facility in Suzhou Plant B.

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. [RESERVED AND REMOVED]

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Position	Years with Company(1)
Per-Olof Lööf	59	Chief Executive Officer and Director	5
William M. Lowe, Jr.	57	Executive Vice President and Chief Financial Officer	2
Robert R. Argüelles	43	Senior Vice President, Operational Excellence and Quality	1
Conrado Hinojosa	45	Senior Vice President, Tantalum Business Group	11
Marc Kotelon	46	Senior Vice President Sales Global Sales	16
Charles C. Meeks, Jr.	49	Senior Vice President, Ceramic Business Group	26
Susan B. Barkal	47	Vice President, Corporate Quality and Chief Compliance Officer	10
Daniel E. LaMorte	64	Vice President and Chief Information Officer	6
Dr. Phillip M. Lessner	51	Vice President and Chief Technology Officer	14
Larry C. McAdams	58	Vice President, Human Resources	26
Dr. Daniel F. Persico	54	Vice President, Strategic Marketing and Business Development	9
R. James Assaf	50	Vice President, General Counsel and Secretary	2
Michael W. Boone	59	Vice President and Treasurer	23
David S. Knox	46	Vice President and Corporate Controller	2

(1) Includes service with Union Carbide Corporation.

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 Unit LLC, a management consulting firm. Prior to this, he served as Chief Executive Officer of Sensormatic Electronics Corporation and in various management roles with Andersen Consulting, Digital Equipment Corporation, AT&T and NCR. Mr. Lööf serves as a board member of Global Options Inc., and Devcon International Corporation. 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.

Robert R. Argüelles, Senior Vice President, Operational Excellence and Quality, joined KEMET as such in September 2008. Mr. Argüelles previously served as Vice President and Plant Manager with Continental Automotive Systems, which followed his role as a top research and development executive in Continental's North American Chassis & Safety division. Prior to Continental Automotive, Mr. Argüelles worked at Valeo Electronics/ITT Automotive where he was the Product Line Director for Valeo's North American Sensors and Electronics product lines. Mr. Argüelles began his career serving in technical roles at Electronic Data Systems in the Delco Chassis Division. He received a Bachelor of Science degree in Mechanical Engineering, Dynamics and Controls, from Old Dominion University in Norfolk, Virginia.

Conrado Hinojosa, Senior Vice President, Tantalum Business Group, was named such in October 2007. He joined KEMET in 1999 in the position of Plant Manager of the Monterrey 3 plant in Mexico. Mr. Hinojosa later served as the Operations Director for the Tantalum Division in Matamoros, Mexico and was later named Vice President, Tantalum Business Group in June 2005. Prior to joining KEMET, Mr. Hinojosa held numerous manufacturing positions with IBM de Mexico and had previous experience with Kodak. Mr. Hinojosa received a Masters of Business Administration degree from Instituto Technologico de Estudios Superiores de Monterrey and a Bachelor of Science degree in Mechanical Engineering from Universidad Autonoma de Guadalajara.

Marc Kotelon, Senior Vice President Global Sales, was named such in August 2008. He joined KEMET in 1994 and has held various positions of increased responsibility in the sales area prior to the appointment to his current position. Mr. Kotelon received a Bachelor of Science degree in Electronics from Ecole Centrale d'Electronique/Paris.

Charles C. Meeks, Jr., Senior Vice President, Ceramic, Film & Electrolytics Business Group, was named such in March 2010. He joined Union Carbide/KEMET in 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 and Senior Vice President, Ceramic Business Group in October 2007. Mr. Meeks received a Masters of Business Administration degree and a Bachelor of Science degree in Ceramic Engineering from Clemson University.

Susan B. Barkal, Vice President of Quality and Chief Compliance Officer, was named such in December 2008. Ms. Barkal joined KEMET in November 1999, and has served as Quality Manager for Tantalum Business Group, Technical Product Manager for all Tantalum product lines and Director of Tantalum Product Management. Ms. Barkal holds a Bachelor of Science degree in Chemical Engineering from Clarkson University and a Master of Science degree in Mechanical Engineering from California Polytechnic University.

Daniel E. LaMorte, Vice President and Chief Information Officer, joined KEMET as such in May 2004. Prior to joining KEMET, Mr. LaMorte held numerous Information Technology positions with Keycorp, Elf Acquitaine, Fisher Scientific and U.S. Steel Corp. Mr. LaMorte had previously served as Vice President of Worldwide Marketing and Sales for Chemcut, a manufacturer of capital equipment and chemicals in the electronics industry. Prior to Keycorp, Mr. LaMorte served as Chief Information Officer at Submit Order, an E-commerce start-up in Columbus, Ohio. Mr. LaMorte holds a Bachelor of Science degree from the University of Pittsburgh and a Master of Business Administration from Fairleigh Dickinson University.

Dr. Philip M. Lessner, Vice President, Chief Technology Officer and Chief Scientist, joined KEMET in 1996 as a Technical Associate in the Tantalum Technology Group. He has held several positions of increased responsibility in the Technology and Product Management areas including Senior Technical Associate, Director Tantalum Technology, Director Technical Marketing Services, and Vice President Tantalum Technology prior to his appointment to his current position. Mr. Lessner received a PhD in Chemical Engineering from the University of California, Berkeley and a Bachelor of Engineering in Chemical Engineering from Cooper Union.

Larry C. McAdams, Vice President, Human Resources, joined Union Carbide/KEMET in 1983. He previously served as the site Human Resources Manager at the Columbus, GA; Shelby, NC; and

Fountain Inn, SC, plants. Since 1991, he has been assigned to the corporate HR staff, where he was appointed a Director in 1999, Senior Director in 2002, and Vice President in 2003. Mr. McAdams received a Bachelor of Arts in Political Science from Clemson University and attended the University of South Carolina School of Law.

Dr. Daniel F. Persico, Vice President, Strategic Marketing and Business Development, joined KEMET in November 1997, and served as Director of Tantalum Technology, Vice President of Tantalum Technology, and Vice President of Organic Process Technology. Prior to his return to KEMET in December 2006, he held the position of the Executive Vice President and Chief Technology Officer of H.W. Sands Corporation, a manufacturer and distributor of specialty chemicals. Dr. Persico holds a Ph.D. in Chemistry from the University of Texas and a Bachelor of Science degree in Chemistry from Boston College.

Other Key Employees

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

Michael W. Boone, Vice President and Treasurer, was named such in July 2008. Mr. Boone joined KEMET in June 1987 as Manager of Credit and Cash Management and has previously held the positions of Senior Director of Finance and Corporate Secretary before his appointment to his current position. Mr. Boone holds a Bachelor of Business Administration degree in Banking and Finance from the University of Georgia.

David S. Knox, Vice President and Corporate Controller, joined KEMET as such in February 2008. From November 1999 through February 2008, Mr. Knox held various financial positions at Unifi, Inc. and was the Corporate Controller from August 2002 through February 2008. Mr. Knox received a Bachelor of Science degree in Business Administration from the University of North Carolina at Chapel Hill and is a Certified Public Accountant.

PART II

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

In February 2009, our common stock began trading on the OTC Bulletin Board. Our trading symbol on the OTC Bulletin Board is "KEME.OB".

We had 12,455 stockholders on May 10, 2010, of which 223 were stockholders of record. The following table represents the high and low sale prices of our common stock for the periods indicated:

	Fiscal Year 2010		Fiscal Year 2009	
Quarter	**High**	**Low**	**High**	**Low**
First	$ 0.84	$ 0.24	$ 4.63	$ 3.23
Second	1.60	0.45	3.29	0.97
Third	1.60	1.15	1.50	0.24
Fourth	1.74	1.24	0.46	0.08

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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources."

In fiscal year 2008, we reactivated our share buyback program and repurchased 3.7 million shares of our common stock. In fiscal year 2009, we indefinitely suspended the share buyback program and did not repurchase any shares of our common stock.

PERFORMANCE GRAPH

The following graph compares our cumulative total stockholder return for the past five fiscal years, beginning on April 1, 2005, with the Russell Microcap Index 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, Thomas & Betts Corp. and Vishay Intertechnology, Inc.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

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

	3/05	3/06	3/07	3/08	3/09	3/10
KEMET Corporation	**100.00**	**122.19**	**98.71**	**52.13**	**3.16**	**18.06**
Russell Microcap	**100.00**	**126.47**	**130.33**	**104.05**	**60.66**	**100.18**
Peer Group	**100.00**	**140.30**	**130.42**	**97.95**	**60.68**	**109.98**

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, 2010:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights	(b) Weighted-average exercise 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	4,889,875	$ 5.49	6,346,085
Equity compensation plans not approved by stockholders			
	4,889,875	$ 5.49	6,346,085

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 selected financial information reflects the retrospective application of an accounting standard related to the accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement), which required retrospective application. These adjustments and the retrospective application of this accounting standard are reflected in our audited consolidated financial statements as of March 31, 2008 and 2009 and for the years ended March 31, 2007, 2008 and 2009, which were filed in Exhibit 99.1 to our Current Report on Form 8-K, filed with the SEC on November 5, 2009. 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,				
	2010	**2009**	**2008(3)**	**2007(1)**	**2006**
Income Statement Data:					
Net sales	$ 736,335	$ 804,385	$ 850,120	$ 658,714	$ 490,106
Operating income (loss)	7,697	(271,112)	(8,881)	7,078	(10,196)
Interest income	(188)	(618)	(6,061)	(6,283)	(5,640)
Interest expense	26,008	29,789	21,696	9,865	6,628
Net income (loss)(7)	(69,447)	(285,209)	(25,215)	4,206	375
Per Share Data:					
Net income (loss) per share basic and diluted	$ (0.86)	$ (3.54)	$ (0.30)	$ 0.05	$
Balance Sheet Data:					
Total assets	$ 740,961	$ 714,151	$ 1,250,999	$ 942,373	$ 748,318
Working capital	226,600	195,142	239,059	337,943	269,339
Long-term debt(2)(4)(5)(6)	231,629	280,752	269,354	195,931	80,000
Other non-current obligations	55,626	57,316	80,130	19,587	44,139
Stockholders' equity(7)	284,272	240,039	576,831	577,419	512,703
Other Data:					
Cash flow provided by (used in) operating activities	$ 54,620	$ 5,725	$ (20,563)	$ 21,933	$ 40,423
Capital expenditures	12,921	30,541	43,605	28,670	22,846
Research and development	22,064	28,956	35,699	33,385	25,976

(1) In fiscal year 2007, the Company acquired the EPCOS tantalum business unit.

(2) In fiscal year 2007, the Company issued $175.0 million in Convertible Notes.

(3) In fiscal year 2008, the Company acquired Evox Rifa on April 24, 2007 and Arcotronics on October 12, 2007.

(4) In fiscal year 2008, the Company entered into two Senior Facility Agreements with UniCredit whereby it borrowed a total of €96.8 million.

(5) In fiscal year 2009, the Company paid the outstanding balance on its Senior Notes and refinanced Facility A with UniCredit totaling €60.0 million ($79.8 million). On April 3, 2009, the Company extended Facility B with UniCredit totaling €35.0 million ($46.6 million). The scheduled amortization of our Facility A was amended effective June 30, 2009.

(6) In fiscal year 2010, the Company repurchased $93.9 million in face value of Convertible Notes and incurred additional borrowings of $57.8 million with Platinum.

(7) In fiscal year 2010, the Closing Warrant was initially classified as a derivative and the Company recorded a mark-to-market adjustment of $81.1 million through earnings. As of September 29, 2009, the strike price of the Closing Warrant became fixed and the Company reevaluated the Closing Warrant concluding that the Closing Warrant is indexed to the Company's own stock and should be classified as a component of equity. The Company reclassified the warrant liability of $112.5 million into the line item "Additional paid-in capital" on the Consolidated Balance Sheets and the Closing Warrant is no longer marked-to-market.

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, 2010. The discussion should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements and related notes appearing elsewhere in this report. Except for the historical information contained herein, the discussions in this document contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties. Our actual future results could differ materially from those discussed here. Factors that could cause or contribute to such differences include, but are not limited to, those discussed under the Item 1A, "Risk Factors" and, from time to time, in our other filings with the Securities and Exchange Commission.

Business Overview

We are a leading global manufacturer of a wide variety of capacitors. Our product offerings include tantalum, multilayer ceramic, solid and electrolytic aluminum and film and paper capacitors. Capacitors are fundamental components of most electronic circuits and are found in communication systems, data processing equipment, personal computers, cellular phones, automotive electronic systems, defense and aerospace systems, consumer electronics, power management systems and many other electronic devices and systems. Capacitors are typically used to filter out interference, smooth the output of power supplies, block the flow of direct current while allowing alternating current to pass and for many other purposes. We manufacture a broad line of capacitors in many different sizes and configurations using a variety of raw materials. Our product line consists of over 250,000 distinct part configurations distinguished by various attributes, such as dielectric (or insulating) material, configuration, encapsulation, capacitance level and tolerance, performance characteristics and packaging. Most of our customers have multiple capacitance requirements, often within each of their products. Our broad offering allows us to meet the majority of those needs independent of application and end use. In fiscal year 2010, we shipped approximately 31 billion capacitors and in fiscal year 2009, we shipped approximately 32 billion capacitors. We believe the medium-to-long term demand for the various types of capacitors offered by us will grow on a regional and global basis due to a variety of factors, including increasing demand for and complexity of electronic products, growing demand for technology in emerging markets and the ongoing development of new solutions for energy generation and conservation.

Our Competitive Strengths

We believe our Company benefits from the following competitive strengths:

Strong Customer Relationships. We have a large and diverse customer base. We believe that our persistent emphasis on quality control and history of performance establishes loyalty with OEMs, EMSs and distributors. Our customer base includes nearly all of the world's major electronics OEMs (including Alcatel-Lucent, Apple, Dell, Hewlett Packard, IBM, Intel, Motorola and Nokia) and EMSs (including Celestica, Elcoteq, Flextronics, Jabil, Sanmina and Solectron). Our strong, extensive and efficient worldwide distribution network is one of our differentiating factors.

Breadth of Our Diversified Product Offering and Markets. We believe that we have the most complete line of primary capacitor types, across a full spectrum of dielectric materials including tantalum, ceramic, solid and electrolytic aluminum, film and paper. As a result, we believe we can satisfy virtually all of our customers' capacitance needs, thereby strengthening our position as their supplier of choice. We sell our products into a wide range of different end markets, including computing, industrial, telecommunications, transportation, consumer, defense and healthcare markets across all geographic regions. No single end market segment accounted for more than 30% and only one customer, TTI, Inc. accounted for more than 10% of our net sales in fiscal year 2010. Our largest customer is a distributor, and no single end use customer accounted for more than 5% of our net sales in fiscal year 2010. We believe that well-balanced product, geographic and customer diversification help 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 film capacitors in the world and have a significant market position in the specialty ceramics and custom wet aluminum electrolytic markets. We believe the demand for our products is growing and we are well-positioned to take advantage of that trend due to our strengths and the diversity of our product offerings.

Strong Presence in Specialty Products. We engage in design collaboration with our customers in order to meet their specific needs and provide them with customized products satisfying their engineering specifications. During fiscal year 2010, specialty products accounted for 29.6% of our revenue. By allocating an increasing portion of our management resources and research and development investment to specialty products, we have established ourselves as one of the leading innovators in this fast growing emerging segment of the market, which includes aerospace and defense, healthcare, renewable energy, telecom infrastructure and gas and oil. For example, in August 2009, we were selected as one of thirty companies to receive a grant from the Department of Energy. Our $15.1 million award will enable us to produce film and electrolytic capacitors within the United States to support alternative energy products and emerging green technologies such as hybrid electric drive vehicles. Producing these parts in the United States will allow us to compete effectively in the alternative energy market in the Americas. We believe our ability to provide innovative and flexible service offerings, superior customer support and focus on speed-to-market result in a more rewarding customer experience, earning us a high degree of customer loyalty.

Low-Cost Production. We believe we 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, and we have a growing list of customers that are based in Asia. We believe our manufacturing facilities in China have low production costs and close proximity to the large and growing Chinese market as well as the ability to increase capacity and change our product mix to meet our customers' needs. We also believe our operations in Mexico, which are our primary production facilities supporting our North American and, to a large extent, European customers, are among the most cost efficient in the world.

Our Brand. Founded by Union Carbide in 1919 as KEMET Laboratories, we believe that KEMET has 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 the needs of the industry in which we operate has differentiated us among other competitors and established us as the "Easy-To-Buy-From" company.

Our People. We believe that we have successfully developed a unique corporate culture based on innovation, customer focus and commitment. We have a strong, highly experienced and committed team in each of our markets. Many of our professionals have developed unparalleled experience in building leadership positions in new markets, as well as successfully integrating acquisitions. Combined, our 15 member management team has an average of over 11 years of experience with us and an average of over 25 years of experience in the manufacturing industry and has grown our revenue to $736.3 million in fiscal year 2010 from $425.3 million in fiscal year 2005, representing a compound annual growth rate of 11.6%.

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 to:

Develop Our Significant Customer Relationships and Industry Presence. We intend to continue to be responsive to our customers' needs and requirements and to make order entry and fulfillment easier, faster, more flexible and more reliable for our customers by focusing on building products around customers' needs, giving decision making authority to customer-facing personnel and providing purpose-built systems and processes, such as our Easy-To-Buy-From order entry system.

Continue to Pursue Low-Cost Production Strategy. We intend to actively pursue measures that will allow us to maintain our position as a low-cost producer of capacitors with facilities close to our customers. These measures include shifting production to low cost locations; reducing material and labor costs; developing more cost-efficient manufacturing equipment and processes; designing manufacturing plants for more efficient production; and reducing work-in-process ("WIP") inventory by building products from start to finish in one factory. Additionally, we intend to continue to implement Lean and Six Sigma methods to drive towards zero product defects so that quality remains a given in the minds of our customers. Between August 2008 and January 2009, we implemented rationalization plans which have resulted in an annual savings of approximately $45 million. In addition, we have implemented numerous cost reduction initiatives and process improvements which we believe will result in meaningful savings from (i) the successful renegotiation of unfavorable sourcing contracts; (ii) relocation of tantalum manufacturing to Mexico and Suzhou, China; and (iii) the integration of Evox Rifa and Arcotronics.

Leverage Our Technological Competence and Expand Our Leadership in Specialty Products. We continue to leverage our technological competence to introduce new products in a timely and cost efficient manner and generate an increasing portion of our sales from new and customized solutions to improve financial performance as well as to meet our customers' varied and evolving capacitor needs. 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 targets while also improving our profitability. During fiscal year 2010, we introduced 32,172 new products of which 249 were first to market, and specialty products accounted for 29.6% of our revenue over this period. In the fourth quarter of fiscal year 2010, Ceramic launched two product platforms, the "High Temperature Surface Mount Devices" and "DSCC Small Case Size MLCC", which contributed approximately 28,000 of the new products introduced in fiscal year 2010.

Further Expand Our Broad Capacitance Capabilities. We define ourselves as "The Capacitance Company" and strive to be the supplier of choice for all our customers' capacitance needs across the full spectrum of dielectric materials including tantalum, ceramic, solid and electrolytic aluminum, film and paper. While we believe we have the most complete line of capacitor technologies across these primary capacitor types, we intend to continue to research additional capacitance technologies and solutions in order to maximize the breadth of our product offerings.

Selectively Target Complementary Acquisitions. We expect to continue to evaluate and pursue strategic acquisition opportunities, some of which may be significant in size, which would enable us to enhance our competitive position and expand our market presence. Our strategy is to acquire complementary capacitor and other related businesses that would allow us to leverage our business model, including those involved in other passive components that are synergistic with our customers' technologies and current product offerings.

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 November 2009, we received the "Outstanding Performance Award" for quality and delivery from Sanmina, a leading EMS provider.

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

We manufacture capacitors in Bulgaria, China, Finland, Germany, Indonesia, Italy, Mexico, Portugal, Sweden, the United Kingdom, and the United States. Commodity manufacturing in the United States has been substantially relocated to our lower-cost manufacturing facilities in Mexico and China. Production that remains in the United States focuses primarily on early-stage manufacturing of new products and other specialty products for which customers are predominantly located in North America.

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

KEMET is organized into three distinct business groups: Tantalum, Ceramic, 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 and marketing functions are shared by each of the business groups and the costs of which are allocated to the business groups. In addition, all corporate costs are allocated to the business groups. See Note 8, "Segment and Geographic Information" to our consolidated financial statements.

We believe our Mexican operations are among the most cost efficient in the world, and they continue to be our primary production facilities supporting North America and, to a large extent, European customers. We also believe that our China manufacturing facilities benefit from low production costs and proximity to large and growing markets, which have caused some of our key customers to relocate production facilities to Asia, particularly China. As a result, one of our strategies is to continue to shift production to low-cost locations which provide us the best opportunity to be a low-cost producer of capacitors.

Net sales for the quarter ended March 31, 2010 were $213.0 million, which is a 56.6% increase over the same quarter last fiscal year and a 6.5% increase over the prior fiscal quarter ended December 31, 2009. Net income was $0.3 million, or $0.00 per share for the fourth quarter of fiscal year 2010 compared to net income of $2.4 million or $0.03 per share for the same quarter last year and compared to net loss of $1.8 million or $(0.02) per share for the prior fiscal quarter ended December 31, 2009.

On April 8, 2010, we reported that we reached an agreement with three labor unions in Italy and with the regional government in Emilia Romagna, Italy to proceed with our planned restructuring process. The Company intends to focus on producing specialty products in Europe and the U.S. and shift standard and commodity production to lower cost regions.

In December 2009, in an effort consistent with our cost reduction measures, we plan to relocate our Amsterdam Hub facility from the Netherlands to the Czech Republic, effective July 2010. We expect this relocation to allow shipping lane optimization and customer consolidation (bi-weekly or weekly) for all import shipments. Our European manufacturing plants will continue to ship direct to 'local' customers (i.e. customers located in the same country as the plant).

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

The private placement of the 10.5% Senior Notes resulted in proceeds to the Company of $222.2 million. We used a portion of the proceeds of the private placement to repay all of its outstanding indebtedness under our credit facility with K Financing, LLC. Our €60 million credit facility and €35 million credit facility with UniCredit and our term loan with Vishay and we used a portion of the remaining proceeds to fund a previously announced tender offer to purchase $40.5 million in aggregate principal amount of our Convertible Notes and to pay costs incurred in connection with the private placement, the tender offer and the foregoing repayments. We incurred approximately $6.4 million in costs related to the execution of the offering, and these costs are capitalized and will be amortized over the term of the 10.5% Senior Notes.

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

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

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

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

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

On May 17, 2010, we consummated a tender offer to purchase $40.5 million in aggregate principal amount of our Convertible Notes. We used $37.9 million from the bond offering discussed above to extinguish the tendered notes. We incurred approximately $0.2 million in costs related to the execution of this tender offer, these costs will be included in the loss on extinguishment.

Registration Rights Agreement

On May 5, 2010, in connection with the private placement of the 10.5% Senior Notes, the Company, the Guarantors and the initial purchasers of the 10.5% Senior Notes entered into the Registration Rights Agreement. The terms of the Registration Rights Agreement require the Company and the Guarantors to (i) use their commercially reasonable efforts to file with the Securities and Exchange Commission within 210 days after the date of the initial issuance of the 10.5% Senior Notes, a registration statement with respect to an offer to exchange the 10.5% Senior Notes for a new issue of debt securities registered under the Securities Act, with terms substantially identical to those of the 10.5% Senior Notes (except for provisions relating to the transfer restrictions and payment of additional interest); (ii) use our commercially reasonable efforts to consummate such exchange offer within 270 days after the date of the initial issuance of the 10.5% Senior Notes; and (iii) in certain circumstances, file a shelf registration statement for the resale of the 10.5% Senior Notes. If the Company and the Guarantors fail to satisfy our registration obligations under the Registration Rights Agreement, then we will be required to pay additional interest to the holders of the 10.5% Senior Notes, up to a maximum additional interest rate of 1.0% per annum.

The foregoing description of the 10.5% Senior Notes Indenture and the Registration Rights Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the 10.5% Senior Notes Indenture and Registration Rights Agreement.

Acquisitions

Arcotronics Italia S.p.A.

On October 12, 2007, pursuant to the terms of a Stock Purchase Agreement between KEMET Electronics Corporation, our wholly-owned subsidiary, and Blue Skye (Lux) S.a r.l. ("Blue Skye"), we acquired 100% of Arcotronics Italia S.p.A. ("Arcotronics") from Blue Skye. The acquisition included manufacturing facilities in Sasso Marconi, Monghidoro, and Vergato, Italy; Landsberg, Germany; Towcester, United Kingdom; Kyustendil, Bulgaria; and Anting-Shanghai, China, and is included in Film and Electrolytic.

We paid €17.5 million ($24.8 million) for 100% of the outstanding share capital of Arcotronics, assumed net financial debt of €98.0 million ($138.9 million) and certain other long-term liabilities of Arcotronics totaling €35.1 million ($49.8 million).

In connection with the acquisition, we entered into a Senior Facility Agreement with UniCredit whereby UniCredit agreed to lend to us up to €47.0 million ($66.8 million). We used a portion of this facility to repay a portion of the outstanding indebtedness of Arcotronics, with the balance available for general corporate purposes. In May 2010, this debt was extinguished, see Note 18, "Subsequent Events" for further discussion.

Evox Rifa Group Oyj

On April 24, 2007, pursuant to the terms of a Combination Agreement between KEMET Electronics Corporation and Evox Rifa Group Oyj ("Evox Rifa"), we purchased 92.7% of Evox Rifa pursuant to a tender offer completed on April 12, 2007. Evox Rifa had 178.2 million shares outstanding at the time of the commencement of the tender offer. We purchased 165.2 million shares at a price of €0.12 per share or €19.8 million ($27.0 million). We announced at the time that we intended to acquire the remaining outstanding shares pursuant to a squeeze-out process. Following the settlement of the completion trades relating to the tender offer, Evox Rifa became our subsidiary. In September 2007, we completed the squeeze-out process and purchased the remaining outstanding shares of Evox Rifa for €1.8 million ($2.4 million). This additional amount is considered part of the purchase price of the acquisition. This acquisition is also included in Film and Electrolytic.

In addition, pursuant to the tender offer, we offered to acquire all of the outstanding loan notes under the convertible capital loan issued by Evox Rifa for consideration corresponding to the aggregate of the nominal amount per loan note of €100 plus accrued interest up to and including the closing date of the tender offer. The outstanding amount of the loan notes and accrued interest at the time of the commencement of the tender offer was €5.9 million ($8.1 million). Holders of 95.7% of the convertible capital loan notes issued by Evox Rifa tendered their loan notes pursuant to the tender offer and consequently, we redeemed these notes as of April 24, 2007. In addition to the payment made for the shares and loan notes, we assumed €19.5 million ($26.6 million) in outstanding indebtedness of Evox Rifa.

Off-Balance Sheet Arrangements

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

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:

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

We are organized into three distinct business groups: Tantalum, Ceramic and Film and Electrolytic. We evaluate our goodwill on a reporting unit basis. This requires us to estimate the fair value of the reporting units based on the future net cash flows expected to be generated. The impairment test involves a comparison of the fair value of each reporting unit, with the corresponding carrying amounts. If the reporting unit's carrying amount exceeds its fair value, then an indication exists that the reporting unit's goodwill may be impaired. The impairment to be recognized is measured by the amount by which the carrying value of the reporting unit's goodwill being measured exceeds its implied fair value. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the sum of the amounts assigned to identified net assets. As a result, the implied fair value of goodwill is generally the residual amount that results from subtracting the value of net assets including all tangible assets and identified intangible assets from the fair value of the reporting unit's fair value. We determined the fair value of our reporting units using an income-based, discounted cash flow ("DCF") analysis, and market-based approaches (Guideline Publicly Traded Company Method and Guideline Transaction Method) which examine transactions in the marketplace involving the sale of the stocks of similar publicly-owned companies, or the sale of entire companies engaged in operations similar to KEMET. In addition to the above described reporting unit valuation techniques, our goodwill impairment assessment also considers our aggregate fair value based upon the value of our outstanding shares of common stock.

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

Tests for the recoverability of a long-lived asset to be held and used are performed by comparing the carrying amount of the long-lived asset to the sum of the estimated future undiscounted cash flows expected to be generated by the asset. In estimating the future undiscounted cash flows, we use future projections of cash flows directly associated with, and which are expected to arise as a direct result of, the use and eventual disposition of the assets. These assumptions include, among other estimates, periods of operation and projections of sales and cost of sales. Changes in any of these estimates could have a material effect on the estimated future undiscounted cash flows expected to be generated by the asset. If it is determined that the book value of a long-lived asset is not recoverable, an impairment loss would be calculated equal to the excess of the carrying amount of the long-lived asset over its fair value. The fair value is calculated as the discounted cash flows of the underlying assets. The Company reviewed its long-lived assets for recoverability during the fourth quarter of fiscal year 2010 and determined that the projected undiscounted cash flows were adequate to cover the carrying value of the assets. A 10% decline in the Company's forecasted cash flows would not have resulted in a failure of the undiscounted cash flow test.

We perform impairment tests on our goodwill and intangible assets with indefinite useful life during the first quarter of each fiscal year and when otherwise warranted. In the first quarter of fiscal year 2010, we completed our impairment test on our intangible assets with indefinite useful life and concluded that no further impairment existed. A one percent increase or decrease in the discount rate used in the valuation would have resulted in changes in the fair value of ($4.2) million and $5.2 million, respectively.

In the first quarter of fiscal year 2009, we hired an independent appraisal firm to test goodwill for impairment. We recorded a goodwill impairment charge of $88.6 million based on the annual impairment test, which represented all of the Ceramic goodwill balance and $76.2 million of the Film and Electrolytic goodwill balance. Also occurring in the first quarter of fiscal year 2009, and in part as a result of the goodwill impairment testing, we hired an independent appraisal firm to test the long-lived assets of Ceramic for impairment. As a result of this testing, Ceramic recorded a $5.3 million impairment charge to write off all of its other intangible assets and recorded a $58.6 million impairment charge to write down long-lived assets. We hired an independent appraisal firm to test goodwill and our long-lived assets groups for impairment as of September 30, 2008. These impairment tests resulted in a second quarter goodwill impairment charge of $85.7 million to write off all of the remaining goodwill of Film and Electrolytic and Tantalum. Utilizing an independent appraisal firm, we also completed long-lived asset impairment tests in the third and fourth quarters of fiscal year 2009 and concluded that no further impairment existed. The goodwill impairment and long-lived asset charge to earnings were non-cash in nature.

The goodwill and long-lived asset impairment reviews are highly subjective and involve the use of significant 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. 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 our financial condition and operating results

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

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

A portion of sales is made to distributors under agreements allowing certain rights of return and price protection on unsold merchandise held by distributors. Our distributor policy includes inventory price protection and "ship-from-stock and debit" ("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.

The SFSD program provides a mechanism for the distributor to meet a competitive price after obtaining authorization from the local Company sales office. This program allows the distributor to ship its higher-priced inventory and debit us for the difference between our list price and the lower authorized price for that specific transaction. We established reserves for our SFSD program based primarily on historical SFSD activity and certain distributors' actual inventory levels comprising approximately 90% of the total global distributor inventory related to customers which participate in the SFSD program. Estimates are evaluated on a quarterly basis, if these estimates were changed by 1% in fiscal year 2010, Net sales would be impacted by $0.6 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.

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

weighted-average discount rate used to arrive at the net present value of the obligation;

salary increases used to calculate the impact future pay increases will have on post-retirement obligations; and

medical cost inflation used to calculate the impact future medical costs will have on post-retirement obligations.

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

We base our assumptions on either historical or market data that we considers reasonable. Variations in these assumptions could have a significant effect on the amounts reported in Consolidated Balance Sheets and the Consolidated Statements of Operations. The most critical assumption relates to the discount rate. A 25 basis point increase or decrease in the discount rate would result in changes to the projected benefit obligation of $(1.3) million and $1.5 million, respectively.

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

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

FASB ASC 740 addresses the accounting for uncertainty in income taxes recognized in the financial statements. FASB ASC 740 provides guidance on the financial statement recognition and measurement of tax position taken or expected to be taken in a tax return. 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. We adopted the provisions regarding the uncertainty of income taxes effective April 1, 2007. Any accruals for estimated interest and penalties would be recorded as a component of income tax expense.

To the extent that the provision for income taxes changed by 1% of loss before income taxes, consolidated net loss would change by $0.6 million in fiscal year 2010.

INVENTORIES. Inventories are valued at the lower of cost or market, with cost determined under the first-in, first-out method and market based upon net realizable value. The valuation of inventories requires us to make estimates. We also must assess the prices at which it believes 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.

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 Condensed Consolidated Statements of Operations for the periods indicated (amounts in thousands):

	Fiscal Years Ended March 31,		
	2010	**2009**	**2008**
Net sales	$ 736,335	$ 804,385	$ 850,120
Operating costs and expenses:			
Cost of sales	611,638	736,551	696,806
Selling, general and administrative expenses	86,085	93,505	97,639
Research and development	22,064	28,956	35,699
Restructuring charges	9,198	30,874	25,341
Goodwill Impairment		174,327	
Write down of long-lived assets	656	67,624	4,218
Net gain on sales and disposals of assets	(1,003)	(25,505)	(702)
Curtailment gains on benefit plans		(30,835)	
Operating income (loss)	7,697	(271,112)	(8,881)
Other (income) expense, net	72,108	17,299	11,223
Loss before income taxes	(64,411)	(288,411)	(20,104)
Income tax expense (benefit)	5,036	(3,202)	5,111
Net loss	$ (69,447)	$ (285,209)	$ (25,215)

Comparison of Fiscal Year 2010 to Fiscal Year 2009

Overview:

Net sales:

Net sales for fiscal year 2010 were $736.3 million, which represented an 8.5% decrease from fiscal year 2009 net sales of $804.4 million. Film and Electrolytic sales decreased $40.4 million while Tantalum and Ceramic sales decreased by $22.9 million and $4.8 million, respectively. Unit sales volume for fiscal year 2010 decreased 18.8% as compared to fiscal year 2009. Unit sales volume and revenue were negatively affected by the global economic downturn that adversely impacted all regions as well as the weak automotive market, a decline in the DC Film product line due to lower demand in the consumer, lighting, and automotive industries and a softening in the Hi-CV market in Asia. Average selling prices increased 10.8% for fiscal year 2010 as compared to fiscal year 2009 primarily due a positive product mix shift to polymer products for Tantalum. This increase was partially offset by an unfavorable product mix shift in Film & Electrolytic as our most significant sales decrease occurred with industrial customers who purchase our highest technology products that typically have the highest average selling price. Improving economic conditions led to higher sales in each of the quarters following the fourth quarter of fiscal year 2009 when the impact of the economic downturn had its most adverse affect on our sales and net sales declined to $136.0 million. Net sales for the first quarter of fiscal year 2010 improved to $150.2 million, a 10.4% increase over the fourth quarter of fiscal year 2009, and our net sales improved to $173.3 million in the second quarter of fiscal year 2010, a 15.4% increase compared to first fiscal quarter of fiscal year 2010. Similarly, our net sales further improved to $199.9 million in the third quarter of fiscal year 2010, a 15.3% increase compared to the second quarter of fiscal year 2010, and our net sales improved to $213.0 million in the fourth quarter of fiscal year 2010, a 6.5% increase compared to the third fiscal quarter of fiscal year 2010.

By region, 24% of net sales for the year ended March 31, 2010 were to customers in the Americas, 39% were to customers in APAC, and 37% were to customers in EMEA. For the year ended March 31, 2009, 25% of net sales were to customers in the Americas, 35% were to customers in APAC, and 40% were to customers in EMEA.

By channel, 48% of net sales for the year ended March 31, 2010, were to distribution customers, 15% were to EMS customers, and 37% were to OEM customers. For the year ended March 31, 2009, 47% of net sales were to distribution customers, 20% were to EMS customers, and 33% were to OEM customers.

Gross Margin:

Gross margin for the fiscal year ended March 31, 2010 increased to 16.9% of net sales from 8.4% of net sales in the prior year. Several factors contributed to the increase in gross margin percentage in fiscal year 2010. Cost savings from several cost reduction plans that were initiated throughout fiscal year 2009 were partially responsible for the improvement. In fiscal year 2009, we incurred costs in conjunction with the relocation and start up of equipment in China and a $7.5 million lower of cost or market charge to adjust Ceramic Hi-CV inventory to its net realizable value. In addition, there was an overall increase in average selling prices which contributed to the increase in gross margin. These improvements were offset by the negative gross margin in Film and Electrolytic. In the second quarter of fiscal year 2010, we initiated a restructuring plan to reposition our European business; however, the benefits of this restructuring activity are not expected to be realized until future periods. During the course of this restructuring effort, the Company expects to spend approximately $35 million to $40 million to reposition our European manufacturing base. Our expectation is an improvement in our European operating results by approximately $10 million in fiscal year 2011 compared to fiscal year 2010, and to improve approximately $42 million in fiscal year 2012 versus fiscal year 2010. The plan is expected to take approximately two to three years to complete.

Selling, general and administrative expenses:

SG&A expenses were $86.1 million, or 11.7% of net sales for fiscal year 2010 compared to $93.5 million, or 11.6% of net sales for fiscal year 2009. The $7.4 million decrease in SG&A expenses for fiscal year 2010 compared to fiscal year 2009 includes a decrease of $5.9 million in selling expenses primarily attributable to cost reductions resulting from our reduction in workforce, a 10% wage reduction for all salaried employees effective January 1, 2009 (where possible) and the temporary suspension of the match in our U.S. defined contribution retirement plan, reducing it from 6% to 0%. Effective August 1, 2009, we reactivated our U.S. defined contribution retirement plan match, and in Mexico and China we retracted the 10% wage reduction. Effective October 1, 2009, we also retracted our 10% wage reduction in the U.S. In addition, during fiscal year 2010, costs related to integrating our acquisitions were $5.2 million lower, bad debt expense was $1.3 million lower and pension charges were $2.8 million lower. In addition, we reduced redundant administrative expenses primarily within Film and Electrolytic and reduced legal expenses. The reduction in these costs was offset by an increase of $10.0 million related to incentive accruals, information systems, and depreciation.

Restructuring Charges:

During fiscal year 2010, we recognized charges of $9.2 million for reductions in workforce primarily associated with a headcount reduction of 32 employees in Portugal, a headcount reduction of 57 employees in Finland, and a headcount reduction of 85 employees in Italy. There were also headcount reductions at the executive level related to our initiative to reduce overhead within the Company as a whole. In addition to the headcount reduction in Portugal, management incurred charges related to the relocation of equipment from Portugal to Mexico. Machinery not used for production in Portugal and not relocated to Mexico were disposed of and as such the Company recorded an impairment charge of $0.7 million to write down the equipment to scrap value. Overall, we incurred charges of $1.6 million related to the relocation of equipment to Mexico from Portugal and various other locations. The restructuring plan includes implementing programs to make the Company more competitive, removing excess capacity, moving production to lower cost locations, and eliminating unnecessary costs throughout the Company. During fiscal year 2009, we recognized charges of $30.9 million for reductions in workforce worldwide in each of our business groups related to three cost reduction plans. We recognized charges of $4.9 million primarily for reductions in workforce in Film and Electrolytic. We recognized charges of $3.5 million related primarily to the reduction of approximately 1,500 manufacturing positions representing approximately 14% of our workforce. We recognized charges of $16.1 million related to the rationalization of corporate staff and manufacturing support functions in the U.S., Europe, Mexico, and Asia. Approximately 640 employees were affected by this action. Additionally, during fiscal year 2009, we incurred expenses of $5.5 million for the relocation of equipment.

Goodwill Impairment and Write Down of Long-Lived Assets:

We tested goodwill for impairment during the first and second quarters of fiscal year 2009. Due to reduced earnings and cash flows caused by macro-economic factors, excess capacity issues and delays in integrating recently acquired businesses, we reduced our earnings forecast in conjunction with such testing. As a result, our impairment testing for fiscal year 2009 led to a $174.3 million non-cash goodwill impairment charge to write off all of the carrying value of our goodwill. We determined the business enterprise fair value by using both an income approach and a market approach. Film and Electrolytic recorded a $137.5 million impairment charge, Tantalum recorded a $24.4 million impairment charge, and Ceramic recorded a $12.4 million impairment charge.

In addition, and partially as a result of the goodwill impairment testing, Ceramic recorded a $5.3 million impairment charge to write off all of its other intangible assets and recorded a $58.6 million impairment charge to write down its long-lived assets. Also, we closed a research and development facility located in Heidenheim, Germany that served Tantalum. As part of this closure, we abandoned certain long-lived assets and incurred $1.2 million in impairment charges related to the abandonment.

In fiscal year 2010, the Company recorded an impairment charge of $0.7 million to write down equipment that wasn't being used in Portugal to scrap value.

Research and development:

Research and development expenses were $22.1 million, or 3.0% of net sales for fiscal year 2010, compared to $29.0 million, or 3.6% of net sales for fiscal year 2009. The 23.8% decrease resulted from savings from our reduction in workforce, a 10% wage reduction for all salaried employees effective January 1, 2009 (where possible) and the temporary suspension of the match in our U.S. defined contribution retirement plan, reducing it from 6% to 0%.

Operating income (loss):

Operating income for the fiscal year 2010 was $7.7 million compared to an operating loss of $271.1 million in the prior fiscal year. In fiscal year 2009, we incurred non-cash charges of $242.0 million for goodwill impairment and the write down of long-lived assets compared to $0.7 million in fiscal year 2010. Increased average selling prices and decreased costs led to a gross margin increase of $56.9 million in fiscal year 2010 as compared to fiscal year 2009. Additionally, operating expenses were $14.3 million lower than in fiscal year 2009 and restructuring charges were $21.7 million lower than fiscal year 2009. These favorable items were partially offset by a decrease in gains on the sales and disposals of assets of $24.5 million in fiscal year 2009 compared to fiscal year 2010 and curtailment gains on benefit plans of $30.8 million in fiscal year 2009.

Other (income) expense, net:

Other (income) expense, net was $72.1 million in fiscal year 2010 compared to $17.3 million in fiscal year 2009, an increase of $54.8 million. The increase in expense primarily related to an $81.1 million increase in value of the Closing Warrant, an increase of $18.2 million in foreign currency translation losses and a $0.4 million decrease in interest income. These increases in expense and decrease in income were partially offset by a $3.8 million decrease in interest expense and a gain on early extinguishment of debt of $38.9 million in fiscal year 2010 compared to a loss on early extinguishment of debt of $2.2 million in fiscal year 2009.

Income taxes:

The effective income tax rate for fiscal year 2010 was (7.8)%, resulting in an income tax expense of $5.0 million. This compares to an effective income tax rate of 1.1% for fiscal year 2009 that resulted in an income tax benefit of $3.2 million. The fiscal year 2010 income tax expense is primarily comprised of an income tax expense resulting from operations in certain foreign jurisdictions totaling $4.1 million. The $4.1 million income tax expense from foreign operations includes a $2.8 million increase in the valuation allowance reserve of a subsidiary operating in Italy. In addition, there is a $1.0 million state income tax expense, primarily due to the gain on the early extinguishment of debt. No federal income tax expense is recognized for the U.S. taxable income for fiscal year 2010 due to the utilization of a portion of the federal net operating loss carryforward resulting in a partial release of the valuation allowance. Future fluctuations in the valuation allowance are expected to result in an income tax rate below the 30% to 36% historical average.

Segment Review:

The following table sets forth the operating income (loss) for each of our business segments for the fiscal years 2010 and 2009 respectively. The table also sets forth each of the segments' net sales as a percent to total net sales, the net income (loss) components as a percent to total net sales, and the percentage increase or decrease of such components over the prior year (amounts in thousands, except percentages):

	For the Fiscal Years Ended			
	March 31, 2010		March 31, 2009	
	Amount	% to Total Sales	Amount	% to Total Sales
Net sales				
Tantalum	$ 343,797	46.7%	$ 366,675	45.6%
Ceramic	171,153	23.2%	175,916	21.9%
Film and Electrolytic	221,385	30.1%	261,794	32.5%
Total	$ 736,335	100.0%	$ 804,385	100.0%
Gross margin				
Tantalum	$ 77,882	10.6%	$ 52,709	6.6%
Ceramic	50,490	6.9%	9,874	1.2%
Film and Electrolytic	(3,675)	-0.5%	5,251	0.7%
Total	124,697	16.9%	67,834	8.4%
SG&A expenses				
Tantalum	36,948	5.0%	37,062	4.6%
Ceramic	19,223	2.6%	21,803	2.7%
Film and Electrolytic	29,914	4.1%	34,640	4.3%
Total	86,085	11.7%	93,505	11.6%
R&D expenses				
Tantalum	11,139	1.5%	13,999	1.7%
Ceramic	6,167	0.8%	8,291	1.0%
Film and Electrolytic	4,758	0.6%	6,666	0.8%
Total	22,064	3.0%	28,956	3.6%
Restructuring charges				
Tantalum	1,941	0.3%	11,388	1.4%
Ceramic	543	0.1%	7,143	0.9%
Film and Electrolytic	6,714	0.9%	12,343	1.5%
Total	9,198	1.2%	30,874	3.8%
Goodwill impairment charges				
Tantalum			24,378	3.0%
Ceramic			12,418	1.5%
Film and Electrolytic			137,531	17.1%
Total			174,327	21.7%

	For the Fiscal Years Ended			
	March 31, 2010		March 31, 2009	
	Amount	% to Total Sales	Amount	% to Total Sales
Write down of long-lived assets				
Tantalum	656	0.1%	1,855	0.2%
Ceramic			65,769	8.2%
Total	656	0.1%	67,624	8.4%
(Gain) loss on sales and disposals of assets				
Tantalum	(1,226)	-0.2%	(26,435)	-3.3%
Ceramic	183		1,123	0.1%
Film and Electrolytic	40		(193)	
Total	(1,003)	-0.1%	(25,505)	-3.2%
Curtailment gain on benefit plans				
Tantalum			(22,856)	-2.8%
Ceramic			(7,979)	-1.0%
Total				