KEMET CORP
Form 10-Q
February 01, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2018
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: 001-15491

KEMET CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	57-0923789
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

KEMET Tower, One East Broward Blvd., Fort Lauderdale, Florida 33301
(Address of principal executive offices, zip code)

(954) 766-2800
(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer	x	Accelerated filer	o	Non-accelerated filer	o	Smaller reporting company	o	Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. o

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

The number of shares outstanding of the registrant's common stock, par value $0.01 per share, as of January 30, 2019 was 57,786,812.

KEMET CORPORATION AND SUBSIDIARIES
Form 10-Q for the Quarter ended December 31, 2018

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PART I - FINANCIAL INFORMATION
Item 1 - Financial Statements

KEMET CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Amounts in thousands, except per share data)
(Unaudited)

	December 31, 2018	March 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$234,359	$286,846
Accounts receivable, net [(1)]	147,848	146,561
Inventories, net	233,337	204,386
Prepaid expenses and other current assets	40,294	41,160
Total current assets [(1)]	655,838	678,953
Property, plant and equipment, net of accumulated depreciation of $867,313 and $866,614 as of December 31, 2018 and March 31, 2018, respectively	438,265	405,316
Goodwill	40,294	40,294
Intangible assets, net	55,170	59,907
Equity method investments	12,861	12,016
Deferred income taxes	11,722	13,837
Other assets [(1)]	17,107	12,600
Total assets [(1)]	$1,231,257	$1,222,923
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$28,416	$20,540
Accounts payable	144,418	139,989
Accrued expenses [(1)]	98,279	125,119
Income taxes payable	3,684	2,010
Total current liabilities [(1)]	274,797	287,658
Long-term debt	277,260	304,083
Other non-current obligations [(1)]	125,856	152,249
Deferred income taxes [(1)]	14,911	15,058
Total liabilities [(1)]	692,824	759,048
Stockholders' equity:		
Preferred stock, par value $0.01, authorized 10,000 shares, none issued	—	—
Common stock, par value $0.01, authorized 175,000 shares, issued 57,819 and 56,641 shares at December 31, 2018 and March 31, 2018, respectively	578	566
Additional paid-in capital	462,882	462,737
Retained earnings [(1)]	113,664	3,370
Accumulated other comprehensive income (loss) [(1)]	(38,691)	(2,798)
Total stockholders' equity[(1)]	538,433	463,875
Total liabilities and stockholders' equity[(1)]	$1,231,257	$1,222,923

[(1)] Period ended March 31, 2018 adjusted due to the adoption of Accounting Standard Codification ("ASC") 606, Revenue from Contracts with Customers ("ASC 606"). Refer to Note 1, "Basis of Financial Statement Presentation."

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Net sales [1]	$350,175	$306,576	$1,027,024	$882,090
Operating costs and expenses:				
Cost of sales [1]	226,425	214,288	694,888	630,781
Selling, general and administrative expenses	48,271	47,751	149,071	125,799
Research and development [1]	11,357	9,907	33,040	28,690
Restructuring charges	1,718	3,530	1,622	6,536
(Gain) loss on write down and disposal of long-lived assets	788	(902)	1,611	(922)
Total operating costs and expenses [1]	288,559	274,574	880,232	790,884
Operating income (loss) [1]	61,616	32,002	146,792	91,206
Non-operating (income) expense:				
Interest income	(572)	(252)	(1,325)	(413)
Interest expense	4,480	7,407	18,803	25,732
Acquisition (gain) loss	—	(310)	—	(137,183)
Other (income) expense, net	14,006	4,769	6,646	21,061
Income (loss) before income taxes and equity income (loss) from equity method investments [1]	43,702	20,388	122,668	182,009
Income tax expense (benefit) [1]	2,600	2,037	9,200	6,041
Income (loss) before equity income (loss) from equity method investments [1]	41,102	18,351	113,468	175,968
Equity income (loss) from equity method investments	(296)	238	(301)	75,879
Net income (loss) [1]	$40,806	$18,589	$113,167	$251,847
Net income (loss) per basic share	$0.70	$0.33	$1.96	$4.91
Net income (loss) per diluted share	$0.69	$0.32	$1.91	$4.31
Dividends declared per share	$0.05	—	$0.05	—
Weighted-average shares outstanding:				
Basic	58,010	56,778	57,717	51,340
Diluted	59,111	58,937	59,116	58,431

[1] Three and nine months ended December 31, 2017 adjusted due to the adoption of ASC 606.
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See accompanying notes to the unaudited condensed consolidated financial statements.

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KEMET CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Amounts in thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Net income (loss) [1]	$40,806	$18,589	$113,167	$251,847
Other comprehensive income (loss):				
Foreign currency translation gains (losses) [1]	(5,152)	6,516	(32,504)	20,481
Defined benefit pension plans, net of tax	139	147	426	(6)
Defined benefit post-retirement plan adjustments	(38)	(47)	(116)	(141)
Equity interest in investee's other comprehensive income (loss)	8	(5)	(9)	5,568
Foreign exchange contracts	(2,605)	(5,330)	(1,855)	(6,807)
Excluded component of fair value hedges	(1,835)	—	(1,835)	—
Other comprehensive income (loss) [1]	(9,483)	1,281	(35,893)	19,095
Total comprehensive income (loss) [1]	$31,323	$19,870	$77,274	$270,942

[1] Three and nine months ended December 31, 2017 adjusted due to the adoption of ASC 606.

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Nine Months Ended December 31,	
Operating activities:	2018	2017
Net income (loss) [(1)]	$113,167	$251,847
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities, net of effect of acquisitions:		
Depreciation and amortization [(1)]	38,405	37,366
Equity (income) loss from equity method investments	301	(75,879)
Acquisition (gain) loss	—	(137,183)
Non-cash debt and financing costs	1,085	1,820
(Gain) loss on early extinguishment of debt	15,988	486
Stock-based compensation expense	10,011	4,837
Receivable write down	84	162
(Gain) loss on write down and disposal of long-lived assets	1,611	(922)
Pension and other post-retirement benefits	3,823	3,897
Change in deferred income taxes [(1)]	1,395	(3,792)
Change in operating assets [(1)]	(42,130)	25,820
Change in operating liabilities [(1)]	(61,485)	(26,258)
Other [(1)]	472	582
Net cash provided by (used in) operating activities [(1)]	82,727	82,783
Investing activities:		
Capital expenditures	(77,650)	(30,925)
Acquisitions, net of cash received	—	167,129
Proceeds from sale of assets	169	1,227
Proceeds from dividend	776	2,731
Contributions to equity method investments	(2,000)	—
Net cash provided by (used in) investing activities	(78,705)	140,162
Financing activities:		
Payments on revolving line of credit	—	(33,881)
Payments of long-term debt	(332,063)	(361,625)
Proceeds from issuance of debt	293,348	334,978
Early extinguishment of debt costs	(3,234)	—
Debt issuance costs	(1,797)	(5,002)
Proceeds from exercise of stock warrants	—	8,838
Proceeds from exercise of stock options	480	5,122
Payment of dividends	(2,873)	—
Net cash provided by (used in) financing activities	(46,139)	(51,570)
Net increase (decrease) in cash, cash equivalents and restricted cash	(42,117)	171,375
Effect of foreign currency fluctuations on cash, cash equivalents and restricted cash [(1)]	(7,236)	3,017
Cash, cash equivalents, and restricted cash, at beginning of fiscal period	286,846	109,774
Cash, cash equivalents, and restricted cash, at end of fiscal period	237,493	284,166
Less: Restricted cash at end of period	3,134	—
Cash and cash equivalents at end of period	$234,359	$284,166

[(1)] Nine months ended December 31, 2017 adjusted due to the adoption of ASC 606.

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See accompanying notes to the unaudited condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Basis of Financial Statement Presentation

The Condensed Consolidated Financial Statements contained herein are unaudited and have been prepared from the books and records of KEMET Corporation and its subsidiaries ("KEMET" or the "Company"). In the opinion of management, the Condensed Consolidated Financial Statements reflect all adjustments, consisting only of normal recurring adjustments unless otherwise disclosed, necessary for a fair presentation of the results for the interim periods. The Condensed Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q, and therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles ("U.S. GAAP"). Although the Company believes the disclosures are adequate to make the information presented not misleading, it is suggested that these Condensed Consolidated Financial Statements be read in conjunction with the audited financial statements and notes thereto included in the Company's Form 10-K for the fiscal year ended March 31, 2018 (the "Company's 2018 Annual Report").

The accompanying Condensed Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. In consolidation, all intercompany amounts and transactions have been eliminated. Net sales and operating results for the three and nine months ended December 31, 2018 are not necessarily indicative of the results to be expected for the full year.

The Company's significant accounting policies are presented in the Company's 2018 Annual Report. Refer to the "Change in accounting policies" section below for changes in accounting policies since the issuance of the Company's 2018 Annual Report.

Use of Estimates and Assumptions

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

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

Change in Accounting Policies

The Company implemented ASC 606, Revenue from Contracts with Customers ("ASC 606") as of April 1, 2018. As a result, the Company changed its accounting policy for revenue recognition. Except as discussed below, there have not been any other changes to the Company's significant accounting policies since the issuance of the Company's 2018 Annual Report.

Research & development

The Company previously recognized all research and development ("R&D") expenses when they were incurred. Under ASC 606, the Company capitalizes a portion of research and development expenses which directly relate to an existing or anticipated contract or specific business opportunity and amortizes them consistently with the pattern of transfer of the goods to which the asset relates. If the expected amortization period is one year or less, the research and development activities are expensed when incurred.

Specialized equipment

At times, the Company enters into contracts with customers that contain capital arrangements for specialized equipment obtained in order to manufacture products in accordance with customer specifications. The Company may agree to purchase and assemble specific tooling equipment on behalf of the customer and ultimately resell the equipment (and transfer title and control) to the customer. Previously, the Company accumulated such costs on the balance sheet and subsequently applied the receipt of payment from the customer against the asset, thus resulting in no impact to the statement of operations. Under ASC 606, the Company recognizes a distinct performance obligation for the capital arrangement and records the selling price of the equipment as a component of revenue and cost of goods sold at a point in time when the customer obtains control over the asset.

Material up-front fees

At times, the Company enters into contracts with customers whereby the customer agrees to reimburse the Company for certain manufacturing equipment, capacity expansion, and fulfillment costs required to manufacture product which meets the customer’s required specifications. Previously, the Company recognized the reimbursement revenue in accordance with the contractual reimbursement schedule. Under ASC 606, the Company recognizes material up-front fees as options that provide the customer with a material right to acquire future goods. The Company applies the practical expedient in paragraph 606-10-55-45 and does not estimate the standalone selling price of the option, but instead allocates the transaction price to the optional goods by reference to the goods expected to be provided and the corresponding expected consideration. Accordingly, the revenue is recognized over the longer of the contract period or the estimated length of the product life cycle, which approximates the period during which the customer is expected to benefit.

Significant Accounting Policies

Revenue Recognition

The Company recognizes revenue under the guidance provided in ASC 606. Consistent with the terms of ASC 606, the Company records revenue on product sales in the period in which the Company satisfies its performance obligation by transferring control over a product to a customer. The amount of revenue recognized reflects the consideration the Company expects to receive in exchange for transferring products to a customer. The Company has elected the practical expedient under ASC 606-10-32-18 and does not consider the effects of a financing component on the promised amount of consideration because the period between when the Company transfers a product to a customer and when the customer pays for that product is one year or less. As performance obligations are expected to be fulfilled in one year or less, the Company has elected the practical expedient under ASC 606-10-50-14 and has not disclosed information relating to remaining performance obligations.

The Company sells its products to distributors, original equipment manufacturers (“OEM”), and electronic manufacturing services providers (“EMS”), and the sales price may include adjustments for sales discounts, price adjustments, and sales allowances. The Company has elected the practical expedient under ASC 606-10-10-4 and evaluates these sales-related adjustments on a portfolio basis. The principle forms of these adjustments include:

- Inventory price protection and ship-from stock and debit (“SFSD”) programs,
- Distributor rights of returns,
- Sales allowances, and
- Limited assurance warranties

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

Select distributors have the right to return a certain portion of their purchased inventory to KEMET from the previous fiscal quarter. The Company estimates future returns based on historical return patterns and records a corresponding right of return asset and refund liability as a component of the line items, “Inventories, net” and “Accrued expenses,” respectively, on the Condensed Consolidated Balance Sheets. The Company also offers volume based rebates on a case-by-case basis to certain customers in each of the Company’s sales channels.

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

The Company provides a limited assurance warranty on products that meet certain specifications to select customers. The warranty coverage period is generally limited to one year for United States based customers and a length of time commensurate with regulatory requirements or industry practice outside the United States. A warranty cannot be purchased by the customer separately and, as a result, product warranties are not considered to be separate performance obligations. The Company’s liability under these warranties is generally limited to a replacement of the product or refund of the purchase price of the product. Warranty costs were not material for the three and nine months ended December 31, 2018 and 2017.

Shipping and handling costs are included in cost of sales.

Disaggregation of Revenue

Refer to Note 8, “Segment and Geographic Information” for revenue disaggregated by primary geographical market, sales channel, and major product line.

Contract liabilities

Contract liabilities consist of advance payments from certain customers within the OEM channel for the development of additional production capacity. The current and noncurrent portions of these liabilities are included as a component of the line items, “Accrued expenses” and “Other non-current obligations,” respectively, on the Condensed Consolidated Balance Sheets.

The balance of net contract liabilities consisted of the following at December 31, 2018 and March 31, 2018 (amounts in thousands):

	December 31, 2018	March 31, 2018
Contract liabilities - current (Accrued expenses)	$ 256	$ 256
Contract liabilities - noncurrent (Other non-current obligations)	320	513
Total contract liabilities	$ 576	$ 769

In the three and nine months ended December 31, 2018, the Company recognized revenue of $0.1 million and $0.2 million related to contract liabilities at March 31, 2018. In the three and nine months ended December 31, 2017, the Company recognized revenue of $0.1 million and $0.2 million related to contract liabilities at March 31, 2017. Revenue related to contract liabilities is recorded on the Condensed Consolidated Statements of Operations line item, "Net sales."

Contract assets

The Company recognizes an asset from the costs incurred to fulfill a contract if those costs directly relate to an existing or anticipated contract or specific business opportunity, if the costs enhance our own resources that will be used in satisfying performance obligations in the future, and the costs are expected to be recovered through subsequent sale of product to the customer. The Company has determined that certain direct labor, materials, and allocations of overhead incurred within research and development activities meet the requirements to be capitalized. As most of our contracts and customer specific business opportunities do not include a stated term, the Company amortizes these capitalized costs over the expected product life cycle, which is consistent with the estimated transfer of goods to the customer. Capitalized contract costs were $1.7 million and $2.2 million at December 31, 2018 and March 31, 2018, respectively. Capitalized contracts costs are recorded on the Condensed Consolidated Balance Sheets in the line item, “Other assets.” Amortization expense related to the contract costs was $0.2 million and $0.6 million for the three and nine months ended December 31, 2018, respectively, and $0.2 million and $0.7 million for the three and nine months ended December 31, 2017, respectively. There was no impairment loss in relation to the costs capitalized for the three and nine months ended December 31, 2018 and 2017. Amortization expense related to contract assets is recorded on the Condensed Consolidated Statements of Operations line item "Cost of sales."

Fair Value Measurement

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

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

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

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

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 and March 31, 2018 are as follows (amounts in thousands):

	Carrying Value December 31, 2018	Fair Value December 31, 2018	Fair Value Measurement Using			Carrying Value March 31, 2018	Fair Value March 31, 2018	Fair Value Measurement Using		
			Level 1	Level 2[3]	Level 3			Level 1	Level 2[3]	Level 3
Assets (Liabilities):										
Money markets [1][2]	$ 63,701	$ 63,701	$ 63,701	$ —	$ —	$ 83,891	$ 83,891	$ 83,891	$ —	$ —
Derivative assets	4,951	4,951	—	4,951	—	1,154	1,154	—	1,154	—
Derivative liabilities	(4,273)	(4,273)	—	(4,273)	—	—	—	—	—	—
Total debt	(305,676)	(315,905)	—	(315,905)	—	(324,623)	(343,125)	—	(343,125)	—

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[1] Included in the line item "Cash and cash equivalents" on the Condensed Consolidated Balance Sheets.

[2] Certificates of Deposit of $35.4 million and $33.9 million that mature in three months of less are included within the balance as of December 31, 2018 and March 31, 2018, respectively.

[3] Derivative assets and liabilities fair value was determined by using a third-party matrix-pricing model that uses significant inputs derived from or corroborated by observable market data. Where applicable, these models discount future cash flow amounts using market-based observable inputs, including interest rate yield curves, and forward and spot prices for currencies. For Total debt, the valuation approach used to calculate fair value was a discounted cash flow based on the current market rate.

Deferred Income Taxes

The Company accounts for income taxes 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 expected to apply to taxable income in the fiscal years in which those temporary differences are expected to be recovered or settled. The Company periodically evaluates its net deferred tax assets based on an assessment of historical performance, ability to forecast future events, and the likelihood that the Company will realize the benefits through future taxable income. Valuation allowances are recorded to reduce the net deferred tax assets to the amount that is more likely than not to be realized. For interim reporting purposes, the Company records income taxes based on the expected annual effective income tax rate, taking into consideration global forecasted tax results and the effect of discrete tax events. The Company makes certain estimates and judgments in the calculation for the provision for income taxes, in the resulting tax liabilities, and in the recoverability of deferred tax assets. All deferred tax assets are reported as noncurrent in the Condensed Consolidated Balance Sheets.

Inventories

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

	December 31, 2018	March 31, 2018
Raw materials and supplies	$95,023	$88,408
Work in process	68,464	65,417
Finished goods	86,556	66,907
Subtotal	250,043	220,732

Inventory reserves	(16,706)	(16,346)
Inventories, net	$233,337	$204,386

Recently Issued Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract. This ASU amends the definition of a hosting arrangement and requires a customer in a hosting arrangement that is a service contract to capitalize certain implementation costs as if the arrangement was an internal-use software project. Under this ASU, a customer will apply ASC 350-40 to determine whether to capitalize implementation costs of the cloud computing arrangement that is a service contract or expense them as incurred. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this guidance on the Company's Condensed Consolidated Financial Statements.

In March 2018, the FASB issued ASU No. 2018-05, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin ("SAB") No. 118. The amendments in this update provide guidance on when to record and disclose provisional amounts for certain income tax effects of the Tax Cuts and Jobs Act (the "Act"). The amendments also require any provisional amounts or subsequent adjustments to be included in net income from continuing operations. Additionally, this ASU discusses required disclosures that an entity must make with regard to the Act. This ASU is effective immediately as new information is available to adjust provisional amounts that were previously recorded. The Company has adopted this standard and has finalized its accounting for the Act. See Note 11, "Income Taxes" for additional information on the Act.

In August 2017, the FASB issued ASU No. 2017-12, Targeted Improvements to Accounting for Hedging Activities ("ASU 2017-12"). The ASU amends and simplifies existing guidance in order to allow companies to more accurately present the economic effects of risk management activities in the financial statements. For cash flow hedges existing on the date of adoption, an entity is required to eliminate the separate measurement of ineffectiveness in earnings by means of a cumulative-effect adjustment to accumulated other comprehensive income ("AOCI") with a corresponding adjustment to the opening balance of retained earnings. ASU 2017-12 becomes effective for fiscal years and interim periods beginning after December 15, 2018 and early adoption is permitted. In the third quarter of fiscal year 2019, the Company entered into new derivative contracts and elected to early adopt the ASU effective as of October 1, 2018. The adoption of the standard did not result in a cumulative-effect adjustment since the Company has not previously had any ineffectiveness associated with its cash flows hedges.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments. The update clarifies how cash receipts and cash payments in certain transactions are presented and classified in the statement of cash flows. The effective date of this update is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The update requires retrospective application to all periods presented but may be applied prospectively if retrospective application is impracticable. The Company adopted this guidance as of April 1, 2018. In connection with the adoption of this ASU, the Company elected to account for distributions received from equity method investees using the nature of distributions approach, under which distributions are classified based on the nature of activity that generated them. The other provisions of this ASU did not have an impact on the Company's Condensed Consolidated Cash Flows.

In February 2016, the FASB issued ASU No. 2016-02 ("ASU 2016-02"), Leases, as modified by ASU 2017-03, Transition and Open Effective Date Information, requiring lessees to recognize a right-of-use asset and a lease liability for all leases. The ASU also requires expanded disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. In July 2018, the FASB issued an update which provides an additional transition method allowing entities to only apply the new lease standard in the year of adoption. The Company will adopt ASU 2016-02 on April 1, 2019. We are currently collecting the necessary information on our lease population, establishing a new lease accounting process, and designing new internal controls for the new process. The Company continues to assess the potential effects of this ASU, which have not yet been quantified. The Company's assessment, which it expects to substantially complete in the fourth quarter of fiscal year 2019, includes a detailed review of the Company's lease contracts and a comparison of its historical accounting policies and practices to ASC 2016-02. Based on the Company's progress in reviewing its leasing arrangements across all of its business units, the Company expects to recognize a material amount of lease assets and liabilities on its Condensed Consolidated Balance Sheet upon adoption of the standard. This ASU is not expected to have a material effect on the amount of expense recognized in connection with the Company's current practice. For information about the Company's future lease commitments as of March 31, 2018, see Note 15, "Commitments and Contingencies," in the Company's 2018 Form 10-K.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which superseded existing accounting standards for revenue recognition and created a single framework. ASU 2014-09 and its amendments were included primarily in ASC 606. The core principle of ASC 606 is that an entity should recognize revenue for the transfer of goods or services equal to an amount that it expects to be entitled to receive for those goods or services. ASC 606 also requires additional disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. The Company adopted the requirements of ASC 606 effective in the first quarter of fiscal year 2019, using the full retrospective method, which required us to restate each prior reporting period presented. The Company has applied practical expedient ASC 606-10-65-1(f)(3) and notes that all previously reported historical amounts are adjusted for the impact of ASC 606.

Adoption of the requirements in ASC 606 impacted our previously reported Condensed Consolidated Balance Sheet as of March 31, 2018, our Condensed Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended December 31, 2017, and the Condensed Consolidated Statement of Cash Flows for the nine months ended December 31, 2017 as follows (amounts in thousands, except per share data):

Condensed Consolidated Balance Sheet

	As of March 31, 2018		
	As Previously Reported	ASC 606 Adjustments	As Adjusted
Assets			
Account receivable, net	$144,076	$ 2,485	$146,561
Total current assets	676,468	2,485	678,953
Other assets	10,431	2,169	12,600
Total assets	1,218,269	4,654	1,222,923
Liabilities and Stockholders' Equity			
Accrued expenses	$122,377	$ 2,742	$125,119
Total current liabilities	284,916	2,742	287,658
Deferred income taxes	14,571	487	15,058
Other non-current obligations	151,736	513	152,249
Total liabilities	755,306	3,742	759,048
Retained earnings (deficit)	2,675	695	3,370
Accumulated other comprehensive income (loss)	(3,015)	217	(2,798)
Total stockholders' equity	462,963	912	463,875
Total liabilities and stockholders' equity	1,218,269	4,654	1,222,923

Condensed Consolidated Statement of Operations

	Three Months Ended December 31, 2017		
	As Previously Reported	ASC 606 Adjustments	As Adjusted
Net sales	$306,408	$ 168	$306,576
Operating costs and expenses:			
Cost of sales	213,947	341	214,288
Research and development	10,005	(98)	9,907
Operating income (loss)	32,077	(75)	32,002
Income tax expense	2,060	(23)	2,037
Net income (loss)	18,641	(52)	18,589

	Nine Months Ended December 31, 2017		
	As Previously Reported	ASC 606 Adjustments	As Adjusted
Net sales	$881,879	$ 211	$882,090
Operating costs and expenses:			
Cost of sales	629,905	876	630,781
Research and development	29,057	(367)	28,690
Operating income (loss)	91,504	(298)	91,206
Income tax expense	6,090	(49)	6,041

Net income (loss)	252,096	(249)	251,847

Condensed Consolidated Statement of Comprehensive Income

	Three Months Ended December 31, 2017		
	As Previously Reported	ASC 606 Adjustments	As Adjusted
Net income (loss)	$18,641	$ (52)	$ 18,589
Foreign currency translation gains (losses)	6,503	13	6,516
Other comprehensive income (loss)	1,268	13	1,281
Total comprehensive income (loss)	19,909	(39)	19,870

	Nine Months Ended December 31, 2017		
	As Previously Reported	ASC 606 Adjustments	As Adjusted
Net income (loss)	$252,096	$ (249)	$251,847
Foreign currency translation gains (losses)	20,301	180	20,481
Other comprehensive income (loss)	18,915	180	19,095
Total comprehensive income (loss)	271,011	(69)	270,942

Condensed Consolidated Statement of Cash Flows

	Nine Months Ended December 31, 2017		
	As Previously Reported	ASC 606 Adjustments	As Adjusted
Operating activities			
Net income (loss)	$252,096	$ (249)	$251,847
Depreciation and amortization	36,694	672	37,366
Change in deferred income taxes	(3,792)	—	(3,792)
Change in operating assets	26,296	(476)	25,820
Change in operating liabilities	(26,316)	58	(26,258)
Other	499	83	582
Net cash provided by (used in) operating activities	82,695	88	82,783
Effect of foreign currency fluctuations on cash	3,105	(88)	3,017

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

Note 2. Acquisitions

Sale of Electro-Mechanical Business and Acquisition of Remaining Interest in TOKIN

Between February 1, 2013 and April 19, 2017, KEMET, through its wholly-owned subsidiary, KEMET Electronics Corporation (“KEC”), held a 34% economic interest in TOKIN Corporation (“TOKIN”) pursuant to a Stock Purchase Agreement (the “Stock Purchase Agreement”) by and among KEC, TOKIN and NEC Corporation (“NEC”), as calculated based on the number of common shares held by KEC, directly and indirectly, in proportion to the aggregate number of common and preferred shares of TOKIN outstanding as of such date. TOKIN was established in Japan in 1938 and is engaged in production and distribution of tantalum capacitors, transmitting communication devices, magnetic devices, piezoelectric devices and sensors. TOKIN has six manufacturing locations throughout Asia and was previously operating as a joint venture with NEC.

On April 14, 2017, TOKIN closed on the sale of its electro-mechanical devices (“EMD”) business to NTJ Holdings 1 Ltd. (“NTJ”), a special purpose entity that is owned by funds managed or operated by Japan Industrial Partners, Inc. (“JIP”), pursuant to a master sale and purchase agreement (the “EMD Master Sale and Purchase Agreement”) previously entered into between TOKIN, NTJ and JIP (“Sale of EMD”). The initial selling price for EMD was JPY 48.2 billion, or approximately $431.0 million, using the March 31, 2017 exchange rate of 111.823 Japanese Yen (“JPY”) to 1.00 U.S. Dollar (“USD”), and was subject to certain working capital adjustments. In the third quarter of fiscal year 2018, the selling price was adjusted by JPY 1.1 billion or approximately $10.1 million (using the December 31, 2017 exchange rate of 112.574 Japanese Yen to 1.00 U.S. Dollar) related to working capital and other adjustments in accordance with the EMD Master Sale and Purchase Agreement. At the closing of the Sale of EMD, TOKIN used a portion of the sale proceeds to repay debt related to a shareholder loan from NEC. The TOKIN historical balance sheet was adjusted to reflect the removal of net assets sold and other items directly impacted by the Sale of EMD. Additionally, due to KEMET's 34% equity interest in TOKIN held as of the closing, adjustments were made to reflect KEMET's accounting for the Sale of EMD in accordance with the equity method of accounting.

On April 19, 2017, pursuant to a stock purchase agreement (the "TOKIN Purchase Agreement") dated February 23, 2017 between KEC and NEC, KEC completed its acquisition, subject to final purchase price adjustments, of the remaining 66% economic interest in TOKIN, and as a result, TOKIN became a 100% owned indirect subsidiary of KEMET (the "TOKIN Acquisition"). Under the terms of the TOKIN Purchase Agreement, KEC paid NEC JPY 16.2 billion, or approximately $148.6 million (using the April 19, 2017 exchange rate of 109.007 Japanese Yen to 1.00 U.S. Dollar), for all of the outstanding shares of TOKIN it did not already own. The preliminary purchase price was comprised of JPY 6.0 billion, or approximately $55.0 million (using the April 19, 2017 exchange rate of 109.007 Japanese Yen to 1.00 U.S. Dollar) plus JPY 10.2 billion, or approximately $93.6 million, which represented one-half of the estimated excess net cash proceeds ("Excess Cash") from the Sale of EMD. The acquisition price was subject to working capital adjustments pursuant to the EMD Master Sale and Purchase Agreement. As a result of these working capital adjustments, the acquisition price was increased by JPY 0.3 billion, or approximately $3.0 million (using the September 30, 2017 exchange rate of 112.502 Japanese Yen to 1.00 U.S. Dollar) in the second quarter of fiscal year 2018.

The Company believes the acquisition of TOKIN expands KEMET's geographic presence, combining KEMET's presence in the western hemisphere and TOKIN's excellent position in Asia to enhance customer reach and creates an entrance into Japan for KEMET. The Company believes TOKIN's product portfolio is a strong complement to KEMET's existing product portfolio. KEMET believes the combination creates a leader in the combined polymer and tantalum capacitors market. The acquisition also enhances KEMET's product diversification with entry into Electro-Magnetic Compatible ("EMC") devices, as well as sensors and actuators. With the increased scale, the Company anticipates optimizing costs through competitive raw materials sourcing and maximizing operating efficiencies. Consistent with expectations, the acquisition has been accretive to earnings with improvement in Net income, Adjusted EBITDA and cash flows. TOKIN's tantalum capacitor business is included within KEMET's Solid Capacitor segment ("Solid Capacitors") and the remainder of TOKIN's business formed a new reportable segment for KEMET in fiscal year 2018, Electro-Magnetic, Sensors, and Actuators ("MSA").

Note 3. Debt

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

	December 31, 2018	March 31, 2018
Term Loan Credit Agreement [(1)]	$ —	$318,782
TOKIN Term Loan Facility [(2)]	291,152	—
Customer Advances [(3)]	8,870	—
Other [(4)]	5,654	5,841
Total debt	305,676	324,623
Current maturities	(28,416)	(20,540)
Total long-term debt	$ 277,260	$304,083

(1) Amount shown is net of discount, bank issuance costs, and other indirect issuance costs of $13.3 million as of March 31, 2018 .

(2) Amount shown is net of discount, bank issuance costs, and other indirect issuance costs of $9.1 million as of December 31, 2018.

(3) Amount shown is net of discount of $0.6 million at December 31, 2018.
(4) Amounts are shown net of discounts of $0.4 million and $0.5 million at December 31, 2018 and March 31, 2018, respectively.

The line item “Interest expense” on the Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2018 and 2017, consists of the following (amounts in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Contractual interest expense	$4,034	$6,680	$17,775	$23,762
Capitalized interest	(41)	(41)	(161)	(80)
Amortization of debt issuance costs	53	98	262	410
Amortization of debt (premium) discount	383	570	780	1,326
Imputed interest on acquisition-related obligations	14	28	43	84
Interest expense on capital lease	37	72	104	230
Total interest expense	$4,480	$7,407	$18,803	$25,732

Term Loan Credit Agreement

On November 7, 2018, the Company repaid the full outstanding balance under the Company's prior Term Loan Credit Agreement dated April 28, 2017 (“Term Loan Credit Agreement”) with Bank of America, N.A.. The Company incurred a $16.0 million loss on the debt extinguishment and the loss is included in the line item “Other (income) expense, net” in the Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2018. Interest payable related to the Term Loan Credit Agreement included in the line item “Accrued expenses” on the Condensed Consolidated Balance Sheets was $0.2 million as of March 31, 2018.

TOKIN Term Loan Facility

On October 29, 2018, the Company entered into a JPY 33.0 billion Term Loan Agreement (the “TOKIN Term Loan Facility”) by and among TOKIN, the lenders party thereto (the “Lenders”) and Sumitomo Mitsui Trust Bank, Limited in its capacity as agent (the “Agent”), arranger and Lender. Funding for the Term Loan facility occurred on November 7, 2018. The proceeds, which were net of an arrangement fee withheld from the funding amount, were JPY 32.1 billion, or approximately $283.9 million using the exchange rate as of November 7, 2018.

The proceeds from the TOKIN Term Loan Facility were used by TOKIN to make intercompany loans (the “Intercompany Loans”) to the Company. The proceeds, along with other cash on hand, were used to prepay in full the outstanding amounts under the Term Loan Credit Agreement of $323.4 million and a prepayment premium of 1.0%.

The TOKIN Term Loan Facility consists of (i) a JPY 16.5 billion (approximately $146.0 million using the exchange rate as of November 7, 2018) Term Loan A tranche (the “Term Loan A”) and (ii) a JPY 16.5 billion (approximately $146.0 million using the exchange rate as of November 7, 2018) Term Loan B tranche (the “Term Loan B” and, together with the Term Loan A, collectively, the “Term Loans”). Principal payments under Term Loan A are required semi-annually, in the amount of JPY 1.4 billion (approximately $12.5 million using the exchange rate as of December 31, 2018), while the principal of Term Loan B is due in one payment at maturity. At each reporting period, the carrying value of the loan is translated from Japanese Yen to U.S. Dollars using the spot exchange rate as of the end of the reporting period.

Interest payments are due semi-annually on the Term Loans, with the interest rate based on a margin over the six-month Japanese TIBOR. The applicable margin for Term Loan A is 2.00% and for Term Loan B is 2.25%. Japanese TIBOR at December 31, 2018 was 0.13%. Interest payable related to the TOKIN Term Loan Facility included in the line item “Accrued expenses” on the Condensed Consolidated Balance Sheets was $1.0 million as of December 31, 2018.

The Term Loans mature on September 30, 2024. KEMET and certain subsidiaries of TOKIN provided guarantees of the obligations under the Term Loans, which will also be secured by certain assets, properties and equity interests of TOKIN and its material subsidiaries. The TOKIN Term Loan Facility contains customary covenants applicable to both the Company and to TOKIN, including maintenance of a consolidated leverage ratio, the absence of two consecutive years of consolidated operating losses and the maintenance of certain required levels of consolidated net assets. The TOKIN Term Loan Facility Agreement also contains customary events of default. The Company may prepay the Term Loans at any time, subject to certain notice requirements and reimbursement of loan breakage costs.

Revolving Line of Credit

In connection with the closing of the TOKIN Term Loan Facility on October 29 2018, the Company entered into Amendment No. 10 to the Loan and Security Agreement, Waiver and Consent (the “Revolver Amendment”), by and among KEMET, KEC, the other borrowers named therein, the financial institutions party thereto as lenders and Bank of America, N.A., a national banking association, as agent for the lenders. The Revolver Amendment provides the Company with, among other things, increased flexibility for certain restricted payments (including dividends), and also released certain pledges that allowed the Company to obtain the TOKIN Term Loan Facility in order to pay down the Term Loan Credit Agreement. The revolving line of credit has a facility amount of up to $75.0 million, which is based on factors including outstanding eligible accounts receivable, inventory, and equipment collateral.

As of December 31, 2018, there were no borrowings under the revolving line of credit, and the Company’s available borrowing capacity, which is based on factors including outstanding eligible accounts receivable, inventory, and equipment collateral, under the Revolver Amendment was $62.4 million.

Customer Advances

In September and November 2018, the Company entered into two agreements with different customers (the “Customers”) pursuant to which the Customers agreed to make advances (collectively, the “Advances”) to the Company in an aggregate amount of up to $66.0 million (collectively, the “Customer Capacity Agreements”). The Company is using these Advances to fund the purchase of production equipment and to make other investments and improvements in its business and operations (the “Investments”) in order to increase overall capacity to produce various electronic components of the type and part as may be sold by the Company to the Customers from time to time. The Company retains all rights to the production equipment purchased with the funds from the Advances. The Advances from the Customers are being made in quarterly installments (“Installments”) over an expected period of 18 to 24 months from the effective date of the Customer Capacity Agreements, with the amount of each of the Installments based on the costs and expenses that have been incurred, or are reasonably expected to be incurred or committed to be incurred, by the Company in connection with the Investments during the quarter applicable to such Installments.

The Advances will be repaid beginning on the date that production from the Investments is sufficient to meet the Company's obligations under the agreements with the Customers. Repayments will be made on a quarterly basis as determined by calculations that generally take into account the number of components purchased by the Customers during the quarter. Repayments based on the calculations will continue until either the Advances are repaid in full, or December 31, 2038 for both Customers. The Company has a quarterly repayment cap in the agreement with each of the Customers and is not required to make any quarterly repayments to the Customers that in the aggregate exceed $1.7 million. If the Customers do not purchase a number of components that would require full repayment of the Advances by December 31, 2038, then the Advances shall be deemed repaid in full. Additionally, if the Customers do not purchase a number of components that would require a payment on the Advances for a period of 16 consecutive quarters, the Advances shall be deemed repaid in full.

As of December 31, 2018, the Company has received a total of $9.5 million in Advances from these Customers. Since the debt is non-interest bearing, we have recorded debt discounts on the Advances. These discounts will be amortized over the expected life of the Advances through interest expense.

As of December 31, 2018, the Company had $3.1 million in cash that was restricted to be used to fund these Investments. Restricted cash is recorded within “Prepaid expenses and other current assets” in the Condensed Consolidated Balance Sheets.

Other Debt

In January 2017, KEMET’s wholly-owned subsidiary, KEMET Electronics Portugal, S.A., received the first part of an interest free loan from the Portuguese Government in the amount of EUR 2.2 million (or $2.5 million) to be used for fixed asset purchases. In July 2017, KEMET Electronics Portugal, S.A. received the second part of the loan in the amount of EUR 0.3 million (or $0.3 million). The loan has a total term of eight years ending February 1, 2025. The loan will be repaid through semi-annual payments beginning on August 1, 2019. The first payment will be in the amount of EUR 0.2 million (or $0.2 million) beginning on August 1, 2019 and the remaining payments will be in the amount of EUR 0.2 million (or $0.2 million). Since the debt is non-interest bearing, the Company has recorded a debt discount in the amount of EUR 0.6 million (or $0.7 million) with an offsetting reduction to fixed assets. This discount will be amortized over the life of the loan through interest expense. If certain conditions are met, such as increased headcount, increased revenue, and increased gross value added, a portion of the loan could be forgiven during fiscal year 2020.

TOKIN has a a short term borrowing pursuant to an agreement with The 77 Bank Limited, located in Japan, in the amount of 350.0 million Yen (or $3.2 million). This was existing TOKIN debt when the Company purchased TOKIN is fiscal year 2018. The interest rate for the borrowing is the Japanese TIBOR plus 40 basis points. The loan was originally due in September 2018 and was extended to September 2019. The loan agreement automatically renews annually if both parties choose not to terminate or modify it.

Note 4. Goodwill and Intangible Assets

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

	December 31, 2018			March 31, 2018		
	Carrying Amount	Accumulated Amortization	Net Amount	Carrying Amount	Accumulated Amortization	Net Amount
Indefinite Lived Intangible Assets:						
Trademarks	$15,213	$ —	$15,213	$15,474	$ —	$15,474
Amortizing Intangibles:						
Patents (10 - 18 years)	26,662	(11,691)	14,971	26,662	(10,625)	16,037
Customer relationships (10 - 21 years)	38,296	(13,310)	24,986	40,131	(11,735)	28,396
Other	222	(222)	—	238	(238)	—
Total amortizing intangibles	65,180	(25,223)	39,957	67,031	(22,598)	44,433
Total intangible assets	$80,393	$ (25,223)	$55,170	$82,505	$ (22,598)	$59,907

For each of the three months ended December 31, 2018 and 2017, amortization related to intangibles was $1.1 million, consisting of amortization related to patents of $0.4 million and amortization related to customer relationships of $0.7 million. For each of the nine months ended December 31, 2018 and 2017, amortization related to intangibles was $3.4 million consisting of amortization related to patents of $1.1 million and amortization related to customer relationships of $2.3 million.

The weighted-average useful life for patents was 15.8 years as of December 31, 2018 and March 31, 2018, respectively, and 12.3 years for customer relationships as of December 31, 2018 and March 31, 2018, respectively. Estimated amortization of intangible assets for each of the next five fiscal years is $4.5 million, and thereafter, amortization will total $17.5 million. Estimated amortization of patents for each of the next five fiscal years is $1.4 million, and thereafter, amortization will total $7.9 million. Estimated amortization of customer relationships for each of the next five fiscal years is $3.1 million, and thereafter, amortization will total $9.6 million.

There were no changes in the carrying amount of goodwill for the nine months ended December 31, 2018. The Company’s goodwill balance was $40.3 million at December 31, 2018 and March 31, 2018.

Note 5. Restructuring Charges

The Company has implemented restructuring plans, which include programs to increase competitiveness by removing excess capacity, relocating production to lower cost locations, relocating corporate functions to the new headquarters, and eliminating unnecessary costs throughout the Company. Significant restructuring plans in progress or recently completed as of December 31, 2018 are summarized below (amounts in thousands):

		Total expected to be incurred		Incurred during quarter ended December 31, 2018		Cumulative incurred to date	
Restructuring Plan	Segment	Personnel Reduction Costs	Relocation & Exit Costs	Personnel Reduction Costs	Relocation & Exit Costs	Personnel Reduction Costs	Relocation & Exit Costs
US overhead function relocation to Fort Lauderdale, FL	Corporate	$2,655	$ 909	$ —	$ —	$2,655	$ 909
TOKIN operational & overhead function reduction in force	MSA, Corporate, and Solid Capacitors [(1)]	5,293	—	696	—	5,093	—
Tantalum powder facility relocation	Solid Capacitors	897	2,098	—	—	—	—
Axial electrolytic production relocation from Granna to Evora	Film and Electrolytic	1,200	2,600	—	778	—	778

(1) Cumulative personnel reduction costs incurred to date are comprised of $3.8 million, $1.2 million, and $0.1 million within the MSA, Corporate, and Solid Capacitors segments, respectively.

A summary of the expenses aggregated in the Condensed Consolidated Statements of Operations line item "Restructuring charges" in the three and nine months ended December 31, 2018 and 2017, is as follows (amounts in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Personnel reduction costs	$961	$3,278	$877	$4,389
Relocation and exit costs	757	252	745	2,147
Restructuring charges	$1,718	$3,530	$1,622	$6,536

Three Months Ended December 31, 2018

The Company incurred $1.7 million in restructuring charges in the three months ended December 31, 2018 comprised of $1.0 million in personnel reduction costs and $0.8 million in manufacturing relocation and exit costs.

The personnel reduction costs of $1.0 million were related to $0.7 million in costs related to headcount reductions in the TOKIN legacy group across various internal and operational functions and $0.3 million in severance charges related to personnel reductions in the Film and Electrolytic segment resulting from a reorganization of the segment's management structure.

The manufacturing relocation and exit costs of $0.8 million related to the relocation of axial electrolytic production equipment from the plant in Granna, Sweden to the Company's plant in Evora, Portugal as the Company is in the process of shutting down operations at the Granna plant.

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Nine Months Ended December 31, 2018

The Company incurred $1.6 million in restructuring charges in the nine months ended December 31, 2018 comprised of $0.9 million in personnel reduction costs and $0.7 million in manufacturing relocation and exit costs.

The personnel reduction costs of $0.9 million were primarily related to $0.7 million in costs related to headcount reductions in the TOKIN legacy group across various internal and operational functions and $0.3 million in severance charges related to personnel reductions in the Film and Electrolytic segment resulting from a reorganization of the segment's management structure.

The manufacturing relocation and exit costs of $0.7 million were primarily related to the relocation of axial electrolytic production equipment from the plant in Granna, Sweden to the Company's plant in Evora, Portugal.

Three Months Ended December 31, 2017

The Company incurred $3.5 million in restructuring charges in the three months ended December 31, 2017 comprised of $3.3 million in personnel reduction costs and $0.3 million in manufacturing relocation and exit costs.

The personnel reduction costs of $3.3 million were related to $2.2 million in costs due to a voluntary reduction in force in the Film and Electrolytic segment's Italian operations, $1.0 million in severance charges across various overhead functions in the Simpsonville, South Carolina office as these functions were relocated to the Company's new corporate headquarters in Fort Lauderdale, and $0.1 million in costs related to headcount reductions within the TOKIN legacy group related to a European sales reorganization.

The manufacturing relocation and exit costs of $0.3 million primarily consisted of $0.1 million in expenses related to the relocation of the K-Salt operations to the existing Matamoros, Mexico plant and $0.1 million in exit costs related to the shut-down of operations for KEMET Foil Manufacturing, LLC (“KFM”) in Knoxville, Tennessee.

Nine Months Ended December 31, 2017

The Company incurred $6.5 million in restructuring charges in the nine months ended December 31, 2017 comprised of $4.4 million in personnel reduction costs and $2.1 million in manufacturing relocation and exit costs.

The personnel reduction costs of $4.4 million were related to $2.2 million in costs due to a voluntary reduction in force in the Film and Electrolytic segment's Italian operations, $2.1 million in severance charges across various overhead functions in the Simpsonville, South Carolina office as these functions were relocated to the Company's new corporate headquarters in Fort Lauderdale, Florida, and $0.1 million in headcount reductions within the TOKIN legacy group related to a European sales reorganization.

The manufacturing relocation and exit costs of $2.1 million primarily consisted of $0.9 million in lease termination penalties related to the relocation of global marketing, finance and accounting, and information technology functions to the Company's Fort Lauderdale, Florida office, $0.8 million in expenses related to the relocation of the K-Salt operations to the existing Matamoros, Mexico plant, $0.4 million in exit costs related to the shut-down of operations for KFM, and $0.1 million related to the transfer of certain Tantalum production from Simpsonville, South Carolina to Victoria, Mexico.

Reconciliation of Restructuring Liability

A reconciliation of the beginning and ending liability balances for restructuring charges included in the line items “Accrued expenses” and “Other non-current obligations” on the Condensed Consolidated Balance Sheets for the three and nine months ended December 31, 2018 and 2017 is as follows (amounts in thousands):

	Three Months Ended December 31, 2018		Three Months Ended December 31, 2017	
	Personnel Reductions	Manufacturing Relocations	Personnel Reductions	Manufacturing Relocations
Beginning of period	$2,837	$ 310	$1,494	$ 312
Costs charged to expense	961	757	3,278	252
Costs paid or settled	(1,258)	(757)	(444)	(252)
Change in foreign exchange	16	9	49	(1)
End of period	$2,556	$ 319	$4,377	$ 311

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	Nine Months Ended December 31, 2018		Nine Months Ended December 31, 2017	
	Personnel Reductions	Manufacturing Relocations	Personnel Reductions	Manufacturing Relocations
Beginning of period	$9,629	$ 330	$999	$ 406
TOKIN opening balance	—	—	—	314
Costs charged to expense	877	745	4,389	2,147
Costs paid or settled	(7,702)	(745)	(1,080)	(2,553)
Change in foreign exchange	(248)	(11)	69	(3)
End of period	$2,556	$ 319	$4,377	$ 311

Note 6. Comprehensive Income (Loss) and Accumulated Other Comprehensive Income

Changes in AOCI for the three and nine months ended December 31, 2018 and 2017 include the following components (amounts in thousands):

	Foreign Currency Translation [1]	Post-Retirement Benefit Plan Adjustments [2]	Defined Benefit Pension Plans, Net of Tax [3]	Ownership Share of Equity Method Investees' Other Comprehensive Income (Loss)	Foreign Exchange Contracts	Excluded Component of Fair Value Hedges	Net Accumulated Other Comprehensive Income (Loss) [2]
Balance at September 30, 2018	$ (17,637)	$ 801	$ (14,544)	$ 268	$ 1,904	$ —	$ (29,208)
Other comprehensive income (loss) before reclassifications [4]	(3,543)	—	—	8	(2,435)	(3,407)	(9,377)
Amounts reclassified out of AOCI	(1,609)	(38)	139	—	(170)	1,572	(106)
Other comprehensive income (loss)	(5,152)	(38)	139	8	(2,605)	(1,835)	(9,483)
Balance at December 31, 2018	$ (22,789)	$ 763	$ (14,405)	$ 276	$ (701)	$ (1,835)	$ (38,691)

	Foreign Currency Translation [1]	Post-Retirement Benefit Plan Adjustments [2]	Defined Benefit Pension Plans, Net of Tax [3]	Ownership Share of Equity Method Investees' Other Comprehensive Income (Loss)	Foreign Exchange Contracts	Excluded Component of Fair Value Hedges	Net Accumulated Other Comprehensive Income (Loss) [2]
Balance at September 30, 2017 [5]	$ (11,591)	$ 1,040	$ (15,151)	$ 274	$ 1,430	$ —	$ (23,998)
Other comprehensive income (loss) before reclassifications	6,516	—	—	(5)	(7,130)	—	(619)
Amounts reclassified out of AOCI	—	(47)	147	—	1,800	—	1,900
Other comprehensive income (loss)	6,516	(47)	147	(5)	(5,330)	—	1,281
Balance at December 31, 2017	$ (5,075)	$ 993	$ (15,004)	$ 269	$ (3,900)	$ —	$ (22,717)

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	Foreign Currency Translation [1][2]	Post-Retirement Benefit Plan Adjustments	Defined Benefit Pension Plans, Net of Tax [3]	Ownership Share of Equity Method Investees' Other Comprehensive Income (Loss)	Foreign Exchange Contracts	Excluded Component of Fair Value Hedges	Net Accumulated Other Comprehensive Income (Loss) [2]
Balance at March 31, 2018	$ 9,715	$ 879	$ (14,831)	$ 285	$ 1,154	$ —	$ (2,798)
Other comprehensive income (loss) before reclassifications [4]	(30,895)	—	—	(9)	(2,130)	(3,407)	(36,441)
Amounts reclassified out of AOCI	(1,609)	(116)	426	—	275	1,572	548
Other comprehensive income (loss)	(32,504)	(116)	426	(9)	(1,855)	(1,835)	(35,893)
Balance at December 31, 2018	$ (22,789)	$ 763	$ (14,405)	$ 276	$ (701)	$ (1,835)	$ (38,691)

	Foreign Currency Translation [1][2]	Post-Retirement Benefit Plan Adjustments	Defined Benefit Pension Plans, Net of Tax [3]	Ownership Share of Equity Method Investees' Other Comprehensive Income (Loss)	Foreign Exchange Contracts	Excluded Component of Fair Value Hedges	Net Accumulated Other Comprehensive Income (Loss) [2]
Balance at March 31, 2017	$ (25,556)	$ 1,134	$ (14,998)	$ (5,299)	$ 2,907	$ —	$ (41,812)
Other comprehensive income (loss) before reclassifications	20,481	—	—	5,568	(9,711)	—	16,338
Amounts reclassified out of AOCI	—	(141)	(6)	—	2,904	—	2,757
Other comprehensive income (loss)	20,481	(141)	(6)	5,568	(6,807)	—	19,095
Balance at December 31, 2017	$ (5,075)	$ 993	$ (15,004)	$ 269	$ (3,900)	$ —	$ (22,717)

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[1] Due primarily to the Company's valuation allowance on deferred tax assets, there were no significant deferred tax effects associated with the cumulative currency translation gains and losses during the three and nine months ended December 31, 2018 and 2017.

[2] September 30, 2017, December 31, 2017 and March 31, 2018 were adjusted due to the adoption of ASC 606.

[3] Ending balance is net of tax of $2.2 million as of December 31, 2018 and 2017, respectively.

[4] Foreign currency translation for both the three and nine months ended December 31, 2018 includes losses of $3.6 million related to a derivative instrument accounted for as a net investment hedge. Refer to Note 13, Derivatives, for further information.

[5] Foreign currency translation opening balance adjusted due to fair value adjustments recorded retroactively during the third quarter of fiscal year 2018 related to the TOKIN acquisition.

Note 7. Equity Method Investments

The following table provides a reconciliation of equity method investments to the Company's Condensed Consolidated Balance Sheets (amounts in thousands):

	December 31, 2018	March 31, 2018
Nippon Yttrium Co., Ltd ("NYC")	$ 8,095	$ 8,148
NT Sales Co., Ltd ("NTS")	1,110	998
	2,938	2,870

Novasentis Inc. (“Novasentis”)				
KEMET Jianghai Electronics Components Co., Ltd (“KEMET Jianghai”)	718		—	
	$	12,861	$	12,016

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TOKIN's Joint Ventures - NYC and NTS

NYC was established in 1966 by TOKIN (previously Tohoku Metal Industries Co., Ltd.) and Mitsui Mining and Smelting Co., Ltd ("Mitsui"). NYC was established to commercialize yttrium oxides and the Company owns 30% of NYC's stock. The carrying amount of the Company's equity investment in NYC was $8.1 million at both December 31, 2018 and March 31, 2018.

NTS was established in 2004 by TOKIN, however subsequent to its formation, TOKIN sold 67% of its stock. NTS provides world-class electronic devices by utilizing global procurement networks and the Company owns 33% of NTS' stock. During the quarter ended December 31, 2018, a significant portion of NTS' sales were TOKIN's products. The carrying amount of the Company's equity investment in NTS was $1.1 million and $1.0 million as of December 31, 2018 and March 31, 2018, respectively.

Summarized transactions between KEMET and NTS were as follows (amounts in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
KEMET's sales to NTS	$12,805	$12,837	$37,402	$38,802
NTS' sales to KEMET	495	278	1,266	1,002

Investment in Novasentis

In fiscal year 2018, KEMET invested in the Series-D round of funding of Novasentis, a leading developer of film-based haptic actuators. Novasentis produces the world's thinnest electro mechanical polymer-based actuators that provide rich haptic feedback for a variety of applications, including AR/VR and Wearables. Novasentis supplies its "smart" film and KEMET applies its expertise in manufacturing film capacitors to the development and commercial production of the actuators. The Company's ownership percentage in Novasentis is 25% and has 1 of 3 seats on Novasentis' board of directors. Additionally, KEMET has an exclusive manufacturing supply agreement, whereby Novasentis will purchase goods exclusively from KEMET and KEMET shall manufacture and sell goods exclusively to Novasentis.

While the Company determined that Novasentis is a variable interest entity, the Company concluded that it is not the primary beneficiary of Novasentis. Accordingly, the Company accounts for its investment in Novasentis under the equity method of accounting.

The carrying amount of the Company's equity investment in Novasentis was $2.9 million as of both December 31, 2018 and March 31, 2018. As of both December 31, 2018 and March 31, 2018, the Company's maximum exposure to loss in its investment in Novasentis was limited to the carrying amount of its investment.

Under the equity method, the Company's share of profits and losses, and impairment charges from equity method investments are included in "Equity income (loss) from equity method investments" in the Condensed Consolidated Statements of Operations.

KEMET Jianghai Joint Venture

On January 29, 2018, the Company entered into a joint venture agreement with JIANGHAI (Nantong) Film Capacitor Co., Ltd ("Jianghai Film"), a subsidiary of Nantong Jianghai Capacitor Co., Ltd ("Jianghai") for the formation of KEMET Jianghai, a limited liability company located in Nantong, China. KEMET Jianghai was officially formed on May 16, 2018 to manufacture axial electrolytic capacitors and (H)EV Film DC brick capacitors, for distribution through the KEMET and Jianghai Film sales channels. The Company's ownership percentage is 50% and the Company and Jianghai Film will be equally represented on the joint venture's board of directors.

The Company's initial capital contribution to KEMET Jianghai was made during the second quarter of fiscal year 2019, and the Company accounts for its investment using the equity method due to the related nature of operations and its ability to influence the joint venture's decisions. As of December 31, 2018, the carrying amount of the Company's equity investment in KEMET Jianghai was $0.7 million.

Note 8. Segment and Geographic Information
The Company is organized into three segments: Solid Capacitors, the Film and Electrolytic segment (“Film and Electrolytic”) and MSA.
The segments are responsible for their respective manufacturing sites as well as their research and development efforts. The Company does not allocate corporate indirect selling, general and administrative (“SG&A”) or shared R&D expenses to the segments.
Solid Capacitors
Solid Capacitors operates in ten manufacturing sites in the United States, Mexico, and Asia, and operates innovation centers in the United States and Japan. Solid Capacitors primarily produces tantalum, aluminum polymer, and ceramic capacitors, which are sold globally. Solid Capacitors also produces tantalum powder used in the production of tantalum capacitors.
Film and Electrolytic
Film and Electrolytic operates in ten manufacturing sites throughout Europe and Asia, and maintain product innovation centers in Italy, Portugal, and Sweden. Film and Electrolytic primarily produces film, paper, and wet aluminum electrolytic capacitors, which are sold globally. In addition, the Film and Electrolytic segment designs and produces electromagnetic interference filters.
MSA
MSA operates in four manufacturing sites throughout Asia and operates a product innovation center in Japan. MSA primarily produces electro-magnetically compatible ("EMC") materials and devices, piezo materials and actuators, and various types of sensors, which are sold globally.

In the following tables, revenue is disaggregated by primary geographical market, sales channel, and major product lines. The tables also include reconciliations of the disaggregated revenue with the reportable segments for the three and nine months ended December 31, 2018 and 2017 (amounts in thousands):

	Three Months Ended December 31, 2018			
	Solid Capacitors	Film and Electrolytic	MSA	Total
Primary geographical markets				
Asia and the Pacific Rim ("APAC")	$101,566	$ 12,193	$19,233	$132,992
Europe, the Middle East, and Africa ("EMEA")	47,863	28,718	517	77,098
North and South America ("Americas")	79,782	9,053	2,550	91,385
Japan and Korea ("JPKO")	9,472	207	39,021	48,700
	$238,683	$ 50,171	$61,321	$350,175
Sales channel				
OEM	$70,426	$ 18,768	$57,929	$147,123
Distributor	124,467	25,277	2,022	151,766
EMS	43,790	6,126	1,370	51,286
	$238,683	$ 50,171	$61,321	$350,175
Major product lines				
Tantalum	$143,680	$ —	$—	$143,680
Ceramics	95,003	—	—	95,003
Film and Electrolytic	—	50,171	—	50,171
MSA	—	—	61,321	61,321
	$238,683	$ 50,171	$61,321	$350,175

	Three Months Ended December 31, 2017			
	Solid Capacitors	Film and Electrolytic (1)	MSA	Total (1)
Primary geographical markets				
APAC	$93,549	$ 13,997	$16,694	$124,240
EMEA	37,174	31,122	548	68,844
Americas	56,574	6,349	2,174	65,097
JPKO	7,752	—	40,643	48,395
	$195,049	$ 51,468	$60,059	$306,576
Sales channel				
OEM	$67,267	$ 20,804	$58,094	$146,165
Distributor	92,898	24,651	1,837	119,386
EMS	34,884	6,013	128	41,025
	$195,049	$ 51,468	$60,059	$306,576
Major product lines				
Tantalum	$126,625	$ —	$—	$126,625
Ceramics	68,424	—	—	68,424
Film and Electrolytic	—	51,468	—	51,468
MSA	—	—	60,059	60,059
	$195,049	$ 51,468	$60,059	$306,576

(1) Three months ended December 31, 2017 adjusted due to the adoption of ASC 606.

	Nine Months Ended December 31, 2018			
	Solid Capacitors	Film and Electrolytic	MSA	Total
Primary geographical markets				
APAC	$308,473	$ 40,490	$55,376	$404,339
EMEA	135,401	92,157	1,920	229,478
Americas	216,231	22,546	7,048	245,825
JPKO	27,872	561	118,949	147,382
	$687,977	$ 155,754	$183,293	$1,027,024
Sales channel				
OEM	$215,365	$ 61,303	$173,416	$450,084
Distributor	349,046	76,607	7,215	432,868
EMS	123,566	17,844	2,662	144,072
	$687,977	$ 155,754	$183,293	$1,027,024
Major product lines				
Tantalum	$426,047	$ —	$—	$426,047
Ceramics	261,930	—	—	261,930
Film and Electrolytic	—	155,754	—	155,754
MSA	—	—	183,293	183,293
	$687,977	$ 155,754	$183,293	$1,027,024

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	Nine Months Ended December 31, 2017			
	Solid Capacitors	Film and Electrolytic (1)	MSA	Total (1)
Primary geographical markets				
APAC	$261,520	$ 42,460	$56,245	$360,225
EMEA	112,139	88,289	1,494	201,922
Americas	169,317	16,200	5,912	191,429
JPKO	25,459	—	103,055	128,514
	$568,435	$ 146,949	$166,706	$882,090
Sales channel				
OEM	$193,182	$ 63,539	$156,254	$412,975
Distributor	265,290	66,278	10,024	341,592
EMS	109,963	17,132	428	127,523
	$568,435	$ 146,949	$166,706	$882,090
Major product lines				
Tantalum	$368,479	$ —	$—	$368,479
Ceramics	199,956	—	—	199,956
Film and Electrolytic	—	146,949	—	146,949
MSA	—	—	166,706	166,706
	$568,435	$ 146,949	$166,706	$882,090

(1) Nine months ended December 31, 2017 adjusted due to the adoption of ASC 606.

The following table reflects each segment's operating income (loss), depreciation and amortization expenses, and restructuring charges for the three and nine months ended December 31, 2018 and 2017 (amounts in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Operating income (loss) [1]:				
Solid Capacitors	$95,105	$60,991	$249,456	$170,417
Film and Electrolytic [2]	3,383	499	8,686	3,890
MSA	5,774	9,932	18,961	18,055
Corporate	(42,646)	(39,420)	(130,311)	(101,156)
	$61,616	$32,002	$146,792	$91,206
Depreciation and amortization expense:				
Solid Capacitors	$6,866	$6,900	$21,401	$21,490
Film and Electrolytic [2]	2,434	2,728	7,252	8,281
MSA	1,144			