KEMET CORP
Form 10-Q
February 04, 2014
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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, 2013
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.)

2835 KEMET WAY, SIMPSONVILLE, SOUTH CAROLINA 29681
(Address of principal executive offices, zip code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ý NO o

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

Large accelerated filer o	Accelerated filer x

Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o YES ý NO

The number of shares outstanding of the registrant’s common stock, par value $0.01 per share, as of January 31, 2014 was 45,125,371.

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KEMET CORPORATION AND SUBSIDIARIES
Form 10-Q for the Quarter ended December 31, 2013

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Exhibit 101

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PART I - FINANCIAL INFORMATION
Item 1 - Financial Statements

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

	December 31, 2013 (Unaudited)	March 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$55,594	$95,978
Accounts receivable, net	93,542	93,774
Inventories, net	200,853	198,888
Prepaid expenses and other	37,732	41,100
Deferred income taxes	5,752	4,167
Current assets of discontinued operations	10,293	9,517
Total current assets	403,766	443,424
Property and equipment, net of accumulated depreciation of $794,784 and $771,093 as of December 31, 2013 and March 31, 2013, respectively	303,741	303,942
Goodwill	35,584	35,584
Intangible assets, net	37,722	38,646
Investment in NEC TOKIN	49,713	52,738
Restricted cash	14,028	17,397
Deferred income taxes	8,400	7,994
Other assets	8,885	10,150
Noncurrent assets of discontinued operations	486	1,716
Total assets	$862,325	$911,591
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$27,672	$10,793
Accounts payable	71,598	72,002
Accrued expenses	75,822	91,950
Income taxes payable and deferred income taxes	3,660	1,074
Current liabilities of discontinued operations	5,862	5,661
Total current liabilities	184,614	181,480
Long-term debt, less current portion	374,223	372,707
Other non-current obligations	54,900	69,022
Deferred income taxes	8,033	8,542
Noncurrent liabilities of discontinued operations	2,728	2,924
Stockholders' equity:		
Preferred stock, par value $0.01, authorized 10,000 shares, none issued	—	—
Common stock, par value $0.01, authorized 175,000 shares, issued 46,508 shares at December 31, 2013 and March 31, 2013	465	465
Additional paid-in capital	466,316	467,096
Retained deficit	(217,291)	(163,235)
Accumulated other comprehensive income	20,332	7,694
Treasury stock, at cost (1,384 and 1,519 shares at December 31, 2013 and March 31, 2013, respectively)	(31,995)	(35,104)
Total stockholders' equity	237,827	276,916
Total liabilities and stockholders' equity	$862,325	$911,591

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Quarters Ended December 31,		Nine Month Periods Ended December 31,	
	2013	2012	2013	2012
Net sales	$207,339	$197,698	$617,845	$624,363
Operating costs and expenses:				
Cost of sales	169,677	162,733	530,722	525,653
Selling, general and administrative expenses	22,431	25,313	70,826	77,119
Research and development	6,027	6,290	17,703	20,183
Restructuring charges	2,194	3,886	8,169	13,672
Goodwill impairment	—	—	—	1,092
Write down of long-lived assets	3,358	3,084	3,358	7,318
Net (gain) loss on sales and disposals of assets	29	(196)	71	(123)
Total operating costs and expenses	203,716	201,110	630,849	644,914
Operating income (loss)	3,623	(3,412)	(13,004)	(20,551)
Non-operating (income) expense:				
Interest income	(7)	(54)	(182)	(111)
Interest expense	10,349	10,247	30,291	30,840
Other (income) expense, net	(1,349)	(1,641)	(49)	(1,126)
Loss from continuing operations before income taxes and equity income (loss) from NEC TOKIN	(5,370)	(11,964)	(43,064)	(50,154)
Income tax expense	1,033	611	4,293	4,004
Loss from continuing operations before equity income (loss) from NEC TOKIN	(6,403)	(12,575)	(47,357)	(54,158)
Equity income (loss) from NEC TOKIN	1,657	—	(2,962)	—
Loss from continuing operations	(4,746)	(12,575)	(50,319)	(54,158)
Loss from discontinued operations	(1,076)	(1,682)	(3,737)	(2,773)
Net loss	$(5,822)	$(14,257)	$(54,056)	$(56,931)
Net loss per basic share:				
Loss from continuing operations	$(0.11)	$(0.28)	$(1.12)	$(1.21)
Loss from discontinued operations	$(0.02)	$(0.04)	$(0.08)	$(0.06)
Net loss	$(0.13)	$(0.32)	$(1.20)	$(1.27)
Net loss per diluted share:				
Loss from continuing operations	$(0.11)	$(0.28)	$(1.12)	$(1.21)
Loss from discontinued operations	$(0.02)	$(0.04)	$(0.08)	$(0.06)
Net loss	$(0.13)	$(0.32)	$(1.20)	$(1.27)
Weighted-average shares outstanding:				
Basic	45,120	44,918	45,078	44,879
Diluted	45,120	44,918	45,078	44,879

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Quarters Ended December 31,		Nine Month Periods Ended December 31,	
	2013	2012	2013	2012
Net loss	$(5,822)	$(14,257)	$(54,056)	$(56,931)
Other comprehensive income (loss):				
Foreign currency translation gains (losses)	3,879	3,456	12,510	(603)
Defined benefit pension plans, net of tax impact	106	288	402	(854)
Post-retirement plan adjustments	(81)	(82)	(212)	(243)
Equity interest in investee’s other comprehensive income (loss)	1,113	—	(62)	—
Other comprehensive income (loss)	5,017	3,662	12,638	(1,700)
Total comprehensive loss	$(805)	$(10,595)	$(41,418)	$(58,631)

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Nine Month Periods Ended December 31,	
	2013	2012
Net loss from continuing operations	$(50,319)	$(54,158)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	37,352	33,389
Equity loss from NEC TOKIN	2,962	—
Amortization of debt discount and debt issuance costs	2,817	3,046
Stock-based compensation expense	2,288	3,523
Long-term receivable write down	1,484	—
Change in value of NEC TOKIN options	(1,334)	—
Net (gain) loss on sales and disposals of assets	71	(123)
Pension and other post-retirement benefits	24	232
Write down of long-lived assets	3,358	7,318
Net curtailment and settlement gain on benefit plans	—	(1,088)
Goodwill impairment	—	1,092
Change in deferred income taxes	(2,496)	1,517
Change in operating assets	8,579	(13,632)
Change in operating liabilities	(28,296)	(25,156)
Other	474	(137)
Net cash used in operating activities	(23,036)	(44,177)
Investing activities:		
Capital expenditures	(24,993)	(38,349)
Change in restricted cash	3,532	(24,000)
Net cash used in investing activities	(21,461)	(62,349)
Financing activities:		
Proceeds from revolving line of credit	21,000	—
Proceeds from issuance of debt	—	39,825
Deferred acquisition payments	(11,703)	(6,617)
Payments of long-term debt	(2,858)	(1,901)
Proceeds from exercise of stock options	86	58
Debt issuance costs	—	(275)
Net cash provided by financing activities	6,525	31,090
Net decrease in cash and cash equivalents	(37,972)	(75,436)
Effect of foreign currency fluctuations on cash	864	(81)
Net cash provided by (used in) operating activities of discontinued operations	(3,276)	2,555
Cash and cash equivalents at beginning of fiscal period	95,978	210,521
Cash and cash equivalents at end of fiscal period	$55,594	$137,559

See accompanying notes to the unaudited condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements

Note 1. Basis of Financial Statement Presentation

The condensed consolidated financial statements contained herein are unaudited and have been prepared from the books and records of KEMET Corporation and its subsidiaries ("KEMET" or the "Company"). In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q, and therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles ("U.S. GAAP"). Although the Company believes 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, 2013 (the "Company's 2013 Annual Report").

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. In consolidation, all significant intercompany amounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to current year presentation. Net sales and operating results for the quarter and nine month periods ended December 31, 2013 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 2013 Annual Report.

Use of Estimates and Assumptions

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

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

Recently Issued Accounting Pronouncements

New accounting standards adopted

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11, Income Taxes (Topic 740). ASU 2013-11 requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with certain exceptions. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. The Company does not expect the adoption of this guidance to have any material impact on its financial position, results of operations, comprehensive income or liquidity.

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (Topic 830). The ASU revised the authoritative guidance on accounting for cumulative translation adjustment specifying that a cumulative translation adjustment should be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or a group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For sales of an equity method investment that is a foreign entity, a pro rata portion of cumulative translation adjustment attributable to the investment would be recognized in earnings upon sale of the investment. The guidance is effective for fiscal years beginning after December 15, 2013. The Company does not expect the adoption of this guidance to have a material impact on its financial position, results of operations, comprehensive income or liquidity.

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220), Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The ASU adds new disclosure requirements for items

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reclassified out of accumulated other comprehensive income. The ASU does not amend any existing requirements for reporting net income or other comprehensive income in the financial statements. The ASU is effective for the Company for interim and annual periods beginning after April 1, 2013. The adoption of the ASU had no effect on the Company's financial position, results of operations, comprehensive income or liquidity.

In July 2012, the FASB issued ASU No. 2012-02, Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment, which states that an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. This provision is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. This accounting guidance is not expected to have a material impact on the Company's financial position, results of operations, comprehensive income or liquidity.

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

Restricted Cash

As discussed in Note 2, Debt, the Company received a $24.0 million prepayment from an original equipment manufacturer ("OEM") and, through December 31, 2013, utilized $12.3 million for the purchase of manufacturing equipment. The remaining proceeds of $11.7 million are classified as restricted cash at December 31, 2013.

A bank guarantee in the amount of EUR 1.5 million ($2.1 million) was issued by a European bank on behalf of the Company in August 2006 in conjunction with the establishment of a Value-Added Tax ("VAT") registration in The Netherlands. Accordingly, a deposit was placed with the European bank for EUR 1.7 million ($2.3 million). While the deposit is in KEMET's name, and KEMET receives all interest earned by this deposit, the deposit is pledged to the European bank, and the bank can use the funds if a valid claim against the bank guarantee is made. The bank guarantee will remain valid until it is discharged by the beneficiary.

Fair Value Measurement

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

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

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

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

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Assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 and March 31, 2013 are as follows (amounts in thousands):

	Carrying Value December 31, 2013	Fair Value December 31, 2013	Fair Value Measurement Using Level 1	Level 2 (2)	Level 3	Carrying Value March 31, 2013	Fair Value March 31, 2013	Fair Value Measurement Using Level 1	Level 2 (2)	Level 3
Assets:										
Money markets (1)	$ 504	$ 504	$ 504	$ —	$ —	$ 29,984	$ 29,984	$ 29,984	$ —	$ —
Total debt	401,895	398,982	358,550	40,432	—	383,500	393,928	369,200	24,728	—
NEC TOKIN options, net (3)	1,823	1,823	—	—	1,823	489	489	—	—	489

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

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

(3) See Note 7, Investment in NEC TOKIN, for a description of the NEC TOKIN options. The value of the options is interrelated and depends on the enterprise value of NEC TOKIN Corporation and its EBITDA over the duration of the instruments. Therefore, the options have been valued using option pricing methods in a Monte Carlo simulation.

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

March 31, 2013	$489
Increase in value of NEC TOKIN options	1,334
December 31, 2013	$1,823

Inventories

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

	December 31, 2013	March 31, 2013
Raw materials and supplies	$94,282	$84,149
Work in process	61,191	64,499
Finished goods	71,787	68,704
	227,260	217,352
Inventory reserves (1)	(26,407)	(18,464)
	$200,853	$198,888

(1) During the nine month period ended December 31, 2013, the Company recorded a $3.9 million reserve for inventory held by a third party.

Warrant

As of December 31, 2013 and March 31, 2013, 8.4 million shares were subject to the warrant held by K Equity, LLC.

Revenue Recognition

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

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

A portion of sales is made to distributors under agreements allowing certain rights of return, inventory price protection, and “ship-from-stock and debit” (“SFSD”) programs common in the industry.

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

Estimates used in determining sales allowances are subject to various factors including, but not limited to, changes in economic conditions, pricing changes, product demand, inventory levels in the supply chain, the effects of technological change, and other variables that might result in changes to our estimates.

The Company provides a limited warranty to customers that the Company's products meet certain specifications. The warranty period is generally limited to one year, and the Company's liability under the warranty is generally limited to a replacement of the product or refund of the purchase price of the product. Warranty costs as a percentage of net sales were 1.5% or less for the quarters and nine month periods ended December 31, 2013 and 2012. The Company recognizes warranty costs when they are both probable and reasonably estimable.

Note 2. Discontinued Operations

The Film and Electrolytic Business group has initiated a plan to dispose of its Machinery division. Management expects the sale to be completed in the fourth quarter of fiscal year 2014.

Net sales and net operating loss from the Company's discontinued operation for the quarters and nine month periods ended December 31, 2013 and 2012 were (in thousands):

	Quarters Ended December 31,		Nine Month Periods Ended December 31,	
	2013	2012	2013	2012
Net sales	$1,711	$2,599	$6,668	$15,557
Operating loss	(1,009)	(1,878)	(4,030)	(2,804)

Note 3. Debt

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

	December 31, 2013	March 31, 2013
10.5% Senior Notes, net of premium of $3,304 and $3,773 as of December 31, 2013 and March 31, 2013, respectively	$ 358,304	$358,773
Advanced payment from OEM, net of discount of $469 and $1,056 as of December 31, 2013 and March 31, 2013, respectively	20,690	22,944
Revolving line of credit	21,000	—
Other	1,901	1,783
Total debt	401,895	383,500
Current maturities	(27,672)	(10,793)

Total long-term debt	$	10.6	Subscription Agreement by and among Mount Knowledge Holdings, Inc., Mount Knowledge Asia, Ltd., and Language Key Asia, Ltd. dated December 31, 2010 [incorporated by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K filed with the SEC on January 5, 2011]
10.7	Share Exchange Agreement by and among Mount Knowledge Holdings, Inc., Mount Knowledge Asia, Ltd.,, Language Key Asia, Ltd., Dirk Haddow, Mark Wood, Chris Durcan and Jeff Tennenbaum dated December 31, 2010 [incorporated by reference to Exhibit 10.3 of the Company s Current Report on Form 8-K filed with the SEC on January 5, 2011]		
10.8	Promissory Note by Language Key Training Ltd, in favor of Foxglove International Enterprises Ltd. dated December 31, 2010 [incorporated by reference to Exhibit 10.4 of the Company s Current Report on Form 8-K filed with the SEC on January 5, 2011]		
10.9	Use of Existing Training Content Agreement by and between Language Key Asia Ltd., a Hong Kong company, and The Language Key Ltd., a British Virgin Islands company, dated December 31, 2010 [incorporated by reference to Exhibit 10.5 of the Company s Current Report on Form 8-K filed with the SEC on January 5, 2011]		
10.10	Master Software License by and between Mount Knowledge Holdings, Inc. and Mount Knowledge, Inc. dated January 21, 2010 [incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission (the SEC) on January 26, 2010]		

10.11 Master License Cancellation Agreement by and between Mount Knowledge Holdings, Inc. and Mount Knowledge, Inc. dated December 27, 2010 [incorporated by reference to Exhibit 10.4 of the Company s Current Report on Form 8-K filed with the SEC on January 3, 2011]

10.12 Intellectual Property Purchase Agreement by and among Mount Knowledge Holdings, Inc., Erwin Sneidzins and Ucandu Learning Centres Inc. dated December 28, 2010 [incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed with the SEC on January 3, 2011]

10.13 Independent Contractor Agreement by and between Mount Knowledge Holdings, Inc. and Ucandu Learning Centres Inc. dated December 28, 2010 [incorporated by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K filed with the SEC on January 3, 2011]

10.14 Option Agreement between Mount Knowledge Holdings, Inc. and Mount Knowledge Technologies, Inc. dated December 28, 2010 [incorporated by reference to Exhibit 10.3 of the Company s Current Report on Form 8-K filed with the SEC on January 3, 2011]

10.15 Definitive Agreement by and among Mount Knowledge Holdings, Inc., Birch First Advisors, LLC and Mount Knowledge USA, Inc. dated December 31, 2010 [incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed with the SEC on January 7, 2011]

10.16 Share Purchase Agreement between Mount Knowledge Asia Ltd. and Sans Software Frontiere S.A. dated October 24, 201, for the sale of Language Key Asia Ltd. (LKA), and all of its related subsidiaries (LK Entities), except Language Key Training Ltd. (LKTR) [incorporated by reference to Exhibit 10.16 of the Company s Current Report on Form 10-K filed with the SEC on July 31, 2013]

Share Purchase Agreement between Mount Knowledge Asia Ltd. and Sans Software Frontiere S.A. dated February 6, 2012, for the sale of Language Key Training Ltd. [incorporated by reference to Exhibit 10.17 of the Company s Current Report on Form 10-K filed with the SEC on July 31, 2013]

10.17 Placement and M&A Agreement between Mount Knowledge Holdings, Inc. and Chardan Capital Markets dated May 21, 2012 [incorporated by reference to Exhibit 10.18 of the Company s Current Report on Form 10-K filed with the SEC on July 31, 2013]

Share Purchase Agreement between Mount Knowledge Holdings Inc. and Sans Software Frontiere S.A. dated December 28, 2012, for the sale of Mount Knowledge Asia Ltd. [incorporated by reference to Exhibit 10.19 of the Company s Current Report on Form 10-K filed with the SEC on July 31, 2013]

10.18

Share Purchase Agreement between Mount Knowledge Holdings Inc. and Sans Software Frontiere S.A. dated December 28, 2012, for the sale of Mount Knowledge USA Inc. [incorporated by reference to Exhibit 10.20 of the Company s Current Report on Form 10-K filed with the SEC on July 31, 2013]

10.19

Separation and Settlement Agreement between Mount Knowledge Holdings Inc. and Birch First Global Investments Inc. [incorporated by reference to Exhibit 10.21 of the Company s Current Report on Form 10-K filed with the SEC on July 31, 2013]

10.20 Mutual Indemnification and Release Agreement between Mount Knowledge Holdings Inc. and Mount Knowledge Asia Ltd and Dirk Haddow and Matthew John Bentley [incorporated by reference to Exhibit 10.22 of the Company s Current Report on Form 10-K filed with the SEC on July 31, 2013]

Stock Purchase Agreement between Mount Knowledge Holdings Inc. and George Kaufman [incorporated by reference to Exhibit 10.23 of the Company s Current Report on Form 10-K filed with the SEC on July 31, 2013]

10.21

10.22	
10.23	
14.1	Code of Ethics [incorporated by reference to Exhibit 14.1 of the Company s Annual Report on Form 10-KSB filed with the SEC on February 13, 2008]
21.1	Subsidiaries
31.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant Section 906 Certifications under Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Schema
101.CAL*	XBRL Taxonomy Calculation Linkbase
101.DEF*	XBRL Taxonomy Definition Linkbase
101.LAB*	XBRL Taxonomy Label Linkbase
101.PRE*	XBRL Taxonomy Presentation Linkbase

In accordance with SEC Release 33-8238, Exhibit 32.1 is being furnished and not filed.

*XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of this annual report or purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MOUNT KNOWLEDGE HOLDINGS, INC.

By */s/ James D. Beatty*
James D. Beatty
President, Treasurer, Chief Executive Officer
and Chief Financial Officer
(Principal Executive Officer, Principal Accounting Officer
and Principal Financial Officer)

Date: October 3 , 2013

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

By */s/ James D. Beatty*
James D. Beatty
President, Treasurer, Chief Executive Officer,
Chief Financial Officer, and Director
(Principal Executive Officer, Principal Accounting Officer
and Principal Financial Officer)

Date: October 3 , 2013

Exhibit 31.1

CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 302 OFTHE SARBANES-OXLEY ACT OF 2002

I, James D. Beatty, certify that:

1. I have reviewed this Annual Report on Form 10-Q of Mount Knowledge Holdings, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financials statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant 's auditors and the audit committee of the registrant's board of directors:

(a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: October 3 , 2013

By *<u>/s/ James D. Beatty</u>*
James D. Beatty
President, Treasurer, Chief Executive Officer
and Chief Financial Officer
(Principal Executive Officer, Principal Accounting Officer
and Principal Financial Officer)

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Exhibit 32.1

CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TOSECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, James D. Beatty, Chief Executive Officer and Chief Financial Officer of Mount Knowledge Holdings, Inc. (the Company) hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Annual Report on Form 10-Q of the Company for the six months ended June 30, 2012 (the Report) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 3 , 2013

By: */s/ James D. Beatty*
James D. Beatty
President, Treasurer, Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer, Principal Accounting Officer and Principal Financial Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Mount Knowledge Holdings, Inc. and will be retained by Mount Knowledge Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 21.1

SUBSIDIARIES

For the three months ended June 30, 2012, the corporate structure of the Company, after the sale and disposition of certain operating subsidiaries during the first quarter of 2012, consisted of the following:

(a)

100% ownership interest of Mount Knowledge Asia Ltd., Hong Kong (MKA);

(b)

100% ownership interest of MTK USA.

For the year ended December 31, 2012, the corporate structure of the Company, after the sale and disposition of the remaining operating subsidiaries during the fourth corporate of 2012, respectively, consisted of no subsidiaries.