KEMET CORP
Form 10-Q
February 09, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2008

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

Commission File Number: 0-20289

KEMET CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES x NO o

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

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

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

The number of shares outstanding of the registrant s common stock, par value $0.01 per share, as of February 6, 2009 was 80,688,613

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KEMET CORPORATION AND SUBSIDIARIES

Form 10-Q for the Quarterly Period Ended December 31, 2008

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PART 1 - FINANCIAL INFORMATION

ITEM 1 - Financial Statements

KEMET CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Amounts in thousands, except per share data)

(Unaudited)

	December 31, 2008	March 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,387	$ 81,383
Accounts receivable, net	152,804	197,258
Inventories	191,210	243,714
Prepaid expenses and other current assets	12,108	15,692
Deferred income taxes	4,399	4,017
Total current assets	385,908	542,064
Property and equipment, net of accumulated depreciation of $606.3 million and $673.6 million as of December 31, 2008 and March 31, 2008, respectively	377,429	475,912
Assets held for sale	3,546	4,638
Goodwill		182,273
Intangible assets, net	27,572	35,786
Other assets	9,738	11,227
Total assets	$ 804,193	$ 1,251,900
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 74,722	$ 108,387
Accounts payable, trade	82,253	131,468
Accrued expenses	56,275	59,626
Income taxes payable	197	3,524
Total current liabilities	213,447	303,005
Long-term debt	265,919	304,294
Post-retirement benefits and other non-current obligations	68,562	80,130
Deferred income taxes	17,278	21,679
Stockholders equity:		
Common stock, par value $0.01, authorized 300,000 shares, issued 88,524 and 88,240 shares at December 31, 2008 and March 31, 2008, respectively	885	882
Additional paid-in capital	323,835	323,359
Retained earnings (deficit)	(67,147)	214,180
Accumulated other comprehensive income	41,726	65,565
Treasury stock, at cost (7,835 and 7,950 shares at December 31, 2008 and March 31, 2008, respectively)	(60,312)	(61,194)
Total stockholders equity	238,987	542,792

Total liabilities and stockholders equity	$	804,193	$	1,251,900

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, 2008	Quarters Ended December 31, 2007	Nine Months Ended December 31, 2008	Nine Months Ended December 31, 2007
Net sales	$ 190,679	$ 228,694	$ 668,342	$ 608,942
Operating costs and expenses:				
Cost of sales	166,507	188,616	598,918	491,555
Selling, general and administrative expenses	20,569	28,059	72,587	70,078
Research and development	6,168	8,646	23,312	25,886
Restructuring charges	4,572	2,870	29,579	11,404
Goodwill impairment			174,327	
Write down of long-lived assets		2,098	65,155	2,098
(Gain) loss on sales and disposals of assets	1,054	11	(27,236)	(41)
Total operating costs and expenses	198,870	230,300	936,642	600,980
Operating (loss) income	(8,191)	(1,606)	(268,300)	7,962
Other (income) expense:				
Interest income	(129)	(1,814)	(545)	(5,031)
Interest expense	4,617	4,087	15,764	8,772
Other (income) expense, net	(2,407)	(1,476)	(6,306)	(2,841)
Loss on early retirement of debt			2,212	
(Loss) income before income taxes	(10,272)	(2,403)	(279,425)	7,062
Income tax expense	793	5,747	1,918	4,170
Net (loss) income	$ (11,065)	$ (8,150)	$ (281,343)	$ 2,892
Net (loss) income per share:				
Basic and Diluted	$ (0.14)	$ (0.10)	$ (3.50)	$ 0.03

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, 2008	Nine Months Ended December 31, 2007
Sources (uses) of cash and cash equivalents		
Operating activities:		
Net (loss) income	$ (281,343)	$ 2,892
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	43,859	38,749
Goodwill impairment	174,327	
Write down of long-lived assets	65,155	2,098
(Gain) loss on sales and disposals of assets	(27,236)	(41)
Stock-based compensation expense	1,115	4,508
Change in deferred income taxes	(1,650)	3,701
Change in operating assets	61,182	1,022
Change in operating liabilities	(43,260)	(39,521)
Other	(2,905)	(2,547)
Net cash (used in) provided by operating activities	(10,756)	10,861
Investing activities:		
Proceeds from sale of assets	34,870	8,389
Proceeds from sale of investments		46,076
Capital expenditures	(27,699)	(36,527)
Acquisitions, net of cash received	(1,000)	(70,629)
Other		(454)
Net cash provided by (used in) investing activities	6,171	(53,145)
Financing activities:		
Proceeds from sale of common stock to employee savings plan	244	484
Proceeds from issuance of debt	20,944	140,268
Payments of debt	(71,300)	(169,517)
Other		130
Net cash used in financing activities	(50,112)	(28,635)
Net decrease in cash and cash equivalents	(54,697)	(70,919)
Effect of foreign currency fluctuations on cash	(1,299)	(1,660)
Cash and cash equivalents at beginning of fiscal period	81,383	212,202
Cash and cash equivalents at end of fiscal period	$ 25,387	$ 139,623

See accompanying notes to the unaudited condensed consolidated financial statements.

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KEMET CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 1. Basis of Financial Statement Presentation

The 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 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 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. Although we believe that the disclosures are adequate to make the information presented not misleading, it is suggested that these consolidated financial statements be read in conjunction with the audited financial statements and notes thereto included in the Company s fiscal year ended March 31, 2008, Form 10-K (Company s 2008 Annual Report). Net sales and operating results for the quarter and nine months ended December 31, 2008 are not necessarily indicative of the results to be expected for the full year. The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. In consolidation, all significant intercompany amounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to current year presentation.

The significant accounting policies followed by the Company are presented on pages 67 to 77 of the Company s 2008 Annual Report.

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, provides guidance for measuring fair value and requires additional disclosures. This statement does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. The effective date of the provisions of SFAS No. 157 for non-financial assets and liabilities, except for items recognized at fair value on a recurring basis, was deferred by FASB Staff Position (FSP) No. 157-2. SFAS No. 157 for non-financial assets and liabilities is now effective for fiscal years beginning after November 15, 2008. We are currently evaluating the impact of the provisions for non-financial assets and liabilities. The adoption of SFAS No. 157 for financial assets and liabilities did not have a material impact on our financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option was elected to be reported in earnings. SFAS No. 159 is effective for the Company beginning in the first quarter of fiscal year 2009. We elected not to adopt fair value accounting for nonfinancial assets and liabilities as of April 1, 2008.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. SFAS No. 141(R) establishes principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date fair value. SFAS No. 141(R) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 or fiscal year 2010. Early adoption is prohibited.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS No. 161 requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and their effect on an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for the Company in the quarter beginning after November 15, 2008. We are currently evaluating the impact the adoption of SFAS No. 161 will have on our fourth quarter fiscal year 2009 consolidated financial statements.

On May 9, 2008, the FASB issued FSP No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). FSP No. APB 14-1 requires issuers of convertible debt that may be settled wholly or partly in cash when converted to account for the debt and equity components separately. FSP No. APB 14-1 is

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effective for fiscal years beginning after December 15, 2008 and must be applied retrospectively to all periods presented. We expect this standard will have an impact on our financial statements; however, we have not yet determined the amount of the impact.

Revenue Recognition

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

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

A portion of sales is made to distributors under agreements allowing certain rights of return and price protection on unsold merchandise held by distributors. Our distributor policy includes inventory price protection and ship-from-stock and debit (SFSD) programs common in the industry. The price protection policy protects the value of the distributors inventory in the event we reduce our published selling price to distributors. This program allows the distributor to debit us for the difference between KEMET s list price and the lower authorized price for specific parts. We establish price protection reserves on parts residing in distributors inventories in the period that the price protection is formally authorized by management.

The SFSD program provides a mechanism for the distributor to meet a competitive price after obtaining authorization from our local sales office. This program allows the distributor to ship its higher-priced inventory and debit us 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 in the Condensed Consolidated Statements of Operations, while the associated reserves are included in the line item Accounts receivable, net in the Condensed Consolidated Balance Sheets.

We provide a limited warranty to customers that our products meet certain specifications. The warranty period is generally limited to one year, and our 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 less than 1% for the quarters ended December 31, 2008 and 2007.

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

Our 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 KEMET s unaudited consolidated financial statements. It is important that readers of these unaudited financial statements understand that actual results could differ from these estimates, assumptions, and judgments.

Inventories

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

	December 31, 2008	March 31, 2008
Inventories:		
Raw materials and supplies	$ 70,832	$ 98,652
Work in process	59,915	85,138
Finished goods	60,463	59,924
	$ 191,210	$ 243,714

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Note 2. Asset Sales and Assets Held For Sale

In the second quarter of fiscal year 2009, we sold assets related to the production and sale of wet tantalum capacitors to a subsidiary of Vishay Intertechnology, Inc. (Vishay). We received $33.7 million in cash proceeds, net of amounts held in escrow, from the sale of these assets. At the same time, we entered into a three-year term loan for $15.0 million with Vishay. See Note 4 for more information on the term loan. The sale resulted in a pre-tax gain of $28.4 million, which is net of related fees and amounts held in escrow. Proceeds of $1.5 million are held in escrow to secure our obligations under the sales agreement and we are entitled to receive these funds on March 15, 2010, unless both parties agree to disburse the funds at an earlier date or unless the buyer is entitled to a portion of the funds under the terms of the escrow agreement. We will record any release of escrow funds as additional gain when the funds are received. Annual revenues generated from these assets were approximately $16.0 million.

In the second quarter of fiscal year 2009, we sold a U.S. manufacturing facility which was no longer in use and was classified on the line item   Assets held for sale   in the Condensed Consolidated Balance Sheets. Proceeds from this sale were $1.2 million which approximated the carrying value of the asset. We incurred a $1.2 million charge to reduce the carrying value of this long-lived asset to its estimated fair market value in the third quarter of fiscal year 2008.

We have one remaining manufacturing facility located in the U.S. that is no longer in use and is held for sale in accordance with SFAS No. 144,   Accounting for the Impairment or Disposal of Long-Lived Assets.   The carrying value of the remaining facility at December 31, 2008 is $3.5 million and is separately presented in the   Assets held for sale   line item in the Condensed Consolidated Balance Sheets. At December 31, 2008, the fair value is believed to approximate carrying value based on independent appraisals. We expect to sell this property within the next twelve months, and we do not anticipate any remediation costs in selling the property. On a quarterly basis, we review this value for indications of impairment.

Note 3. Impairment Charges, Goodwill and Intangible Assets

In the first quarter of fiscal year 2009, we tested goodwill for impairment and recorded an $88.6 million impairment charge. The Film and Electrolytic Business Group recorded a $76.2 million goodwill impairment charge and the Ceramic Business Group recorded a $12.4 million impairment charge which eliminated the carrying value of the Ceramic Business Group s goodwill. Also occurring in the first quarter of fiscal year 2009, and as a result of the goodwill impairment testing, we tested the long-lived assets of the Ceramic Business Group for impairment. As a result of this testing, the Ceramic Business Group recorded a $5.3 million impairment charge to write off all of its other intangible assets and recorded a $58.6 million impairment charge to write down long-lived assets.

One of the factors that determine whether or not goodwill is impaired is the market value of the Company s common stock. After our first quarter earnings release on July 30, 2008, the market price of our common stock declined significantly below the level we used in performing our annual impairment review as of June 30, 2008. Because the stock price did not recover in the second quarter of fiscal year 2009, we tested goodwill for impairment again as of September 30, 2008. As a result of our goodwill impairment testing, we also tested our long-lived asset groups for impairment. These impairment tests resulted in a second quarter goodwill impairment charge of $85.7 million to write off all of the remaining goodwill of the Film and Electrolytic, and Tantalum Business Groups.

In the third quarter of fiscal year 2009, we once again tested our long-lived asset groups for impairment because our actual sales and operating results in the third quarter were below the levels we estimated when performing our impairment reviews in the first and second quarters of fiscal year 2009. We performed this test for each of our business groups and determined that the carrying amount of the long-lived assets is recoverable through the undiscounted cash flows expected to result from the use of the asset groups. Accordingly, no impairment charge was recorded in the third quarter of fiscal year 2009.

The goodwill and long-lived asset impairment reviews are highly subjective and involve the use of significant estimates and assumptions in order to calculate the impairment charges. Estimates of business enterprise fair value use discounted cash flow and other fair value appraisal models and involve making assumptions for future sales trends, market conditions, growth rates, cost reduction initiatives and cash flows for the next several years. Because estimates and assumptions are used in an impairment review, actual future cash flows and other estimates may differ significantly from our forecasts.

During the second quarter of fiscal year 2009, and as part of our initiative to reduce costs, remove excess capacity, and make us more competitive on a world-wide basis, we closed a research and development facility located in Heidenheim, Germany that served our Tantalum Business Group. As part of this closure, we incurred a $1.2 million impairment charge related to the abandonment of long-lived assets.

In the third quarter of fiscal year 2008, we took a $1.2 million charge to write down a long-lived asset to its estimated fair market value (see Note 2) and a $0.9 million charge related to the closure of a manufacturing facility in Germany.

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The following chart highlights our goodwill and intangible assets (amounts in thousands):

	December 31, 2008 Carrying Amount	December 31, 2008 Accumulated Amortization	March 31, 2008 Carrying Amount	March 31, 2008 Accumulated Amortization
Unamortized Intangibles:				
Goodwill	$		$ 182,273	
Trademarks	7,617		7,617	
Unamortized intangibles	7,617		189,890	
Amortized Intangibles:				
Patents and technology - 2 to 25 years	21,654	$ 4,082	38,923	$ 11,253
Other - 3 to 10 years	3,419	1,036	1,730	1,231
Amortized intangibles	25,073	5,118	40,653	12,484
	$ 32,690	$ 5,118	$ 230,543	$ 12,484

Note 4. Debt, Liquidity and Capital Resources

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

	December 31, 2008	March 31, 2008
Debt		
Convertible Debt	$ 175,000	$ 175,000
UniCredit-Facility A	83,502	
UniCredit-December 2008 Facility		79,060
UniCredit-April 2009 Facility	48,710	74,000
Senior Notes		60,000
Other	33,429	24,621
Total debt	340,641	412,681
Current maturities	(74,722)	(108,387)
Total long-term debt	$ 265,919	$ 304,294

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. Specifically, these condensed consolidated financial statements do not include any adjustments relating to the recoverability or classification of recorded assets, or the amounts or classification of liabilities that might be necessary in the event the Company is unable to continue as a going concern. The significant uncertainties surrounding the Company s debt, liquidity and capital resources discussed below, cast doubt on the Company s ability to continue as a going concern. The failure to successfully implement our financing plans, maintain sufficient cash or comply with our debt covenants would have a material adverse effect on our business, results of operations, financial position and liquidity.

Senior Notes

In May 1998, we sold $100 million of our Senior Notes pursuant to the terms of a Note Purchase Agreement dated May 1, 1998, between the Company and eleven initial purchasers of the Senior Notes. The Senior Notes began amortizing on May 4, 2006. The Senior Notes carried a fixed interest rate of 6.66% with interest payable semi-annually and had a final maturity date of May 4, 2010. On September 19, 2008, we prepaid our obligations under the Senior Notes, including the outstanding principal balance of $40.0 million, accrued interest of $1.0 million, a Make-Whole Amount of $2.0 million, and a prepayment fee of $0.2 million. The Make-Whole Amount and prepayment fee are shown on the line item Loss on early retirement of debt in the Condensed Consolidated Statements of Operations.

UniCredit

Two credit facilities with UniCredit Corporate Banking S.p.A. (UniCredit) were outstanding at December 31, 2008: a EUR 60.0 million ($83.5 million) facility (Facility A) and a EUR 35.0 million ($48.7 million) facility (the April 2009 Facility).

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Facility A

The Company closed on Facility A on October 21, 2008. Facility A is effective for a four and one-half year term with the first payment due April 1, 2009, and terminates on April 1, 2013. Proceeds from Facility A in the amount of EUR 50.0 million were used to pay off a short-term credit facility with UniCredit with a scheduled maturity date of December 2008 (the December 2008 Facility). Additional proceeds from Facility A in the amount of EUR 10.0 million were applied to reduce the outstanding principal of the April 2009 Facility with UniCredit with a scheduled maturity date of April 2009. Material terms and conditions of Facility A are as follows:

(i)	Maturity:	April 1, 2013
(ii)	Interest Rate:	Floating at six-month EURIBOR plus 1.7%
(iii)	Amortization:	Nine semi-annual installments due each April and October
(iv)	Structure:	Secured with Italian real property, certain European accounts receivable and shares of two of the Company s Italian subsidiaries

We are subject to covenants under Facility A which, among other things, restrict our ability to make capital expenditures above certain thresholds and require us to meet financial tests related principally to our fixed charge coverage ratio and profitability. The first measurement date for these financial tests is June 30, 2009, and afterwards, every three months, on a trailing twelve month basis. While we anticipate complying with all tests during the next twelve months, we currently forecast that our profitability, and other assumed components of the financial tests, generated from recurring operations and gains on the sales of non-core assets will only narrowly exceed the required threshold. There can be no assurance that we will achieve our forecasted operating profit, which requires an improvement from our current levels of operating profit, or complete the sales of non-core assets at the projected gains necessary to comply with the Facility A financial tests. In the event of non-compliance, UniCredit would have various remedies, including working with us to restructure, replace or amend Facility A, or requiring the accelerated repayment of Facility A. We do not currently have the ability to repay Facility A on an accelerated basis.

Additionally, the occurrence of events that significantly compromise our financial, economic, asset or operating situation and significantly compromise our ability to ensure prompt and regular repayment of Facility A allow UniCredit to accelerate repayment of Facility A. We deem the foregoing provision of Facility A to be a subjective acceleration clause and we have assessed the likelihood of whether or not it will be exercised. While we do not presently expect UniCredit to exercise its rights under this clause within the next twelve months, there can be no assurance that UniCredit will not exercise their rights. There are also provisions under Facility A which require our continued listing on the New York Stock Exchange (NYSE) or other stock exchange or regulated stock market existing in the U.S. See Note 14, Subsequent Events, for further discussion of our compliance with listing requirements under our debt agreements.

April 2009 Facility

The April 2009 Facility is a short-term credit facility with UniCredit with a scheduled maturity date of April 2009 and was entered into in October 2007 in connection with the completion of the acquisition of Arcotronics Italia S.p.A. (Arcotronics). The original principal amount for the April 2009 Facility was EUR 46.8 million. The outstanding principal was reduced to EUR 35.0 million in the second quarter of fiscal year 2009 through the use of EUR 10.0 million from Facility A as noted above and the payment of EUR 1.8 million out of our existing cash balances. Material terms and conditions of the April 2009 Facility are as follows:

(i)	Maturity:	April 9, 2009
(ii)	Interest Rate:	Floating at three-month EURIBOR plus 1.2%
(iii)	Amortization:	Bullet payment at maturity
(iv)	Structure:	Unsecured

On September 26, 2008, we received a commitment for a EUR 35.0 million credit facility (Facility B) with UniCredit. Proceeds from Facility B will be used to repay the April 2009 Facility. Facility B is currently being structured as a factoring arrangement priced at EURIBOR plus 1.7%, and is scheduled to close as soon as factoring mechanisms are put in place. Closing of this refinancing is scheduled to take place no later than April 2009 but such closing remains subject to various conditions and there can be no assurance that such closing will occur. If we are unable to successfully close Facility B, or otherwise restructure or replace the April 2009 Facility, we would not be able to pay the balance due and we would therefore be in default on both the April 2009 Facility and Facility A. Furthermore, a failure by the Company to either repay the UniCredit facilities when due, or the absence of a

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modification of such repayment terms by UniCredit, within 30 days after the payment due date, would allow the holders of the Company s outstanding Convertible Senior Notes due 2026 (discussed below) to declare those notes due and payable immediately. We do not currently have the ability to repay the UniCredit facilities or the Convertible Senior Notes.

Facility A and the April 2009 Facility are linked by cross-default provisions.

Convertible Debt

In November 2006, we sold and issued $175.0 million in Convertible Senior Notes (the Notes). The Notes are unsecured obligations and rank equally with our existing and future unsubordinated and unsecured obligations and are junior to any of our future secured obligations to the extent of the value of the collateral securing such obligations. In connection with the issuance and sale of the Notes, we entered into an indenture (the Indenture) dated as of November 1, 2006, with Wilmington Trust Company, as trustee.

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

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

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

- We have called the Notes for redemption;

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

- We make certain significant distributions to the holders of the Common Stock; or

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

We received net proceeds from the sale of the Notes of approximately $170.2 million, after deducting discounts and offering expenses of approximately $4.8 million. Net proceeds from the sale were used to repurchase approximately 3.3 million shares of Common Stock at a cost of approximately $24.9 million (concurrent with the initial closing of the Notes offering). The unamortized balance of debt issuance costs related to the Notes is approximately $2.8 million and is included in the line item Other assets in the accompanying Condensed Consolidated Balance Sheets. Debt issuance costs are being amortized over a period of five years.

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

The Notes are convertible into Common Stock at a rate equal to 103.0928 shares per $1,000 principal amount of the Notes (equal to an initial conversion price of approximately $9.70 per share), subject to adjustment as described in the Indenture. Upon conversion, we will deliver for each $1,000 principal amount of Notes, an amount consisting of cash equal to the lesser of $1,000 and the conversion value (as defined in the Indenture) and, to the extent that the conversion value exceeds $1,000, at our election, cash or shares of Common Stock with respect to the remainder. Pursuant to EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially settled in, a Company s own stock , the contingent conversion feature was not required to be bifurcated and accounted for separately under the provisions of SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities.

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If we undergo a fundamental change, holders of the Notes will have the right, subject to certain conditions, to require us to repurchase for cash all or a portion of their Notes at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased plus accrued and unpaid interest, including contingent interest and additional amounts, if any. One occurrence creating a fundamental change is our common stock ceasing to be listed on the NYSE or another national securities exchange in the U.S., without then being quoted on an established automated over-the-counter trading market in the U.S. The transfer of the trading of our stock from the NYSE to the OTC Bulletin Board as discussed in footnote 14, did not constitute a fundamental change. An additional occurrence creating a fundamental change would be any failure to repay UniCredit amounts when due. Because we do not currently have the ability to repay the Notes, the occurrence of a fundamental change and the decision by holders of the Notes to require immediate payment of our outstanding indebtedness would have a material adverse effect on our business, results of operations, financial position and liquidity.

In connection with any fundamental change that occurs prior to November 20, 2011, we would pay a make-whole premium on the Notes converted. The amount of the make-whole premium, if any, will be based on our stock price and the effective date of the fundamental change. The maximum make-whole premium, expressed as a number of additional shares of the Common Stock to be received per $1,000 principal amount of the Notes, would be 30.95 upon the conversion of Notes in connection with the occurrence of a fundamental change prior to November 1, 2006, November 15 of each of 2007, 2008, 2009 or 2010, respectively, or November 20, 2011 if the stock price at that date is $7.46 per share of Common Stock. The Indenture contains a detailed description of how the make-whole premium will be determined and a table showing the make-whole premium that would apply at various stock prices and fundamental change effective dates. No make-whole premium will be paid if the price of the Common Stock on the effective date of the fundamental change is less than $7.46. Any make-whole premium will be payable in shares of Common Stock (or the consideration into which our Common Stock has been exchanged in the fundamental change) on the conversion date for the Notes converted in connection with the fundamental change.

The estimated fair value of the Notes, based on quoted market prices as of December 31, 2008 and March 31, 2008, was approximately $32 million and $126 million, respectively. We had interest payable related to the Notes included in the line item Accrued expenses in our Condensed Consolidated Balance Sheets of approximately $0.5 million and $1.5 million at December 31, 2008 and March 31, 2008, respectively.

Working Capital, Financing and Liquidity

The current economic environment continues to negatively affect sales which, in turn, has had an adverse impact on the Company s liquidity. Our current operating plans indicate that we will continue to experience a severe strain on our liquidity; however, after consideration of cash expenditures required for implementing our restructuring plans, principal and interest payments on debt, capital expenditures, payments for outstanding vendor obligations, and the expected refinancing of the April 2009 Facility, our current plans provide for cash generated from operations to be sufficient to cover our liquidity requirements in the short-term. It is possible that the actual outcome of our plans will differ from expectations and that we could experience a shortfall in cash to fund liquidity needs. In ad