

AMERICAN EXPRESS CO  
Form 10-Q  
April 25, 2018  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2018

or

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

For the Transition Period from \_\_\_\_ to \_\_\_\_

Commission file number 1-7657

AMERICAN EXPRESS COMPANY

(Exact name of registrant as specified in its charter)

New York 13-4922250  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

200 Vesey Street, New York, New York 10285  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (212) 640-2000

None

Former name, former address and former fiscal year, if changed since last report.

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 No

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

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes      No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 18, 2018
Common Shares (par value \$0.20 per share)	860,362,205 Shares

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

AMERICAN EXPRESS COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

Three Months Ended March 31 (Millions, except per share amounts)	2018	2017
Revenues		
Non-interest revenues		
Discount revenue	\$5,889	\$5,387
Net card fees	830	748
Other fees and commissions	781	711
Other	377	361
Total non-interest revenues	7,877	7,207
Interest income		
Interest on loans	2,326	1,862
Interest and dividends on investment securities	21	23
Deposits with banks and other	115	60
Total interest income	2,462	1,945
Interest expense		
Deposits	270	149
Long-term debt and other	351	294
Total interest expense	621	443
Net interest income	1,841	1,502
Total revenues net of interest expense	9,718	8,709
Provisions for losses		
Charge card	242	213
Card Member loans	499	337
Other	34	23
Total provisions for losses	775	573
Total revenues net of interest expense after provisions for losses	8,943	8,136
Expenses		
Marketing and business development	1,345	1,285
Card Member rewards	2,347	2,061
Card Member services	409	317
Salaries and employee benefits	1,326	1,264
Other, net	1,434	1,370
Total expenses	6,861	6,297
Pretax income	2,082	1,839
Income tax provision	448	588
Net income	\$1,634	\$1,251
Earnings per Common Share (Note 15): <sup>(a)</sup>		
Basic	\$1.86	\$1.36
Diluted	\$1.86	\$1.35

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Average common shares outstanding for earnings per common share:

Basic	859	899
Diluted	861	903
Cash dividends declared per common share	\$0.35	\$0.32

Represents net income less (i) earnings allocated to participating share awards of \$13 million and \$10 million for (a) the three months ended March 31, 2018 and 2017, respectively, and (ii) dividends on preferred shares of \$21 million for both the three months ended March 31, 2018 and 2017.

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

Three Months Ended March 31 (Millions)	2018	2017
Net income	\$1,634	\$1,251
Other comprehensive income (loss):		
Net unrealized debt securities (losses) gains, net of tax	(11 )	6
Foreign currency translation adjustments, net of tax	30	316
Net unrealized pension and other postretirement benefits, net of tax	28	(8 )
Other comprehensive income	47	314
Comprehensive income	\$1,681	\$1,565

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	March 31, 2018	December 31, 2017
(Millions, except share data)		
Assets		
Cash and cash equivalents		
Cash and due from banks	\$3,627	\$5,148
Interest-bearing deposits in other banks (includes securities purchased under resale agreements: 2018, \$49; 2017, \$48)	27,315	27,709
Short-term investment securities	150	70
Total cash and cash equivalents	31,092	32,927
Accounts receivable		
Card Member receivables (includes gross receivables available to settle obligations of a consolidated variable interest entity: 2018, \$7,807; 2017, \$8,919), less reserves: 2018, \$565; 2017, \$521	53,676	53,526
Other receivables, less reserves: 2018, \$31; 2017, \$31	3,194	3,209
Loans		
Card Member loans (includes gross loans available to settle obligations of a consolidated variable interest entity: 2018, \$24,058; 2017, \$25,695), less reserves: 2018, \$1,786; 2017, \$1,706	71,034	71,693
Other loans, less reserves: 2018, \$91; 2017, \$80	2,872	2,607
Investment securities	3,388	3,159
Premises and equipment, less accumulated depreciation and amortization: 2018, \$5,732; 2017, \$5,455	4,271	4,329
Other assets (includes restricted cash of consolidated variable interest entities: 2018, \$147; 2017, \$62)	10,429	9,746
Total assets	\$179,956	\$181,196
Liabilities and Shareholders' Equity		
Liabilities		
Customer deposits	\$66,665	\$64,452
Travelers Cheques and other prepaid products	2,435	2,555
Accounts payable	14,038	14,657
Short-term borrowings	1,852	3,278
Long-term debt (includes debt issued by consolidated variable interest entities: 2018, \$15,800; 2017, \$18,560)	52,461	55,804
Other liabilities	22,892	22,189
Total liabilities	\$160,343	\$162,935
Contingencies (Note 8)		
Shareholders' Equity		
Preferred shares, \$1.66 <sup>2/3</sup> par value, authorized 20 million shares; issued and outstanding 1,600 shares as of March 31, 2018 and December 31, 2017		
Common shares, \$0.20 par value, authorized 3.6 billion shares; issued and outstanding 860 million shares as of March 31, 2018 and 859 million shares as of December 31, 2017	172	172
Additional paid-in capital	12,225	12,210
Retained earnings	9,597	8,307



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Accumulated other comprehensive loss		
Net unrealized debt securities losses, net of tax of: 2018, \$(2); 2017, \$1	(11 )	
Foreign currency translation adjustments, net of tax of: 2018, \$(415); 2017,\$(363)	(1,931 )	(1,961 )
Net unrealized pension and other postretirement benefits, net of tax of: 2018, \$(176); 2017, \$(179)	(439 )	(467 )
Total accumulated other comprehensive loss	(2,381 )	(2,428 )
Total shareholders' equity	19,613	18,261
Total liabilities and shareholders' equity	\$179,956	\$181,196

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

Three Months Ended March 31 (Millions)	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 1,634	\$ 1,251
Adjustments to reconcile net income to net cash provided by operating activities:		
Provisions for losses	775	573
Depreciation and amortization	348	296
Deferred taxes and other	(254 )	18
Stock-based compensation	84	89
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Other receivables	122	786
Other assets	(85 )	351
Accounts payable and other liabilities	(431 )	(2,072 )
Travelers Cheques and other prepaid products	(130 )	(132 )
Net cash provided by operating activities	2,063	1,160
Cash Flows from Investing Activities		
Maturities and redemptions of investment securities	886	860
Purchases of investments	(1,215 )	(1,294 )
Net decrease in Card Member receivables and loans <sup>(a)</sup>	348	1,450
Purchase of premises and equipment, net of sales: 2018, nil; 2017, nil	(237 )	(277 )
Acquisitions/dispositions, net of cash acquired	(475 )	(28 )
Net cash (used in) provided by investing activities	(693 )	711
Cash Flows from Financing Activities		
Net increase in customer deposits	2,206	735
Net decrease in short-term borrowings	(1,489 )	(1,941 )
Proceeds from long-term borrowings	3,984	8,420
Payments of long-term borrowings	(7,203 )	(3,801 )
Issuance of American Express common shares	11	31
Repurchase of American Express common shares	(134 )	(926 )
Dividends paid	(324 )	(313 )
Net cash (used in) provided by financing activities	(2,949 )	2,205
Effect of foreign currency exchange rates on cash and cash equivalents	(178 )	107
Net increase in cash, cash equivalents and restricted cash	(1,757 )	4,183
Cash, cash equivalents and restricted cash at beginning of period	33,264	25,494
Cash, cash equivalents and restricted cash at end of period	\$31,507	\$29,677

(a) Refer to Note 2 for additional information.

Supplementary cash flow information

	Mar-18	Dec-17	Mar-17	Dec-16
Cash and cash equivalents per Consolidated Balance Sheets	\$31,092	\$32,927	\$29,366	\$25,208
Restricted cash included in Other assets per Consolidated Balance Sheets	415	337	311	286
Total cash, cash equivalents and restricted cash	\$31,507	\$33,264	\$29,677	\$25,494

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. Basis of Presentation

The Company

American Express Company is a global services company that provides customers with access to products, insights and experiences that enrich lives and build business success. Our principal products and services are charge and credit payment card products and travel-related services offered to consumers and businesses around the world. Business travel-related services are offered through the non-consolidated joint venture, American Express Global Business Travel (the GBT JV). Our various products and services are sold globally to diverse customer groups, including consumers, small businesses, mid-sized companies and large corporations. These products and services are sold through various channels, including mobile and online applications, direct mail, in-house sales teams, third-party vendors and direct response advertising.

The accompanying Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 (the Annual Report). If not materially different, certain footnote disclosures included therein have been omitted from this Quarterly Report on Form 10-Q.

The interim consolidated financial information in this report has not been audited. In the opinion of management, all adjustments, which consist of normal recurring adjustments necessary for a fair statement of the interim period consolidated financial information, have been made. Results of operations reported for interim periods are not necessarily indicative of results for the entire year.

The preparation of Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. These accounting estimates reflect the best judgment of management, but actual results could differ.

Discount Revenue

Discount revenue primarily represents the amount we earn on transactions occurring at merchants that have entered into a card acceptance agreement with us, or a Global Network Services (GNS) partner or other third-party merchant acquirer, for facilitating transactions between the merchants and Card Members. The amount of fees charged, or merchant discount, varies with, among other factors, the industry in which the merchant conducts business, the merchant's overall transaction volume, the timing and method of payment to the merchant, the method of submission of transactions and, in certain instances, the geographic scope of the card acceptance agreement signed with us (e.g., local or global) and the transaction amount. The merchant discount is generally deducted from the payment to the merchant and recorded as discount revenue at the time the Card Member transaction occurs.

The card acceptance agreements, which outline the agreed-upon terms for charging the merchant discount fee, vary in duration. Our contracts with small- and medium-sized merchants generally have no fixed contractual duration, while those with large merchants are generally for fixed periods, which typically range from three to seven years in duration. Our fixed-period agreements may include auto-renewal features, which may allow the existing terms to continue

beyond the stated expiration date until a new agreement is reached. We satisfy our obligations under these agreements over the contract term, often on a daily basis, through the processing of Card Member transactions and the availability of our payment network.

In cases where we are the card issuer and the merchant acquirer is a third party (which is the case, for example, under our OptBlue program, or with certain of our GNS partners), we receive a network rate fee in our settlement with the merchant acquirer, which is individually negotiated between us and that merchant acquirer and is recorded as discount revenue at the time the Card Member transaction occurs. In our role as the operator of the American Express network, we also settle with merchants on behalf of our GNS card issuing partners, who in turn receive an issuer rate that is individually negotiated between that issuer and us and is recorded as expense in Marketing and business development (see below) or as contra-revenue in Other revenue. In contrast with networks such as those operated by Visa Inc. and Mastercard Incorporated, there are no collectively set interchange rates or network rates on the American Express network, and no fees are agreed or due between the GNS partners on the network.

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Net Card Fees

Net card fees represent revenue earned from annual card membership fees, which vary based on the type of card and the number of cards for each account. These fees, net of acquisition costs and a reserve for projected refunds for Card Member cancellations, are deferred and recognized on a straight-line basis over the twelve-month card membership period as Net Card Fees in the Consolidated Statements of Income. The unamortized net card fee balance is reported in Other Liabilities on the Consolidated Balance Sheets.

Other Fees and Commissions

Other fees and commissions includes certain fees charged to Card Members, including delinquency fees and foreign currency conversion fees, which are primarily recognized in the period in which they are charged to the Card Member. Other fees and commissions also includes Membership Rewards program fees, which are deferred and recognized over the period covered by the fee, typically one year, the unamortized portion of which is included in Other Liabilities on the Consolidated Balance Sheets. In addition, Other fees and commissions includes loyalty coalition-related fees, travel commissions and fees and service fees earned from merchants, that are recognized when the service is performed, which is generally in the period the fee is charged. Refer to Note 13 for additional information.

Contra-revenue

Payments made through contractual arrangements with our merchants, GNS partners, and other customers are classified as expense where we receive goods, services or other benefits, for which the fair value is determinable and measurable. If these conditions are not met, the payment is classified as contra-revenue with the related revenue transaction (e.g., Discount revenue or Other revenue) and recorded when incurred.

Interest Income

Interest on Card Member loans is assessed using the average daily balance method. Unless the loan is classified as non-accrual, interest is recognized based upon the principal amount outstanding, in accordance with the terms of the applicable account agreement, until the outstanding balance is paid, or written off.

Interest and dividends on investment securities primarily relate to our performing fixed-income securities. Interest income is recognized as earned using the effective interest method, which adjusts the yield for security premiums and discounts, fees and other payments, so that a constant rate of return is recognized on the investment security's outstanding balance. Amounts are recognized until securities are in default or when it becomes likely that future interest payments will not be made as scheduled.

Interest on deposits with banks and other is recognized as earned, and primarily relates to the placement of cash, in excess of near-term funding requirements, in interest-bearing time deposits, overnight sweep accounts, and other interest-bearing demand and call accounts.

Interest Expense

Interest expense includes interest incurred primarily to fund Card Member loans and receivables, general corporate purposes and liquidity needs, and is recognized as incurred. Interest expense is divided principally into two categories: (i) deposits, which primarily relates to interest expense on deposits taken from customers and institutions, and

(ii) debt, which primarily relates to interest expense on our long-term debt and short-term borrowings, as well as the realized impact of derivatives used to hedge interest rate risk on our long-term debt.

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Marketing and Business Development

As further described below under “Recently Adopted Accounting Standards,” effective January 1, 2018, in conjunction with the adoption of the new revenue recognition standard, the previously disclosed “Marketing and Promotion” line on the Consolidated Statements of Income was changed to “Marketing and Business Development” to reflect the inclusion of certain reclassified costs from Contra-discount revenue and Other expenses. Marketing and business development provides a more comprehensive view of costs related to building and growing our business, including the reclassified costs.

Marketing and business development expense includes costs incurred in the development and initial placement of advertising, which are expensed in the year in which the advertising first takes place. Also included in Marketing and business development expense are Card Member statement credits for qualifying charges on eligible card accounts, corporate incentive payments earned on achievement of preset targets, and certain payments to GNS card issuing partners. These costs are generally expensed as incurred.

Card Member Rewards

We issue charge and credit cards that allow Card Members to participate in various rewards programs (e.g., Membership Rewards, cobrand and cash back). Rewards expense is recognized in the period Card Members earn rewards, generally by spending on their enrolled card products. We record a Card Member rewards liability that represents the estimated cost of points earned that are expected to be redeemed. Card Member rewards liabilities are impacted over time by enrollment levels, attrition, the volume of points earned and redeemed, and the associated redemption costs. Changes in the Card Member rewards liabilities during the period are taken as a charge or release to the Card Member rewards line.

Effective January 1, 2018, in conjunction with the new revenue recognition standard, Card Member rewards also includes cash-back rewards, which were reclassified from contra discount revenue.

Classification of various items

Certain reclassifications of prior period amounts have been made to conform to the current period presentation, including the reclassification of certain business development expenses from Other expenses to Marketing and business development, that were not directly attributable to the adoption of the new revenue recognition guidance.

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued new accounting guidance on leases. The guidance, effective January 1, 2019, with early adoption permitted, requires virtually all leases to be recognized on the Consolidated Balance Sheets. We will adopt the standard effective January 1, 2019. The new guidance currently requires a modified retrospective transition approach, which would cause us to record existing operating leases on the Consolidated Balance Sheets upon adoption and in the comparative period. In January 2018, the FASB released an exposure draft that, if issued in its current form, would provide us with the option to adopt the provisions of the new guidance prospectively, without adjusting the comparative periods presented. We are in the process of upgrading our



lease administration software and changing business processes and internal controls in preparation for the adoption. Specifically, we are currently reviewing our lease portfolio and are evaluating and interpreting the requirements under the guidance, including the available accounting policy elections, in order to determine the impacts on our financial position, results of operations and cash flows upon adoption.

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

In June 2016, the FASB issued new accounting guidance for recognition of credit losses on financial instruments, effective January 1, 2020, with early adoption permitted on January 1, 2019. The guidance introduces a new credit reserving model known as the Current Expected Credit Loss (CECL) model, which is based on expected losses, and differs significantly from the incurred loss approach used today. The CECL model requires measurement of expected credit losses not only based on historical experience and current conditions, but also by including reasonable and supportable forecasts incorporating forward-looking information. In addition, for available-for-sale debt securities, the new guidance replaces the other-than-temporary impairment model, and requires the recognition of an allowance for reductions in a security's fair value attributable to declines in credit quality, instead of a direct write-down of the security when a valuation decline is determined to be other-than-temporary. The guidance also requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. We do not intend to adopt the new standard early and are currently evaluating the impact the new guidance will have on our financial position, results of operations and cash flows; however, it is expected that the CECL model will alter the assumptions used in estimating credit losses on Card Member loans and receivables, and may result in material increases to our credit reserves as the new guidance involves earlier recognition of expected losses for the life of the assets. We have established an enterprise-wide, cross-discipline governance structure to implement the new standard, and continue to identify and conclude on key interpretive issues along with evaluating our existing credit loss forecasting models and processes in relation to the new guidance to determine what modifications may be required.

In February 2018, as a result of the enactment of the Tax Cuts and Jobs Act (the Tax Act), the FASB issued new accounting guidance on the reclassification of certain tax effects from accumulated other comprehensive income (loss) (AOCI) to retained earnings. The optional guidance is effective January 1, 2019, with early adoption permitted. We are evaluating whether we will adopt the new guidance along with any impacts on our financial position, results of operations and cash flows, none of which are expected to be material.

Recently Adopted Accounting Standards

Effective January 1, 2018, we adopted new revenue recognition guidance issued by the FASB related to contracts with customers. The scope of the new guidance excludes financial instruments such as credit and charge card arrangements. We elected to adopt the standard using the full retrospective method, which we believe is most useful to our investors. Under the full retrospective method, we are applying the standard back to January 1, 2016. As shown below, the most significant impacts of adoption are changes to the classification of certain revenues and expenses, including certain credit and charge card related costs previously netted against discount revenue, such as Card Member cash-back reward costs and statement credits, corporate incentive payments, as well as payments to third-party GNS card issuing partners. Under the new revenue standard, these costs are not considered components of the transaction price of our card acceptance agreements with merchants and thus are not netted against discount revenue, but instead are recognized as expenses. Our payments to third-party GNS card issuing partners are presented net of related revenues earned from the partners.

The impact to the 2017 fiscal quarters and years ended December 31, 2017 and 2016 were as follows:

	Increase (Decrease)	Year Ended	
	Three months ended	December	
(Millions)		2017	2016

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	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017		
Revenues						
Discount revenue	\$981	\$ 930	\$928	\$868	\$3,707	\$3,699
Other	(78 )	(71 )	(64 )	(65 )	(278 )	(253 )
Expenses						
Marketing and business development	617	591	593	549	2,350	2,420
Card Member rewards	\$286	\$ 268	\$271	\$254	\$1,079	\$1,026

In addition, the cumulative impact to our retained earnings on January 1, 2016 was an increase of \$55.2 million.

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(Unaudited)

The adoption of the new guidance also resulted in changes to the recognition timing of certain revenues, the impact of which is not material to net income. Similarly, the adoption did not have a material impact on our Consolidated Balance Sheets or Statements of Cash Flows. We had no material contract assets, contract liabilities or deferred contract costs recorded on the Consolidated Balance Sheet as of March 31, 2018 and December 31, 2017. Contracts assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. In adopting the guidance, we implemented changes to our accounting policies, business processes, systems and internal controls to support the recognition, measurement and disclosure requirements under the new standard. Such changes were not material.

In January 2016, the FASB issued new accounting guidance on the recognition and measurement of financial assets and financial liabilities, which was effective and adopted by us as of January 1, 2018. The guidance makes targeted changes to GAAP; specifically to the classification and measurement of equity securities, and to certain disclosure requirements associated with the fair value of financial assets and liabilities. This applies to investments we make in non-public companies in the ordinary course of business, which historically were recognized under the cost method of accounting. These investments will be prospectively adjusted through earnings for observable price changes upon the identification of identical or similar transactions of the same company. The adoption of the guidance did not have a material impact on our financial position, results of operations and cash flows. We implemented changes to our accounting policies, business processes and internal controls in support of the new guidance. Such changes were not material.

In August 2017, the FASB issued new accounting guidance providing targeted improvements to the accounting for hedging activities, effective January 1, 2019, with early adoption permitted in any interim period or fiscal year before the effective date. The guidance introduces a number of amendments, several of which are optional, that are designed to simplify the application of hedge accounting, improve financial statement transparency and more closely align hedge accounting with an entity's risk management strategies. Effective January 1, 2018, we adopted the guidance, with no material impact on our financial position, results of operations and cash flows, along with associated changes to our accounting policies, business processes and internal controls in support of the new guidance. Such changes were not material.

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(Unaudited)

## 2. Business Events

During the first quarter of 2018, we acquired from Citibank, N.A. its existing Hilton Worldwide Holdings Inc. cobrand credit card loan portfolio (the acquired Hilton portfolio). The Hilton portfolio had an outstanding principal and interest balance of approximately \$1 billion at acquisition. None of the credit card loans acquired were considered purchased credit impaired at acquisition date. The cash outflows related to this acquisition are reported within the investing section of the Consolidated Statements of Cash Flows as a net increase in Card Member receivables and loans.

## 3. Loans and Accounts Receivable

Our lending and charge payment card products result in the generation of Card Member loans and Card Member receivables, respectively.

Card Member loans by segment and Other loans as of March 31, 2018 and December 31, 2017 consisted of:

(Millions)	2018	2017
U.S. Consumer Services <sup>(a)</sup>	\$52,655	\$53,668
International Consumer and Network Services	8,667	8,651
Global Commercial Services	11,498	11,080
Card Member loans	72,820	73,399
Less: Reserve for losses	1,786	1,706
Card Member loans, net	\$71,034	\$71,693
Other loans, net <sup>(b)</sup>	\$2,872	\$2,607

Includes approximately \$24.1 billion and \$25.7 billion of gross Card Member loans available to settle obligations (a) of a consolidated variable interest entity (VIE) as of March 31, 2018 and December 31, 2017, respectively. The balance as of March 31, 2018 also includes the acquired Hilton portfolio (refer to Note 2).

(b) Other loans primarily represent personal and commercial financing products. Other loans are presented net of reserves for losses of \$91 million and \$80 million as of March 31, 2018 and December 31, 2017, respectively.

Card Member accounts receivable by segment and Other receivables as of March 31, 2018 and December 31, 2017 consisted of:

(Millions)	2018	2017
U.S. Consumer Services <sup>(a)</sup>	\$11,659	\$13,143
International Consumer and Network Services	7,071	7,803
Global Commercial Services	35,511	33,101
Card Member receivables	54,241	54,047
Less: Reserve for losses	565	521
Card Member receivables, net	\$53,676	\$53,526

Other receivables, net <sup>(b)</sup> \$3,194 \$3,209

(a) Includes \$7.8 billion and \$8.9 billion of gross Card Member receivables available to settle obligations of a consolidated VIE as of March 31, 2018 and December 31, 2017, respectively.

(b) Other receivables primarily represent amounts related to (i) GNS partners for items such as royalty and franchise fees, (ii) tax-related receivables, (iii) certain merchants for billed discount revenue, and (iv) loyalty coalition partners for points issued, as well as program participation and servicing fees. Other receivables are presented net of reserves for losses of \$31 million and \$31 million as of March 31, 2018 and December 31, 2017, respectively.

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Card Member Loans and Card Member Receivables Aging

Generally, a Card Member account is considered past due if payment is not received within 30 days after the billing statement date. The following table presents the aging of Card Member loans and receivables as of March 31, 2018 and December 31, 2017:

		30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
2018 (Millions)	Current				
Card Member Loans:					
U.S. Consumer Services	\$51,922	\$201	\$156	\$376	\$52,655
International Consumer and Network Services	8,524	46	31	66	8,667
Global Commercial Services					
Global Small Business Services	11,278	45	33	71	11,427
Global Corporate Payments <sup>(a)</sup>	(b)	(b)	(b)	1	71
Card Member Receivables:					
U.S. Consumer Services	11,510	48	35	66	11,659
International Consumer and Network Services	6,967	33	22	49	7,071
Global Commercial Services					
Global Small Business Services	\$15,931	\$93	\$68	\$126	\$16,218
Global Corporate Payments <sup>(a)</sup>	(b)	(b)	(b)	\$163	\$19,293

		30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
2017 (Millions)	Current				
Card Member Loans:					
U.S. Consumer Services	\$52,961	\$201	\$162	\$344	\$53,668
International Consumer and Network Services	8,530	37	28	56	8,651
Global Commercial Services					
Global Small Business Services	10,892	43	31	59	11,025
Global Corporate Payments <sup>(a)</sup>	(b)	(b)	(b)		55
Card Member Receivables:					
U.S. Consumer Services	12,993	53	33	64	13,143
International Consumer and Network Services	7,703	29	21	50	7,803
Global Commercial Services					
Global Small Business Services	\$15,868	\$91	\$54	\$106	\$16,119
Global Corporate Payments <sup>(a)</sup>	(b)	(b)	(b)	\$148	\$16,982

For Global Corporate Payments (GCP) Card Member loans and receivables in Global Commercial Services (GCS), delinquency data is tracked based on days past billing status rather than days past due. A Card Member account is considered 90 days past billing if payment has not been received within 90 days of the Card Member's billing statement date. In addition, if we initiate collection procedures on an account prior to the account becoming 90 days past billing, the associated Card Member loan and receivable balance is classified as 90 days past billing. These amounts are shown above as 90+ Days Past Due for presentation purposes. See also (b).

Delinquency data for periods other than 90 days past billing is not available due to system constraints. Therefore, (b) such data has not been utilized for risk management purposes. The balances that are current to 89 days past due can be derived as the difference between the Total and the 90+ Days Past Due balances.



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Credit Quality Indicators for Card Member Loans and Receivables

The following tables present the key credit quality indicators as of or for the three months ended March 31:

	2018					2017				
	Net Write-Off					Net Write-Off				
	Rate					Rate				



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The following tables provide additional information with respect to our impaired Card Member loans and receivables. Impaired Card Member receivables are not significant for International Consumer and Network Services (ICNS) as of March 31, 2018 and December 31, 2017; therefore, this segment's receivables are not included in the following tables.

As of March 31, 2018

2018 (Millions)			Accounts Classified as a TDR <sup>(c)</sup>		Total Impaired Balance	Unpaid Principal Balance	Allowance for TDRs
	Over 90 days Past Due & Accruing Interest <sup>(a)</sup>	Non-Accruals <sup>(b)</sup>	In Program <sup>(d)</sup>	Out of Program <sup>(e)</sup>			
Card Member Loans:							
U.S. Consumer Services	\$254	\$ 182	\$209	\$ 125	\$ 770	\$ 691	\$ 52
International Consumer and Network Services	66				66	65	
Global Commercial Services	46	35	38	25	144	134	8
Card Member Receivables:							
U.S. Consumer Services			19	10	29	29	1
Global Commercial Services			48	21	69	69	3
Total	\$366	\$ 217	\$314	\$ 181	\$ 1,078	\$ 988	\$ 64

As of December 31, 2017

2017 (Millions)			Accounts Classified as a TDR <sup>(c)</sup>		Total Impaired Balance	Unpaid Principal Balance	Allowance for TDRs
	Over 90 days Past Due & Accruing Interest <sup>(a)</sup>	Non-Accruals <sup>(b)</sup>	In Program <sup>(d)</sup>	Out of Program <sup>(e)</sup>			
Card Member Loans:							
U.S. Consumer Services	\$233	\$ 168	\$178	\$ 131	\$ 710	\$ 639	\$ 49
International Consumer and Network Services	56				56	55	

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Global Commercial Services	38	31	31	27	127	118	8
Card Member Receivables:							
U.S. Consumer Services			15	9	24	24	1
Global Commercial Services			37	19	56	56	2
Total	\$327	\$ 199	\$261	\$ 186	\$ 973	\$ 892	\$ 60

Our policy is generally to accrue interest through the date of write-off (typically 180 days past due). We establish (a) reserves for interest that we believe will not be collected. Amounts presented exclude Card Member loans classified as a TDR.

Non-accrual loans not in modification programs primarily include certain Card Member loans placed with outside (b) collection agencies for which we have ceased accruing interest. Amounts presented exclude Card Member loans classified as a TDR.

Accounts classified as a TDR include \$15 million and \$15 million that are over 90 days past due and accruing (c) interest and \$4 million and \$5 million that are non-accruals as of March 31, 2018 and December 31, 2017, respectively.

(d) In Program TDRs include Card Member accounts that are currently enrolled in a modification program.

Out of Program TDRs include \$137 million and \$141 million of Card Member accounts that have successfully (e) completed a modification program and \$44 million and \$45 million of Card Member accounts that were not in compliance with the terms of the modification programs as of March 31, 2018 and December 31, 2017, respectively.

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The following table provides information with respect to our average balances and interest income recognized from impaired Card Member loans and the average balances of impaired Card Member receivables for the three months ended March 31:

	2018		2017	
(Millions)	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
Card Member Loans:				
U.S. Consumer Services	\$740	\$ 21	\$616	\$ 16
International Consumer and Network Services	61	5	53	4
Global Commercial Services	136	5	116	4
Card Member Receivables:				
U.S. Consumer Services	27		18	
Global Commercial Services	63		40	
Total	\$1,027	\$ 31	\$843	\$ 24

Card Member Loans and Receivables Modified as TDRs

The following table provides additional information with respect to the U.S. Consumer Services (USCS) and GCS Card Member loans and receivables modified as TDRs for the three months ended March 31, 2018 and 2017. The ICNS Card Member loans and receivables modifications were not significant; therefore, this segment is not included in the following TDR disclosures.

	Three Months Ended March 31, 2018			
	Number of Outstanding Accounts <sup>(a)</sup> (in \$ in thousands)	Average Interest Rate Reduction (% Points)	Average Payment Term Extensions (# of Months)	
Troubled Debt Restructurings:				
Card Member Loans	11 \$ 81	11	(b)	
Card Member Receivables	1 29	(c)	28	
Total	12 \$ 110			

Three Months Ended March 31, 2017			
Number of Outstanding	Average Interest	Average Payment	

	Account Balances <sup>(a)</sup>	Rate Reduction	Term Extensions
	(in \$ in thousands)	(% Points)	(# of Months)
Troubled Debt Restructurings:			
Card Member Loans	8 \$ 57	13	(b)
Card Member Receivables	2 28	(c)	22
Total	10 \$ 85		

Represents the outstanding balance immediately prior to modification. The outstanding balance includes principal, (a) fees and accrued interest on Card Member loans and principal and fees on Card Member receivables. Modifications did not reduce the principal balance.

(b) For Card Member loans, there have been no payment term extensions.

(c) We do not offer interest rate reduction programs for Card Member receivables as the receivables are non-interest bearing.

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The following table provides information with respect to the USCS and GCS Card Member loans and receivables modified as TDRs that subsequently defaulted within 12 months of modification, for the three months ended March 31, 2018 and 2017. A Card Member is considered in default of a modification program after one and up to two missed payments, depending on the terms of the modification program. For all Card Members that defaulted from a modification program, the probability of default is factored into the reserves for Card Member loans and receivables.

	2018		2017	
	Aggregated		Aggregated	
	Outstanding		Outstanding	
	Number	Amount	Number	Amount
	of	Upon	of	Upon
	Accounts	Default <sup>(a)</sup>	Accounts	Default <sup>(a)</sup>
	(thousands)	(thousands)	(thousands)	(thousands)
Troubled Debt Restructurings That Subsequently Defaulted:				
Card Member Loans	2	\$ 9	2	\$ 11
Card Member Receivables	1	2	1	1
Total	3	\$ 11	3	\$ 12

<sup>(a)</sup> The outstanding balances upon default include principal, fees and accrued interest on Card Member loans, and principal and fees on Card Member receivables.

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## 4. Reserves for Losses

Reserves for losses relating to Card Member loans and receivables represent management's best estimate of the probable inherent losses in our outstanding portfolio of loans and receivables as of the balance sheet date. Management's evaluation process requires certain estimates and judgments.

Changes in Card Member Loans Reserve for Losses

The following table presents changes in the Card Member loans reserve for losses for the three months ended March 31:

(Millions)	2018	2017
Balance, January 1	\$1,706	\$1,223
Provisions <sup>(a)</sup>	499	337
Net write-offs <sup>(b)</sup>		
Principal	(358 )	(272 )
Interest and fees	(71 )	(51 )
Other <sup>(c)</sup>	10	11
Balance, March 31	\$1,786	\$1,248

(a) Provisions for principal, interest and fee reserve components.

Principal write-offs are presented less recoveries of \$106 million and \$100 million, and include net

(b) write-offs from TDRs of \$7 million and \$12 million, for the three months ended March 31, 2018 and 2017, respectively. Recoveries of interest and fees were not significant.

(c) Includes foreign currency translation adjustments of \$6 million and \$7 million and other adjustments of \$4 million and \$4 million for the three months ended March 31, 2018 and 2017, respectively.

Card Member Loans Evaluated Individually and Collectively for Impairment

The following table presents Card Member loans evaluated individually and collectively for impairment and related reserves as of March 31, 2018 and December 31, 2017:

(Millions)	2018	2017
Card Member loans evaluated individually for impairment <sup>(a)</sup>	\$397	\$367
Related reserves <sup>(a)</sup>	\$60	\$57
Card Member loans evaluated collectively for impairment <sup>(b)</sup>	\$72,423	\$73,032
Related reserves <sup>(b)</sup>	\$1,726	\$1,649

(a) Represents loans modified as a TDR and related reserves.

Represents current loans and loans less than 90 days past due, loans over 90 days past due and accruing interest, and non-accrual loans. The reserves include the quantitative results of analytical models that are specific to individual pools of loans, and reserves for internal and external qualitative risk factors that apply to loans that are collectively evaluated for impairment.

Changes in Card Member Receivables Reserve for Losses

The following table presents changes in the Card Member receivables reserve for losses for the three months ended March 31:



(Millions)	2018	2017
Balance, January 1	\$ 521	\$ 467
Provisions <sup>(a)</sup>	242	213
Net write-offs <sup>(b)</sup>	(199)	(194)
Other <sup>(c)</sup>	1	5
Balance, March 31	\$ 565	\$ 491

(a) Provisions for principal and fee reserve components.

Principal and fee write-offs are presented less recoveries of \$88 million and \$93 million, including net write-offs

(b) (recoveries) from TDRs of \$(2) million and \$6 million, for the three months ended March 31, 2018 and 2017, respectively.

(c) Includes foreign currency translation adjustments of \$10 million and \$9 million and other adjustments of \$(9) million and \$(4) million for the three months ended March 31, 2018 and 2017, respectively.

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Card Member Receivables Evaluated Individually and Collectively for Impairment

The following table presents Card Member receivables evaluated individually and collectively for impairment, and related reserves, as of March 31, 2018 and December 31, 2017:

(Millions)	2018	2017
Card Member receivables evaluated individually for impairment <sup>(a)</sup>	\$98	\$80
Related reserves <sup>(a)</sup>	\$4	\$3
Card Member receivables evaluated collectively for impairment	\$54,143	\$53,967
Related reserves <sup>(b)</sup>	\$561	\$518

(a) Represents receivables modified as a TDR and related reserves.

The reserves include the quantitative results of analytical models that are specific to individual pools of (b) receivables, and reserves for internal and external qualitative risk factors that apply to receivables that are collectively evaluated for impairment.

## 5. Investment Securities

Investment securities principally include available-for-sale debt securities carried at fair value on the Consolidated Balance Sheets, with unrealized gains and losses recorded in AOCI, net of income taxes. Realized gains and losses are recognized upon disposition of the securities using the specific identification method.

Investment securities also include equity securities carried at fair value on the Consolidated Balance Sheets. Effective January 1, 2018, unrealized gains and losses are recorded in the Consolidated Statements of Income; prior to January 1, 2018, unrealized gains and losses were recorded in AOCI, net of income taxes.

The following is a summary of investment securities as of March 31, 2018 and December 31, 2017:

Description of Securities (Millions)	2018			2017					
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	
Available-for-sale debt securities:									
State and municipal obligations	\$1,122	\$ 8	\$ (5)	\$ 1,125	\$1,369	\$ 11	\$ (3)	\$ 1,377	
U.S. Government agency obligations	10			10	11			11	
U.S. Government treasury obligations	1,678	4	(21)	1,661	1,051	3	(9)	1,045	
Corporate debt securities	29			29	28			28	
Mortgage-backed securities <sup>(a)</sup>	63	2	(1)	64	67	2		69	
Foreign government bonds and obligations	451			451	581			581	
Equity securities <sup>(b)</sup>	51		(3)	48	51		(3)	48	
Total	\$3,404	\$ 14	\$ (30)	\$ 3,388	\$3,158	\$ 16	\$ (15)	\$ 3,159	

—  
Total assets  
\$

470,652

\$  
996,387

\$  
566,265

\$  
(1,362,324  
)

\$  
670,980

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Current portion of long-term debt  
\$  
—

\$  
—

\$  
—

\$  
—

\$  
—

Accounts payable  
67

34,863

31,895

—

66,825

Intercompany payable  
22,783

272,840

65,741

(361,364  
)

—

Accrued expenses  
7,320

13,042

21,536

—

41,898

Income taxes payable

—

2,988

192

(2,964  
)

216

Total current liabilities

30,170

323,733

119,364

(364,328  
)

108,939

Long-term debt, less current portion

352,087

19,881

14,000

—

385,968

Other non-current obligations

—

37,296

47,398

—

84,694

Deferred income taxes

—

2,242

742

—

2,984

Long-term intercompany payable

—

65,822

41,486

(107,308  
)

—

Stockholders' equity

88,395

547,413

343,275

(890,688  
)

88,395

Total liabilities and stockholders' equity  
\$  
470,652

\$  
996,387

\$  
566,265

\$  
(1,362,324  
)

\$  
670,980

23

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Table of ContentsCondensed Consolidating Balance Sheet (1)  
March 31, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 640	\$ 36,209	\$ 28,155	\$ —	\$ 65,004
Accounts receivable, net	—	41,025	52,143	—	93,168
Intercompany receivable	30,210	132,523	170,224	(332,957)	) —
Inventories, net	—	113,289	55,590	—	168,879
Prepaid expenses and other	3,325	12,161	12,974	(2,964)	) 25,496
Total current assets	34,175	335,207	319,086	(335,921)	) 352,547
Property and equipment, net	255	93,936	147,648	—	241,839
Goodwill	—	40,294	—	—	40,294
Intangible assets, net	—	27,252	6,049	—	33,301
Investment in NEC TOKIN	—	20,334	—	—	20,334
Investments in subsidiaries	382,108	429,723	93,359	(905,190)	) —
Deferred income taxes	—	800	7,597	—	8,397
Other assets	—	2,452	616	—	3,068
Long-term intercompany receivable	67,500	41,428	1,088	(110,016)	) —
Total assets	\$ 484,038	\$ 991,426	\$ 575,443	\$ (1,351,127)	) \$ 699,780
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Current portion of long-term debt	\$ 2,000	\$ —	\$ —	\$ —	\$ 2,000
Accounts payable	20	34,618	36,343	—	70,981
Intercompany payable	280	275,498	57,179	(332,957)	) —
Accrued expenses	17,305	11,807	21,208	—	50,320
Income taxes payable	—	2,983	434	(2,964)	) 453
Total current liabilities	19,605	324,906	115,164	(335,921)	) 123,754
Long-term debt, less current portion	351,952	19,881	14,000	—	385,833
Other non-current obligations	—	25,797	49,095	—	74,892
Deferred income taxes	—	2,242	578	—	2,820
Long-term intercompany payable	—	67,500	42,516	(110,016)	) —
Stockholders' equity	112,481	551,100	354,090	(905,190)	) 112,481
Total liabilities and stockholders' equity	\$ 484,038	\$ 991,426	\$ 575,443	\$ (1,351,127)	) \$ 699,780

(1) Derived from audited financial statements.



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Condensed Consolidating Statement of Operations  
For the Quarter Ended June 30, 2016  
(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
Net sales	\$—	\$ 213,513	\$ 170,550	\$ (199,128 )	\$ 184,935
Operating costs and expenses:					
Cost of sales	277	167,103	161,230	(186,198 )	142,412
Selling, general and administrative expenses	10,145	17,489	11,210	(12,930 )	25,914
Research and development	65	4,375	2,492	—	6,932
Restructuring charges	—	139	549	—	688
Net (gain) loss on sales and disposals of assets	—	388	(297 )	—	91
Total operating costs and expenses	10,487	189,494	175,184	(199,128 )	176,037
Operating income (loss)	(10,487 )	24,019	(4,634 )	—	8,898
Non-operating (income) expense:					
Interest income	—	3	(6 )	—	(3 )
Interest expense	9,423	399	101	—	9,923
Change in value of NEC TOKIN option	—	12,000	—	—	12,000
Other (income) expense, net	(9,350 )	9,416	(2,460 )	—	(2,394 )
Equity in earnings of subsidiaries	1,645	—	—	(1,645 )	—
Income (loss) from continuing operations before income taxes and equity income (loss) from NEC TOKIN	(12,205 )	2,201	(2,269 )	1,645	(10,628 )
Income tax expense (benefit)	—	38	1,762	—	1,800
Income (loss) from continuing operations before equity income (loss) from NEC TOKIN	(12,205 )	2,163	(4,031 )	1,645	(12,428 )
Equity income (loss) from NEC TOKIN	—	223	—	—	223
Net income (loss)	\$(12,205 )	\$ 2,386	\$ (4,031 )	\$ 1,645	\$(12,205 )

Condensed Consolidating Statements of Comprehensive Income (Loss)  
Quarter Ended June 30, 2016  
(Unaudited)

Comprehensive income (loss) \$(13,883) \$(3,687) \$(8,794) \$1,645 \$(24,719)

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Condensed Consolidating Statement of Operations  
For the Quarter Ended June 30, 2015  
(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
Net sales	\$—	\$ 221,770	\$ 181,600	\$ (215,780 )	\$ 187,590
Operating costs and expenses:					
Cost of sales	178	181,514	166,230	(200,045 )	147,877
Selling, general and administrative expenses	9,816	23,479	12,870	(15,735 )	30,430
Research and development	(119 )	4,384	2,009	—	6,274
Restructuring charges	—	515	1,309	—	1,824
Net (gain) loss on sales and disposals of assets	—	(353 )	295	—	(58 )
Total operating costs and expenses	9,875	209,539	182,713	(215,780 )	186,347
Operating income (loss)	(9,875 )	12,231	(1,113 )	—	1,243
Non-operating (income) expense:					
Interest income	—	—	(3 )	—	(3 )
Interest expense	9,469	332	212	—	10,013
Change in value of NEC TOKIN option	—	29,200	—	—	29,200
Other (income) expense, net	(9,087 )	7,802	2,201	—	916
Equity in earnings of subsidiaries	26,793	—	—	(26,793 )	—
Income (loss) from continuing operations before income taxes and equity income (loss) from NEC TOKIN	(37,050 )	(25,103 )	(3,523 )	26,793	(38,883 )
Income tax expense (benefit)	—	(487 )	239	—	(248 )
Income (loss) from continuing operations before equity income (loss) from NEC TOKIN	(37,050 )	(24,616 )	(3,762 )	26,793	(38,635 )
Equity income (loss) from NEC TOKIN	—	1,585	—	—	1,585
Net income (loss)	\$(37,050)	\$(23,031 )	\$(3,762 )	\$ 26,793	\$(37,050 )

Condensed Consolidating Statements of Comprehensive Income (Loss)

For the Quarter Ended June 30, 2015

(Unaudited)

Comprehensive income (loss) \$(34,501) \$(27,935) \$706 \$26,793 \$(34,937)

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Condensed  
Consolidating Statement of Cash Flows  
For the Quarter Ended June 30, 2016  
(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
Sources (uses) of cash and cash equivalents					
Net cash provided by (used in) operating activities	\$2,465	\$ (13,651 )	\$ 8,150	\$ —	\$ (3,036 )
Investing activities:					
Capital expenditures	—	15	(6,182 )	—	(6,167 )
Proceeds from sale of assets	—	—	—	—	—
Acquisitions, net of cash received	—	—	—	—	—
Net cash used in investing activities	—	15	(6,182 )	—	(6,167 )
Financing activities:					
Proceeds from revolving line of credit	—	—	—	—	—
Payments of revolving line of credit	—	—	—	—	—
Payments of long-term debt	(1,870 )	—	—	—	(1,870 )
Purchase of treasury stock	(595 )	—	—	—	(595 )
Net cash provided by (used in) financing activities	(2,465 )	—	—	—	(2,465 )
Net increase (decrease) in cash and cash equivalents	—	(13,636 )	1,968	—	(11,668 )
Effect of foreign currency fluctuations on cash	—	—	(398 )	—	(398 )
Cash and cash equivalents at beginning of fiscal period	640	36,209	28,155	—	65,004
Cash and cash equivalents at end of fiscal period	\$640	\$ 22,573	\$ 29,725	\$ —	\$ 52,938

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Condensed Consolidating Statements of Cash Flows  
For the Quarter Ended June 30, 2015  
(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and Eliminations	Consolidated
Sources (uses) of cash and cash equivalents					
Net cash provided by (used in) operating activities	\$ 544	\$ (17,034 )	\$ (5,034 )	\$ —	\$ (21,524 )
Investing activities:					
Capital expenditures	—	(3,912 )	(1,861 )	—	(5,773 )
Acquisitions, net of cash received	—	(2,892 )	—	—	(2,892 )
Net cash used in investing activities	—	(6,804 )	(1,861 )	—	(8,665 )
Financing activities:					
Proceeds from revolving line of credit	—	6,000	2,000	—	8,000
Payments of revolving line of credit	—	(2,500 )	—	—	(2,500 )
Payments of long-term debt	—	—	(481 )	—	(481 )
Purchase of treasury stock	(544 )	—	—	—	(544 )
Net cash provided by (used in) financing activities	(544 )	3,500	1,519	—	4,475
Net increase (decrease) in cash and cash equivalents	—	(20,338 )	(5,376 )	—	(25,714 )
Effect of foreign currency fluctuations on cash	—	—	411	—	411
Cash and cash equivalents at beginning of fiscal period	640	33,094	22,628	—	56,362
Cash and cash equivalents at end of fiscal period	\$ 640	\$ 12,756	\$ 17,663	\$ —	\$ 31,059

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### Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This report contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from those expressed in, or implied by, our forward-looking statements. Words such as “expects,” “anticipates,” “believes,” “estimates” or other similar expressions and future or conditional verbs such as “will,” “should,” “would” and “could” are intended to identify such forward-looking statements. Readers of this report should not rely solely on the forward-looking statements and should consider all uncertainties and risks throughout this report as well as those discussed under Part I, Item 1A Risk Factors, of the Company’s 2016 Annual Report. The statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement.

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

Factors that may cause actual outcomes and results to differ materially from those expressed in, or implied by, these forward-looking statements include, but are not necessarily limited to, the following: (i) adverse economic conditions could impact our ability to realize operating plans if the demand for our products declines, and such conditions could adversely affect our liquidity and ability to continue to operate; (ii) continued net losses could impact our ability to realize current operating plans and could materially adversely affect our liquidity and our ability to continue to operate; (iii) adverse economic conditions could cause the write down of long-lived assets or goodwill; (iv) an increase in the cost or a decrease in the availability of our principal or single-sourced purchased materials; (v) changes in the competitive environment; (vi) uncertainty of the timing of customer product qualifications in heavily regulated industries; (vii) economic, political, or regulatory changes in the countries in which we operate; (viii) difficulties, delays or unexpected costs in completing the restructuring plans; (ix) equity method investment in NEC TOKIN exposes us to a variety of risks; (x) acquisitions and other strategic transactions expose us to a variety of risks; (xi) possible acquisition of NEC TOKIN may not achieve all of the anticipated results; (xii) our business could be negatively impacted by increased regulatory scrutiny and litigation; (xiii) inability to attract, train and retain effective employees and management; (xiv) inability to develop innovative products to maintain customer relationships and offset potential price erosion in older products; (xv) exposure to claims alleging product defects; (xvi) the impact of laws and regulations that apply to our business, including those relating to environmental matters; (xvii) the impact of international laws relating to trade, export controls and foreign corrupt practices; (xviii) volatility of financial and credit markets affecting our access to capital; (xix) the need to reduce the total costs of our products to remain competitive; (xx) potential limitation on the use of net operating losses to offset possible future taxable income; (xxi) restrictions in our debt agreements that limit our flexibility in operating our business; (xxii) failure of our information technology systems to function properly or our failure to control unauthorized access to our systems may cause business disruptions; (xxiii) additional exercise of the warrant by K Equity which could potentially result in the existence of a significant stockholder who could seek to influence our corporate decisions; and (xxiv) fluctuation in distributor sales could adversely affect our results of operations.

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

### Accounting Policies and Estimates

The following discussion and analysis of financial condition and results of operations are based on the unaudited condensed consolidated financial statements included herein. Our significant accounting policies are described in Note 1 to the consolidated financial statements in our 2016 Annual Report. Our critical accounting policies are described under the caption “Critical Accounting Policies” in Item 7 of our 2016 Annual Report.

#### Long-Lived Assets

Due to the operating loss incurred by Film & Electrolytic, the Company tested its long-lived assets for impairment as of June 30, 2016 and concluded that they were not impaired. Tests for the recoverability of a long-lived asset to be held and used are performed by comparing the carrying amount of the long-lived asset to the sum of the estimated future net undiscounted cash flows expected to be generated by the asset group. In estimating the future undiscounted cash flows, we use

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future projections of cash flows directly associated with, and which are expected to arise as a direct result of, the use and hypothetical disposal (salvage value) of the asset group. These assumptions primarily include the average asset useful life and projections of sales and cost of sales over these asset lives. The Company will monitor the Film and Electrolytic long-lived assets in future periods as material changes in certain assumptions could have a material effect on the estimated future undiscounted cash flows expected to be generated by the asset. This, in turn, could result in Film and Electrolytic not passing step 1 of the impairment test which would require the Company to perform a discounted cash flow analysis to determine the impairment amount (if any).

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“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.

Our judgments are based on management’s assessment as to the effect certain estimates, assumptions, 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.

## Business Overview

KEMET is a leading global manufacturer of a wide variety of capacitors. We compete in the passive electronic component industry, specifically multilayer ceramic, tantalum, film and aluminum (solid & electrolytic) capacitors. Product offerings include surface mount, which are attached directly to the circuit board; leaded capacitors, which are attached to the circuit board using lead wires; and chassis-mount and other pin-through-hole board-mount capacitors, which utilize attachment methods such as screw terminal and snap-in. Capacitors are electronic components that store, filter, and regulate electrical energy and current flow. As an essential passive component used in nearly all circuit boards, capacitors are typically used for coupling, decoupling, filtering, oscillating and wave shaping and are found in communication systems, servers, personal computers, tablets, cellular phones, automotive electronic systems, defense and aerospace systems, consumer electronics, power management systems and many other electronic devices and systems (basically anything that plugs in or has a battery).

Manufacturing a broad line of tantalum, multilayer ceramic, solid and electrolytic aluminum and film and paper capacitors, KEMET’s product line consists of nearly 5 million distinct part configurations distinguished by various attributes, such as dielectric (or insulating) material, configuration, encapsulation, capacitance level and tolerance, voltage, operating temperature, performance characteristics and packaging. Because most of our customers have multiple capacitance requirements, often within each of their products, our broad product offering allows us to meet the majority of their needs independent of application and end use.

KEMET operates nineteen production facilities in Europe, North America, and Asia, and employs approximately 8,800 employees worldwide. Commodity manufacturing has been substantially relocated to our lower-cost manufacturing facilities in Mexico, China and Europe. Production remaining in the United States focuses primarily on early-stage manufacturing of new products and specialty products for which customers are predominantly located in North America.

Our products are sold into a wide range of different end markets, including computing, industrial, telecommunications, transportation, consumer, defense and healthcare across all geographic regions. No single end market industry accounted for more than 30% of net sales although, one customer, a distributor, accounted for more than 10% of net sales in the three-month period ended June 30, 2016. During the three-month period ended June 30,

2016 we introduced 1,806 new products of which 609 were first to market. In addition, we continue to focus on specialty products which accounted for 39.8% of our revenue over this period.

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

We are organized into two business groups: Solid Capacitors business group ("Solid Capacitors") and the Film and Electrolytic business group ("Film and Electrolytic"). The business groups are responsible for their respective manufacturing sites as well as all related research and development efforts. Sales, marketing and corporate finance functions are shared by each of the business groups.



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### Recent Developments and Trends

The following items are reflected in the financial statements for the quarter ended June 30, 2016:

#### Equity Investment

In the quarter ended June 30, 2016 we incurred an equity income related to our 34% economic interest in NEC TOKIN of \$0.2 million.

KEC's First and Second Call Options (as defined in Note 5, "Investment in NEC TOKIN") to purchase additional capital stock of NEC TOKIN expired on April 30, 2015 without being exercised. Through May 31, 2018, NEC Corporation of Japan may exercise its Put Option, provided that KEC's payment of the Put Option price is permitted under the 10.5% Senior Notes and Loan and Security Agreement. The Company has marked the option to fair value and in the quarter ended June 30, 2016 recognized a \$12.0 million loss which was included on the line item "Change in Value of the NEC TOKIN option" in the Condensed Consolidated Statement of Operations. The line item "Other non-current obligations" on the Condensed Consolidated Balance Sheets includes \$32.6 million as of June 30, 2016 related to the Put Option.

#### Global Economy

In June 2016, the United Kingdom voted in a referendum to exit the European Union, commonly referred to as "Brexit". As a result of the referendum, the global markets and currencies have been subject to volatility, including as a result of a decline in the value of the U.K. pound sterling as compared to the U.S. dollar. We have performed a preliminary assessment of the possible impact of Brexit to our consolidated financial statements. We believe that the uncertainty surrounding Brexit is not a material risk to our consolidated financial statements, however, the macroeconomic impact on our results of operations from this vote remains unknown and we will continue to monitor the impact.

#### Outlook

For the second quarter of fiscal year 2017, we expect net sales to be within the \$185 million to \$190 million range, the possibility of a slight improvement in gross margin as a percentage of net sales and SG&A expenses are expected to be in the range of \$22.5 million to \$23.0 million.

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## CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

Consolidated Comparison of the quarter ended June 30, 2016 with the quarter ended June 30, 2015

The following table sets forth the Condensed Consolidated Statements of Operations for the periods indicated (amounts in thousands):

	Quarters Ended June 30,			
	2016	% to Total Sales	2015	% to Total Sales
Net sales	\$184,935		\$187,590	
Gross margin	42,523	23.0 %	39,713	21.2 %
Selling, general and administrative expenses	25,914	14.0 %	30,430	16.2 %
Research and development	6,932	3.7 %	6,274	3.3 %
Restructuring charges	688	0.4 %	1,824	1.0 %
Net (gain) loss on sales and disposals of assets	91	n.m.	(58)	) n.m.
Operating income (loss)	8,898	4.8 %	1,243	0.7 %
Interest income	(3)	) n.m.	(3)	) n.m.
Interest expense	9,923	5.4 %	10,013	5.3 %
Change in value of NEC TOKIN option	12,000	6.5 %	29,200	15.6 %
Other (income) expense, net	(2,394)	) (1.3) %	916	0.5 %
Income (loss) from continuing operations before income taxes and equity income (loss) from NEC TOKIN	(10,628)	) (5.7) %	(38,883)	) (20.7) %
Income tax expense (benefit)	1,800	1.0 %	(248)	) (0.1) %
Income (loss) from continuing operations before equity income (loss) from NEC TOKIN	(12,428)	) (6.7) %	(38,635)	) (20.6) %
Equity income (loss) from NEC TOKIN	223	0.1 %	1,585	0.8 %
Net income (loss)	\$(12,205)	) (6.6) %	\$(37,050)	) (19.8) %
n.m. - not meaningful				

## Net Sales

Net sales for the quarter ended June 30, 2016 of \$184.9 million decreased \$2.7 million or 1.4% from \$187.6 million for the quarter ended June 30, 2015. Film and Electrolytic net sales decreased \$4.9 million and Solid Capacitor net sales increased \$2.3 million. For Film and Electrolytic, the decrease in net sales was primarily related to a decrease in net sales in the Europe Middle East and Africa ("EMEA") and North America and South America ("Americas") regions due to a decline in market conditions and declines within the Original Equipment Manufacturers ("OEM") channel corresponding with the relocation of our manufacturing line from Germany to Macedonia. The relocation and product qualification/customer approval was completed in early July 2016. Partially offsetting this decrease was a favorable impact of \$0.7 million from foreign currency exchange primarily due to the change in the value of the Euro compared to the U.S. dollar for the quarter ended June 30, 2016 compared to the quarter ended June 30, 2015. The increase in Solid Capacitors net sales is primarily related to an increase in net sales in the Asia and Pacific Rim ("APAC") and EMEA regions within the distributor channel. In addition, Solid Capacitor net sales were favorably impacted by \$0.8 million from foreign currency exchange primarily due to the change in the value of the Euro compared to the U.S. dollar for the quarter ended June 30, 2016 compared to the quarter ended June 30, 2015.



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The following table reflects the percentage of net sales by region for the quarters ended June 30, 2016 and 2015:

Quarters		Quarters	
Ended June		Ended June	
30,		30,	
2016	2015	2016	2015
Americas	30 %	30 %	
EMEA	33 %	33 %	
APAC	37 %	37 %	
	100 %	100 %	

The following table reflects the percentage of net sales by channel for the quarters ended June 30, 2016 and 2015:

Quarters		Quarters	
Ended June		Ended June	
30,		30,	
2016	2015	2016	2015
Distributors	46 %	43 %	
Electronics Manufacturing Services Providers ("EMS")	21 %	21 %	
OEM	33 %	36 %	
	100 %	100 %	

## Gross Margin

Gross margin for the quarter ended June 30, 2016 of \$42.5 million (23.0% of net sales) increased \$2.8 million or 7.1% from \$39.7 million (21.2% of net sales) for the quarter ended June 30, 2015. Solid Capacitors gross margin increased \$5.1 million or 14.1% primarily due to an increase in net sales and continued variable margin improvement due to our restructuring efforts, vertical integration, the favorable foreign currency impact on manufacturing costs, manufacturing process improvements as a result of our cost reduction activities and our partnership with NEC TOKIN. Film and Electrolytic gross margin decreased \$2.3 million or 58.9% due to a decrease in net sales and unfavorable shift in product mix linked to our lower OEM sales volumes.

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

SG&A expenses of \$25.9 million (14.0% of net sales) for the quarter ended June 30, 2016 decreased \$4.5 million or 14.8% from \$30.4 million (16.2% of net sales) for the quarter ended June 30, 2015. The decrease is attributable primarily to the following items: a \$2.6 million decrease in ERP integration and technology transition costs, a \$0.9 million decrease related to the change in the allocation of IT and other costs between SG&A and cost of goods sold following an internal usage study, a \$0.4 million decrease in training and development costs, a \$0.3 million decrease in non-income-related taxes, a \$0.3 million decrease in building and equipment rent expense, and a \$0.2 million decrease in professional fees. Partially offsetting these decreases was a \$0.4 million increase in payroll-related expenses and benefits.

## Research and development ("R&D")

R&D expenses of \$6.9 million (3.7% of net sales) for the quarter ended June 30, 2016 increased \$0.7 million or 10.5% compared to \$6.3 million (3.3% of net sales) for the quarter ended June 30, 2015. The increase is primarily related to a \$0.5 million increase in payroll-related expenses and benefits.

## Restructuring charges

Restructuring charges of \$0.7 million for the quarter ended June 30, 2016 decreased \$1.1 million or 62.3% from \$1.8 million for the quarter ended June 30, 2015.

The Company incurred \$0.7 million in restructuring charges in the quarter ended June 30, 2016 including \$0.6 million in personnel reduction costs and \$41.0 thousand in manufacturing relocation costs. The personnel reduction costs of \$0.6 million consist primarily of \$0.3 million for overhead reductions in Sweden, \$0.2 million related to manufacturing headcount reductions in Europe (primarily Italy and Landsberg, Germany) corresponding with the relocation of certain production lines to lower cost regions, and \$0.1 million related to the consolidation of certain Solid Capacitor manufacturing in Matamoros, Mexico. The manufacturing relocation costs of \$41 thousand consist primarily of transfers of Film and Electrolytic production lines to lower cost regions.

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The Company incurred \$1.8 million in restructuring charges in the quarter ended June 30, 2015 including \$1.5 million of personnel reduction costs. The personnel reduction costs of \$1.5 million consist of the following: \$0.6 million related a headcount reduction in Suzhou, China for the Film & Electrolytic production line transfer from Suzhou, China to Anting, China, \$0.5 million for planned headcount reductions in Europe (primarily Landsberg, Germany), \$0.2 million for headcount reductions in Matamoros, Mexico related to the relocation of certain Solid Capacitor manufacturing from Matamoros, Mexico to Victoria, Mexico, and \$0.2 million for headcount reductions related to the outsourcing of the Company's information technology function and overhead reductions in North America and Europe. The Company also incurred \$0.3 million of manufacturing relocation costs for transfers of Film and Electrolytic production lines.

### Operating income (loss)

Operating income of \$8.9 million for the quarter ended June 30, 2016 improved \$7.7 million from operating income of \$1.2 million for the quarter ended June 30, 2015. The increase in operating income was primarily attributable to a \$4.5 million decrease in SG&A expenses, a \$2.8 million improvement in gross margin and a \$1.1 million decrease in restructuring charges. These improvements to operating income were partially offset by a \$0.7 million increase in R&D expenses.

### Non-operating (income) expense, net

Non-operating (income) expense, net was a net expense of \$19.5 million for the quarter ended June 30, 2016 compared to a net expense of \$40.1 million for the quarter ended June 30, 2015. The change is primarily attributable to a \$12.0 million loss from the change in value of the NEC TOKIN option during the quarter ended June 30, 2016 compared to a \$29.2 million loss from the change in value of the NEC TOKIN option during the quarter ended June 30, 2015. During the quarter ended June 30, 2016, we recognized a \$1.9 million foreign currency exchange gain compared to a \$1.0 million foreign currency exchange loss for the quarter ended June 30, 2015, which was due primarily to the change in the value of the Euro and Mexican Peso compared to the U.S. dollar.

### Income taxes

Income tax expense from continuing operations of \$1.8 million for the quarter ended June 30, 2016 increased \$2.0 million compared to income tax benefit from continuing operations of \$0.2 million for the quarter ended June 30, 2015. During the quarter ended June 30, 2016, the income tax expense from continuing operations was comprised of a \$1.8 million income tax expense from foreign operations. During the quarter ended June 30, 2015, the Company incurred \$0.2 million of income tax benefit which was comprised of a \$0.6 million federal income tax benefit due to the reduction in the U.S. valuation allowance associated with the acquisition of IntelliData, Inc. ("IntelliData"), \$0.3 million income tax expense from continuing foreign operations and \$0.1 million of state income tax expense.

There was no U.S. federal income tax benefit from net operating losses for the quarters ended June 30, 2016 and 2015 due to a valuation allowance recorded on deferred tax assets.

### Equity income (loss) from NEC TOKIN

Equity income related to our 34% economic interest in NEC TOKIN of \$0.2 million for the quarter ended June 30, 2016 reflects a \$1.4 million unfavorable change compared to equity income of \$1.6 million for the quarter ended June 30, 2015. The change is comprised of the following: a \$0.5 million loss on foreign currency forward contract, a \$0.2 million unfavorable change in the foreign exchange rates and a \$0.4 million increase in step up basis adjustment amortization. In addition, there was a receipt of \$1.0 million from a legal settlement in Hong Kong for the quarter ended June 30, 2015 and no similar receipt in the quarter ended June 30, 2016. Partially offsetting these unfavorable

items were: a \$0.3 million decrease in legal expenses relating to antitrust lawsuits and a \$0.4 million increase in deferred income tax benefits.

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## Business Groups Comparison of the Quarter Ended June 30, 2016 with the Quarter Ended June 30, 2015

The following table reflects each business group's net sales and operating income (loss), for the quarters ended June 30, 2016 and 2015 (amounts in thousands):

	Quarters Ended June 30,	
	2016	2015
Net sales:		
Solid Capacitors	\$ 141,944	\$ 139,677
Film and Electrolytic	42,991	47,913
Total	\$ 184,935	\$ 187,590
Operating income (loss):		
Solid Capacitors	\$ 35,079	\$ 30,033
Film and Electrolytic	(1,467 )	712
Corporate	(24,714 )	(29,502 )
Total	\$ 8,898	\$ 1,243

## Solid Capacitors

The following table sets forth net sales, operating income (loss), and operating income (loss) as a percentage of net sales for our Solid Capacitors business group for the quarters ended June 30, 2016 and 2015 (amounts in thousands, except percentages):

	Quarters Ended June 30,			
	2016	2015		
	Amount	% to Net Sales	Amount	% to Net Sales
Tantalum product line net sales	\$ 83,869		\$ 87,004	
Ceramic product line net sales	58,075		52,673	
Solid Capacitors net sales	\$ 141,944		\$ 139,677	
Solid Capacitors operating income (loss)	\$ 35,079	24.7%	\$ 30,033	21.5%

## Net sales

Solid Capacitors net sales of \$141.9 million for the quarter ended June 30, 2016 increased \$2.3 million or 1.6% from \$139.7 million for the quarter ended June 30, 2015. The increase was driven by an increase in net sales in the APAC and EMEA regions within the distributor channel. The increase in Distributor sales was partially offset by normal erosion in market prices and changes in sales mix in the Americas and EMEA. The increase in net sales included a \$0.8 million favorable impact from foreign currency exchange due primarily to the change in the value of the Euro compared to the U.S. dollar.

A summary of Solid Capacitors net sales by channel is shown below (amounts in thousands):

	Quarters Ended June 30,		Change in
	2016	2015	Net Sales
Distributors	\$ 67,073	\$ 61,128	\$ 5,945
EMS	34,859	35,193	(334 )
OEM	40,012	43,356	(3,344 )
Solid Capacitors net sales	\$ 141,944	\$ 139,677	\$ 2,267





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## Segment operating income (loss)

Segment operating income of \$35.1 million for the quarter ended June 30, 2016 improved \$5.1 million or 16.8% from \$30.0 million in the quarter ended June 30, 2015. The increase in operating income is a result of a \$5.1 million improvement in gross margin. Improvements in gross margin are driven by an increase in net sales and continued variable margin improvement due to our restructuring efforts, vertical integration, the favorable foreign currency impact on manufacturing costs, and manufacturing process improvements as a result of our cost reduction activities and our partnership with NEC TOKIN.

## Film and Electrolytic

The following table sets forth net sales, operating income (loss), and operating income (loss) as a percentage of net sales for our Film and Electrolytic business group for the quarters ended June 30, 2016 and 2015 (amounts in thousands, except percentages):

	Quarters Ended June 30,			
	2016		2015	
	Amount	% to Net Sales	Amount	% to Net Sales
Net sales	\$42,991		\$47,913	
Operating income (loss)	(1,467 )	(3.4 )%	712	1.5 %

## Net sales

Film and Electrolytic net sales of \$43.0 million for the quarter ended June 30, 2016 decreased \$4.9 million or 10.3% from \$47.9 million for the quarter ended June 30, 2015. The decrease in net sales is due to a decrease in net sales in the EMEA and Americas regions of \$5.6 million due to a decline in market conditions and declines within the OEM channel corresponding with the relocation of our manufacturing line from Germany to Macedonia. This decrease was partially offset by a \$0.7 million favorable impact from foreign currency exchange primarily due to the change in the value of the Euro compared to the U.S. dollar.

## Segment operating income (loss)

Segment operating loss of \$1.5 million for the quarter ended June 30, 2016 declined \$2.2 million from segment operating income of \$0.7 million in the quarter ended June 30, 2015 and segment operating income (loss) as a percentage of net sales declined 490 basis points between the two periods. The decrease in segment operating income (loss) was driven by lower revenue as well as unfavorable shift in product mix linked to our lower OEM sales volumes. During the quarter ended June 30, 2016, we had an increase of \$0.3 million in R&D expenses and an increase of \$0.1 million in SG&A expenses when compared to the quarter ended June 30, 2015. In addition, the quarter ended June 30, 2015 included a \$0.2 million gain on the disposal of fixed assets and there was no such gain during the quarter ended June 30, 2016. Partially offsetting these increases was a \$0.7 million decrease in restructuring charges during the quarter ended June 30, 2016 when compared to the quarter ended June 30, 2015.

## Liquidity and Capital Resources

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

#### 10.5% Senior Notes

On May 10, 2016, the Company repurchased and retired \$2.0 million of its 10.5% Senior Notes. As of June 30, 2016 and March 31, 2016, we had outstanding \$353.0 million and \$355.0 million, respectively in aggregate principal amount of the Company's 10.5% Senior Notes due May 1, 2018 (the "10.5% Senior Notes").

#### Revolving Line of Credit

On May 2, 2016, the Loan and Security Agreement dated September 30, 2010, as amended, by and among KEMET Electronics Corporation ("KEC"), KEMET Electronics Marketing (S) Pte. Ltd., KEMET Foil Manufacturing, LLC ("KEMET

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Foil”), KEMET Blue Powder Corporation (“KEMET Blue Powder”), The Forest Electric Company and the financial institutions party thereto (the “Loan and Security Agreement”), was amended and, as a result, the revolving credit facility has increased to \$65.0 million. As of June 30, 2016, the Company had the following activity and resulting balances under its revolving line of credit (amounts in thousands, excluding percentages):

	As of March 31, 2016	Three-Month Period Ended June 30, 2016		As of June 30, 2016		
	Outstanding Borrowings	Additional Borrowings	Repayments	Outstanding Borrowings	Rate (1)	Due Date
U.S. Facility	\$ 19,881	\$ —	\$ —	\$19,881	4.750%	December 19, 2019
Singapore Facility						
Singapore Borrowing 1 (3)	12,000	—	—	12,000	3.250%	August 22, 2016
Singapore Borrowing 2 (3)	2,000	—	—	2,000	3.250%	October 11, 2016
Total Facilities	\$ 33,881	\$ —	\$ —	\$33,881		

(1) For U.S. borrowings, Base Rate plus 1.50%, as defined in the Loan and Security Agreement.

(2) For Singapore borrowings, London Interbank Offer Rate ("LIBOR"), plus a spread of 2.50% as of June 30, 2016.

(3) The Company has the intent and ability to extend the due date on the Singapore borrowings beyond one year. These were the only borrowings under the revolving line of credit as of June 30, 2016.

### Short-term Liquidity

Cash and cash equivalents as of June 30, 2016 of \$52.9 million decreased \$12.1 million from \$65.0 million as of March 31, 2016. Our net working capital (current assets less current liabilities) as of June 30, 2016 was \$231.9 million compared to \$228.8 million as of March 31, 2016. Cash and cash equivalents held by our foreign subsidiaries totaled \$29.7 million and \$28.2 million at June 30, 2016 and March 31, 2016, respectively. Our operating income outside the U.S. is no longer deemed to be permanently reinvested in foreign jurisdictions. As a result, we set up a deferred tax liability as of March 31, 2015 on the undistributed foreign earnings which was offset by a reduction in the valuation allowance on our deferred tax assets. However, we currently do not intend nor foresee a need to repatriate cash and cash equivalents held by foreign subsidiaries. If these funds are needed for our operations in the U.S., we may be required to accrue U.S. withholding taxes on the distributed foreign earnings.

Based on our current operating plans, we believe domestic cash and cash equivalents are sufficient to fund our operating requirements for the next twelve months, including \$38.4 million in interest payments, \$20.0 million to \$22.0 million in expected capital expenditures and \$1.1 million in restructuring payments. As of June 30, 2016, our borrowing capacity under the revolving line of credit was \$31.1 million. The revolving line of credit expires on December 19, 2019. The borrowing capacity has increased primarily due to a \$5.0 million increase in the credit facility noted above.

Should we require more capital than is generated by our operations or available through our revolving line of credit, we could attempt to raise capital through debt issuances or the sale of certain non-core assets. However, due to market conditions beyond our control, there can be no assurance that we would be able to complete such an offering or sale transaction. The incurrence of additional debt may result in increased interest expense.

Cash and cash equivalents decreased \$12.1 million for the three-month period ended June 30, 2016, as compared with a decrease of \$25.3 million during the three-month period ended June 30, 2015.



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The following table provides a summary of cash flows for the quarters presented (amounts in thousands):

	Quarters Ended June 30,	
	2016	2015
Net cash provided by (used in) operating activities	\$(3,036 )	\$(21,524 )
Net cash provided by (used in) investing activities	(6,167 )	(8,665 )
Net cash provided by (used in) financing activities	(2,465 )	4,475
Effect of foreign currency fluctuations on cash	(398 )	411
Net increase (decrease) in cash and cash equivalents	\$(12,066 )	\$(25,303 )

## Operating

Cash used in operating activities during the three-month period ended June 30, 2016 of \$3.0 million decreased \$18.5 million compared to cash used in operating activities of \$21.5 million in the three-month period ended June 30, 2015. This favorable change in operating cash was primarily a result of a \$24.8 million smaller net loss for the three-month period ended June 30, 2016 compared to the three-month period ended June 30, 2015. This was partially offset by a \$17.2 million decrease in the non-cash loss related to the change in value of the NEC TOKIN option.

Also, contributing to the positive changes in cash was a \$17.8 million improvement in cash from operating assets primarily due to an increase in inventory of \$0.5 million in the three-month period ended June 30, 2016 compared to a \$10.0 million increase in the three-month period ended June 30, 2015. The increase in inventory as of June 30, 2015 was primarily related to an increase of Film and Electrolytic's inventory in preparation for the temporary shut-down of production lines to relocate the production lines. Additionally, in the three-month period ended June 30, 2016, a decrease in accounts receivable generated \$3.8 million compared to the three-month period ended June 30, 2015, during which accounts receivable increased by \$4.9 million.

Also, partially offsetting the positive changes noted above were changes in operating liabilities that resulted in a \$10.4 million decrease in cash during the three-month period ended June 30, 2016 when compared to the three-month period ended June 30, 2015. The \$10.4 million decrease in cash includes a \$4.6 million reduction of accrued expenses, which was primarily related to a \$5.0 million increase in accrued expenses during the three-month period ended June 30, 2015 for the deferred portion of our IntelliData acquisition and also derivative liabilities. In addition, the three-month period ended June 30, 2016 included pension contributions of \$1.4 million. The remainder of the decrease in cash resulting from the change in operating liabilities is due to timing of supplier payments.

## Investing

Cash used in investing activities during the three-month period ended June 30, 2016 of \$6.2 million reflects a \$2.5 million decrease compared to cash used in investing activities of \$8.7 million in the three-month period ended June 30, 2015. The improvement is primarily related to cash used for the acquisition of IntelliData of \$2.9 million in the three-month period ended June 30, 2015 compared to no acquisitions in the three-month period ended June 30, 2016. Cash used in investing activities during the three-month period ended June 30, 2016 include capital expenditures of \$6.2 million primarily related to expanding capacity at our manufacturing facilities in Evora, Portugal; Suzhou, China; Simpsonville, South Carolina; and Matamoros, Mexico as well as information technology projects in Simpsonville, South Carolina and equipment upgrades in Monterrey, Mexico.

In comparison, cash used in investing activities during the three-month period ended June 30, 2015 included \$5.8 million used for capital expenditures primarily related to expanding capacity at our manufacturing facilities in Gränna, Sweden; Suzhou, China; and information technology projects in Simpsonville, South Carolina.

## Financing

Cash used in financing activities during the three-month period ended June 30, 2016 of \$2.5 million reflects a \$6.9 million change from cash provided by financing activities of \$4.5 million in the three-month period ended June 30, 2015, primarily due to a decrease in net proceeds from the revolving line of credit of \$5.5 million in in the three-month period ended June 30, 2015 compared to no borrowings in the three-month period ended June 30, 2016. During the three-month period ended June 30, 2016, we used \$1.9 million to retire \$2.0 million face value of our 10.5% Senior Notes and also used \$0.6 million for the purchase of treasury stock related to shares withheld to pay taxes due

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upon the vesting of restricted stock. In comparison, during the three-month period ended June 30, 2015, we used \$0.5 million for foreign subsidiary debt payments and \$0.5 million for the purchase of treasury stock, again related to shares withheld to pay taxes due upon vesting of restricted stock.

## Commitments

With the exception of our purchase commitments, our commitments have not materially changed from those disclosed in the Company's 2016 Annual Report. Due to a delay in one of our contracts, an update to our purchase commitments is as follows (amounts in thousands):

Payment Due by Period					
Contractual obligations	Total	Year 1	Years		More than 5 years
			2 - 3	4 - 5	
Purchase commitments	\$2,618	\$1,902	\$716	\$ —	\$ —

## Non-U.S. Generally Accepted Accounting Principles ("GAAP") Financial Measures

To complement our Condensed Consolidated Statements of Operations and Cash Flows, we use non-U.S. GAAP financial measures of Adjusted gross margin, Adjusted operating income (loss), Adjusted net income (loss) and Adjusted EBITDA. Management believes that Adjusted gross margin, Adjusted operating income (loss), Adjusted net income (loss) and Adjusted EBITDA are complements to U.S. GAAP amounts and such measures are useful to investors. The presentation of these non-U.S. GAAP measures is not meant to be considered in isolation or as an alternative to net income as an indicator of our performance, or as an alternative to cash flows from operating activities as a measure of liquidity.

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

	Quarters Ended June 30,	
	2016	2015
Net sales	\$184,935	\$187,590
Cost of sales	142,412	147,877
Gross margin (U.S. GAAP)	\$42,523	\$39,713
Gross margin as a % of net sales	23.0	% 21.2
Adjustments:		
Plant start-up costs	308	195
Stock-based compensation expense	384	413
Adjusted gross margin (non-U.S. GAAP)	\$43,215	\$40,321
Adjusted gross margin as a % of net sales	23.4	% 21.5



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The following table provides reconciliation from U.S. GAAP Operating income (loss) to non-U.S. GAAP Adjusted operating income (loss) (amounts in thousands):

	Quarters Ended June 30,	
	2016	2015
Operating income (loss) (U.S. GAAP)	\$8,898	\$1,243
Adjustments:		
Restructuring charges	688	1,824
Net (gain) loss on sales and disposals of assets	91	(58 )
Stock-based compensation expense	1,228	1,279
Legal expenses related to antitrust class actions	1,175	718
ERP integration/IT transition costs	1,768	4,369
Plant start-up costs	308	195
Pension plan adjustment	—	312
NEC TOKIN investment-related expenses	206	224
Adjusted operating income (loss) (non-U.S. GAAP)	\$14,362	\$10,106

The following table provides reconciliation from U.S. GAAP Net income (loss) to non-U.S. GAAP Adjusted net income (loss) (amounts in thousands):

	Quarters Ended June 30,	
	2016	2015
Net income (loss) (U.S. GAAP)	\$(12,205)	\$(37,050)
Adjustments:		
Restructuring charges	688	1,824
Equity (income) loss from NEC TOKIN	(223 )	(1,585 )
Net (gain) loss on sales and disposals of assets	91	(58 )
Stock-based compensation expense	1,228	1,279
Legal expenses related to antitrust class actions	1,175	718
ERP integration/IT transition costs	1,768	4,369
Change in value of NEC TOKIN option	12,000	29,200
Plant start-up costs	308	195
Net foreign exchange (gain) loss	(1,920 )	1,049
NEC TOKIN investment-related expenses	206	224
Amortization included in interest expense	190	220
Pension plan adjustment	—	312
Income tax effect of non-U.S. GAAP adjustments (1)	—	(37 )
Adjusted net income (loss) (non-U.S. GAAP)	\$3,306	\$660

(1) The income tax effect of the excluded items is calculated by applying the applicable jurisdictional income tax rate, considering the deferred tax valuation for each applicable jurisdiction.

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The following table provides reconciliation from U.S. GAAP Net income (loss) to non-U.S. GAAP Adjusted EBITDA (amounts in thousands):

	Quarters Ended June 30,	
	2016	2015
Net income (loss) (U.S. GAAP)	\$(12,205)	\$(37,050)
Adjustments:		
Interest expense, net	9,920	10,010
Income tax expense (benefit)	1,800	(248 )
Depreciation and amortization	9,436	9,917
Restructuring charges	688	1,824
Legal expenses related to antitrust class actions	1,175	718
Equity (income) loss from NEC TOKIN	(223 )	(1,585 )
Net (gain) loss on sales and disposals of assets	91	(58 )
Stock-based compensation expense	1,228	1,279
ERP integration/IT transition costs	1,768	4,369
Change in value of NEC TOKIN option	12,000	29,200
Plant start-up costs	308	195
Net foreign exchange (gain) loss	(1,920 )	1,049
NEC TOKIN investment-related expenses	206	224
Pension plan adjustment	—	312
Adjusted EBITDA (non-U.S. GAAP)	\$24,272	\$20,156

Adjusted gross margin represents net sales less cost of sales excluding adjustments which are outlined in the quantitative reconciliation provided above. Management uses Adjusted gross margin to facilitate our analysis and understanding of our business operations by excluding the items outlined in the quantitative reconciliation provided above which might otherwise make comparisons of our ongoing business with prior periods more difficult and obscure trends in ongoing operations. The Company believes that Adjusted gross margin is useful to investors because it provides a supplemental way to understand the underlying operating performance of the Company. Adjusted gross margin should not be considered as an alternative to gross margin or any other performance measure derived in accordance with U.S. GAAP.

Adjusted operating income (loss) represents operating income (loss), excluding adjustments which are outlined in the quantitative reconciliation provided above. We use Adjusted operating income (loss) to facilitate our analysis and understanding of our business operations by excluding the items outlined in the quantitative reconciliation provided above which might otherwise make comparisons of our ongoing business with prior periods more difficult and obscure trends in ongoing operations. The Company believes that Adjusted operating income (loss) is useful to investors to provide a supplemental way to understand our underlying operating performance and monitor and understand changes in our ability to generate income from ongoing business operations. Adjusted operating income (loss) should not be considered as an alternative to operating income or any other performance measure derived in accordance with U.S. GAAP.

Adjusted net income (loss) represents net income (loss), excluding adjustments which are more specifically outlined in the quantitative reconciliation provided above. We use Adjusted net income (loss) to evaluate our operating performance by excluding the items outlined in the quantitative reconciliation provided above which might otherwise make comparisons of our ongoing business with prior periods more difficult and obscure trends in ongoing operations. The Company believes that Adjusted net income (loss) is useful to investors because it provides a supplemental way

to understand our underlying operating performance and allows investors to monitor and understand changes in our ability to generate income from ongoing business operations. Adjusted net income (loss) should not be considered as an alternative to net income (loss) from continuing operations, operating income (loss) or any other performance measures derived in accordance with U.S. GAAP.

Adjusted EBITDA represents net income (loss) before interest expense, net, income tax expense (benefit), and depreciation and amortization expense, excluding adjustments which are outlined in the quantitative reconciliation provided above. We present Adjusted EBITDA as a supplemental measure of our performance and ability to service debt. We also

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present Adjusted EBITDA because we believe this measure is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. Adjusted EBITDA is also used as a measure to determine incentive compensation.

We believe Adjusted EBITDA is an appropriate supplemental measure of debt service capacity, because cash expenditures on interest are, by definition, available to pay interest, and tax expense is inversely correlated to interest expense because tax expense goes down as deductible interest expense goes up; and depreciation and amortization are non-cash charges. The other items excluded from Adjusted EBITDA are excluded in order to better reflect our continuing operations.

In evaluating Adjusted EBITDA from continuing operations, you should be aware that in the future we may incur expenses similar to the adjustments noted above. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by these types of adjustments. Adjusted EBITDA is not a measurement of our financial performance under U.S. GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with U.S. GAAP or as an alternative to cash flow from operating activities as a measure of our liquidity.

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

- it does not reflect our cash expenditures, future requirements for capital expenditures or contractual commitments;
- it does not reflect changes in, or cash requirements for, our working capital needs;
- it does not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and our Adjusted EBITDA measure does not reflect any cash requirements for such replacements;
- it is not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;
- it does not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations;
- it does not reflect limitations on or costs related to transferring earnings from our subsidiaries to us;
- and
- other companies in our industry may calculate this measure differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business or as a measure of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our U.S. GAAP results and using Adjusted EBITDA as supplementary information.

## Off-Balance Sheet Arrangements

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

## Impact of Recently Issued Accounting Standards

New accounting standards adopted/issued

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, Compensation-Stock Compensation. This guidance changes several aspects of the accounting for share-based payment award transactions, including: (1) Accounting and Cash Flow Classification for Excess Tax Benefits and Deficiencies, (2) Forfeitures, and (3) Tax Withholding Requirements and Cash Flow Classification. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016. Early application is permitted, and KEMET adopted ASU No. 2016-09 as of April 1, 2016. The Company elected to discontinue estimating forfeitures that are expected to occur and recorded a cumulative effect adjustment to retained earnings for \$130,000 as of April 1, 2016. There was no cumulative

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adjustment related to the excess tax benefits as the Company did not have an additional paid in capital pool of excess tax benefits. The adoption did not have a significant impact on the Company's consolidated financial statements.

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

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. The ASU requires an entity that uses first-in, first-out or average cost to measure its inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 was effective for interim and annual reporting periods beginning April 1, 2016. The adoption of ASU 2015-11 did not materially impact the Company's operating results and financial position.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The ASU specifies that debt issuance costs related to a note shall be reported in the balance sheet as a direct reduction from the face amount of the note. In August 2015, the FASB issued ASU No. 2015-15, Interest - Imputation of Interest (Subtopic 835-30) - Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which clarifies the treatment of debt issuance costs associated with line-of-credit arrangements that were not specifically addressed in ASU 2015-03. ASU 2015-15 states that entities may elect to continue to treat debt issuance costs associated with lines of credit as an asset, consistent with current treatment. The Company adopted these ASUs in the first quarter of 2017. The ASUs did not impact the Company's results of operations or liquidity. The balance sheet as of March 31, 2016 has been adjusted to reflect retrospective application of the new accounting guidance as follows (amounts in thousands):

	As Previously Reported	Retrospective Adjustment	As Adjusted
Other assets	\$ 5,832	\$ (2,764 )	\$ 3,068
Total assets	702,544	(2,764 )	699,780
Long-term debt, less current portion	388,597	(2,764 )	385,833
Total liabilities and stockholders' equity	702,544	(2,764 )	699,780

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern. The new guidance requires management to assess if there is substantial doubt about an entity's ability to continue as a going concern for each annual and interim period. If conditions or events give rise to substantial doubt, disclosures are required. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter; early application is permitted. This new guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which supersedes existing accounting standards for revenue recognition and creates a single framework. The new guidance requires either a retrospective or a modified retrospective approach at adoption. Early adoption is permitted, but not before Company's fiscal year that begins on April 1, 2017 (the original effective date of the ASU). Additional updates to Topic 606 issued by the FASB in 2015 and 2016 include the following:

-

ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of the new guidance such that the new provisions will now be required for fiscal years, and interim periods within those years, beginning after December 15, 2017 (ASU 2015-14 is effective for the Company's fiscal year that begins on April 1, 2018 and interim periods within that fiscal year).

ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations, which clarifies the implementation guidance on principal versus agent considerations (reporting revenue gross versus net).

ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies the implementation guidance on identifying performance obligations and classifying licensing arrangements.

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ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which clarifies the implementation guidance in a number of other areas.

The Company is currently in the process of assessing the impact the adoption of the new revenue standards will have on its consolidated financial statements and related disclosures, as well as the available transition methods.

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes regarding the Company's market risk position from the information included in the Company's 2016 Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of June 30, 2016, an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.



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## PART II—OTHER INFORMATION

## Item 1. Legal Proceedings

“Item 3. Legal Proceedings” of our 2016 Annual Report includes a discussion of our legal proceedings. There have been no material changes from the Company's legal proceedings described in our 2016 Annual Report. For an update on certain legal matters concerning NEC TOKIN, our equity method investee, see Note 5, “Investment in NEC TOKIN.”

## Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A Risk Factors, of the Company's 2016 Annual Report.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information relating to our purchase of shares of our common stock during the quarter ended June 30, 2016 (amounts in thousands, except per share price):

Periods	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Programs	(d) Maximum Number of Shares that may yet be Purchased Under the Programs
April 1 to April 30, 2016	—	\$ —	—	—
May 1 to May 31, 2016	242,215	2.46	—	—
June 1 to June 30, 2016	—	—	—	—
Total for Quarter Ended June 30, 2016	242,215	\$ 2.46		

(1) Represents shares withheld by the Company upon vesting of restricted stock to pay taxes due. The Company does not currently have a publicly announced share repurchase plan or program.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

None.

## Item 6. Exhibits

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Exhibit 10.1 Amendment Number Eight to Loan and Security Agreement, dated May 2, 2016, among KEMET Electronics Corporation, KEMET Foil Manufacturing, LLC, KEMET Blue Powder Corporation, The Forest Electric Company and KEMET Electronics Marketing (S) PTE LTD., as Borrowers, the financial institutions party thereto, as Lenders, and Bank of America, N.A., as agent for the Lenders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-15491) filed on May 5, 2016).

Exhibit 10.2 Form of Long-Term Incentive Plan Award Agreement

Exhibit 31.1 Rule 13a-14(a)/15d-14(a) Certification - Principal Executive Officer

Exhibit 31.2 Rule 13a-14(a)/15d-14(a) Certification - Principal Financial Officer

Exhibit 32.1 Section 1350 Certification - Principal Executive Officer

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Exhibit 32.2 Section 1350 Certification - Principal Financial Officer

Exhibit 99.1 Settlement Agreement dated July 15, 2016 by and among Defendants NEC TOKIN Corporation and NEC TOKIN America, Inc. and Plaintiffs Chip-Tech, Ltd., Dependable Component Supply Corp., eIQ Energy, Inc. and Walker Component Group, Inc. (together, the “Direct Purchaser Plaintiffs”), both individually and on behalf of a class named therein.

Exhibit 99.2 Settlement Agreement dated July 15, 2016 by and among Defendants NEC TOKIN Corporation and NEC TOKIN America, Inc. and Plaintiffs Michael Brooks, CAE Sound, Steve Wong, Toy-Knowlogy Inc., AGS Devices Co., AGS Devices Ltd., J&O Electronics, Nebraska Dynamics, Inc., Angstrom, Inc., MakersLED and In Home Tech Solutions, Inc. (together, the “Indirect Purchaser Plaintiffs”), both individually and on behalf of a class named therein.

Exhibit 101 The following financial information from KEMET Corporation’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations for the quarters and three-month periods ended June 30, 2016 and 2015, (ii) Condensed Consolidated Balance Sheets at June 30, 2016 and March 31, 2016, (iii) Condensed Consolidated Statements of Cash Flows for the three-month periods ended June 30, 2016, and 2015, and (iv) the Notes to Condensed Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements 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.

Date: August 3, 2016

KEMET Corporation

By: /s/ WILLIAM M. LOWE, JR.  
William M. Lowe, Jr.  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)  
(Duly Authorized Officer)

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EXHIBIT INDEX

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