

MOOG INC.
Form 10-Q
July 28, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 1, 2017

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: 1-05129

INC.
(Exact name of registrant as specified in its charter)

New York State	16-0757636
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
East Aurora, New York	14052-0018
(Address of principal executive offices)	(Zip Code)
(716) 652-2000	
(Telephone number including area code)	

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes 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.

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Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if smaller reporting company)
Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for the 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

The number of shares outstanding of each class of common stock as of July 24, 2017 was:

Class A common stock, \$1.00 par value, 32,299,502 shares

Class B common stock, \$1.00 par value, 3,512,203 shares

Moog Inc.
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Moog Inc.

Consolidated Condensed Statements of Earnings

(Unaudited)

(dollars in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Net sales	\$626,183	\$613,260	\$1,848,256	\$1,792,859
Cost of sales	443,769	429,598	1,308,256	1,268,550
Gross profit	182,414	183,662	540,000	524,309
Research and development	36,314	36,006	107,828	110,535
Selling, general and administrative	89,144	88,553	261,271	254,318
Interest	8,654	8,662	25,789	25,919
Restructuring	—	(39) —	8,303
Other	29	(1,082) 12,148	(2,600
Earnings before income taxes	48,273	51,562	132,964	127,834
Income taxes	8,185	15,916	31,156	35,121
Net earnings attributable to Moog and noncontrolling interest	40,088	35,646	101,808	92,713
Net earnings (loss) attributable to noncontrolling interest	—	(665) (870) (889
Net earnings attributable to Moog	\$40,088	\$36,311	\$102,678	\$93,602
Net earnings per share attributable to Moog				
Basic	\$1.12	\$1.01	\$2.86	\$2.57
Diluted	\$1.11	\$1.00	\$2.83	\$2.55
Average common shares outstanding				
Basic	35,847,842	36,038,340	35,868,315	36,411,428
Diluted	36,212,779	36,267,975	36,240,794	36,663,165

See accompanying Notes to Consolidated Condensed Financial Statements.

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Moog Inc.

Consolidated Condensed Statements of Comprehensive Income (Loss)

(Unaudited)

(dollars in thousands)	Three Months Ended		Nine Months Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Net earnings attributable to Moog and noncontrolling interest	\$40,088	\$35,646	\$101,808	\$92,713
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	32,805	(25,439)	3,991	(33,683)
Retirement liability adjustment	3,566	5,313	17,609	14,396
Change in accumulated income (loss) on derivatives	1,013	(2,327)	2,833	(1,396)
Other comprehensive income (loss), net of tax	37,384	(22,453)	24,433	(20,683)
Comprehensive income (loss)	77,472	13,193	126,241	72,030
Comprehensive income (loss) attributable to noncontrolling interest	—	(665)	(870)	(889)
Comprehensive income (loss) attributable to Moog	\$77,472	\$13,858	\$127,111	\$72,919

See accompanying Notes to Consolidated Condensed Financial Statements.

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Moog Inc.

Consolidated Condensed Balance Sheets
(Unaudited)

(dollars in thousands)	July 1, 2017	October 1, 2016
ASSETS		
Current assets		
Cash and cash equivalents	\$344,541	\$325,128
Receivables	677,918	688,388
Inventories	475,050	479,040
Prepaid expenses and other current assets	41,418	34,688
Total current assets	1,538,927	1,527,244
Property, plant and equipment, net of accumulated depreciation of \$758,415 and \$725,809, respectively	510,536	522,369
Goodwill	768,581	740,162
Intangible assets, net	111,900	113,560
Deferred income taxes	59,879	75,800
Other assets	29,994	25,839
Total assets	\$3,019,817	\$3,004,974
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	\$120,089	\$1,379
Current installments of long-term debt	323	167
Accounts payable	155,492	144,450
Accrued salaries, wages and commissions	130,294	126,319
Customer advances	162,332	167,514
Contract loss reserves	37,093	32,543
Other accrued liabilities	100,486	116,577
Total current liabilities	706,109	588,949
Long-term debt, excluding current installments	836,101	1,004,847
Long-term pension and retirement obligations	352,361	401,747
Deferred income taxes	13,515	11,026
Other long-term liabilities	3,807	4,343
Total liabilities	1,911,893	2,010,912
Commitments and contingencies (Note 17)	—	—
Redeemable noncontrolling interest	—	5,651
Shareholders' equity		
Common stock - Class A	43,695	43,667
Common stock - Class B	7,585	7,613
Additional paid-in capital	479,712	465,762
Retained earnings	1,809,217	1,706,539
Treasury shares	(739,412)	(741,700)
Stock Employee Compensation Trust	(71,445)	(49,463)
Supplemental Retirement Plan Trust	(10,800)	(8,946)
Accumulated other comprehensive loss	(410,628)	(435,061)
Total Moog shareholders' equity	1,107,924	988,411
Total liabilities and shareholders' equity	\$3,019,817	\$3,004,974
See accompanying Notes to Consolidated Condensed Financial Statements.		

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Moog Inc.
Consolidated Condensed Statements of Shareholders' Equity
(Unaudited)

(dollars in thousands, except per share data)	Amount	Number of Shares	
		Class A Common Stock	Class B Common Stock
COMMON STOCK			
Beginning of period	\$51,280	43,666,801	7,612,912
Conversion of Class B to Class A	—	28,317	(28,317)
End of period	51,280	43,695,118	7,584,595
ADDITIONAL PAID-IN CAPITAL			
Beginning of period	465,762		
Issuance of treasury shares	(5,867)		
Equity-based compensation expense	4,151		
Redemption of noncontrolling interest	3,125		
Adjustment to market - SECT, SERP and other	12,541		
End of period	479,712		
RETAINED EARNINGS			
Beginning of period	1,706,539		
Net earnings attributable to Moog	102,678		
End of period	1,809,217		
TREASURY SHARES AT COST			
Beginning of period	(741,700)	(11,110,087)	(3,323,926)
Class A and B shares issued related to equity awards	8,002	197,461	6,696
Class A and B shares purchased	(5,714)	(67,974)	(17,190)
End of period	(739,412)	(10,980,600)	(3,334,420)
STOCK EMPLOYEE COMPENSATION TRUST (SECT)			
Beginning of period	(49,463)	(425,148)	(404,919)
Issuance of shares	867	—	15,000
Purchase of shares	(12,162)	—	(178,882)
Adjustment to market	(10,687)	—	—
End of period	(71,445)	(425,148)	(568,801)
SUPPLEMENTAL RETIREMENT PLAN (SERP) TRUST			
Beginning of period	(8,946)		(150,000)
Adjustment to market	(1,854)		—
End of period	(10,800)		(150,000)
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Beginning of period	(435,061)		
Other comprehensive income (loss)	24,433		
End of period	(410,628)		
TOTAL MOOG SHAREHOLDERS' EQUITY	\$1,107,924	32,289,370	3,531,374
REDEEMABLE NONCONTROLLING INTEREST			
Beginning of period	\$5,651		
Net loss attributable to redeemable noncontrolling interest	(870)		
Acquisition of noncontrolling interest	(4,781)		
End of period	\$—		

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Moog Inc.
 Consolidated Condensed Statements of Cash Flows
 (Unaudited)

(dollars in thousands)	Nine Months Ended July 1, 2017	July 2, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings attributable to Moog and noncontrolling interest	\$ 101,808	\$ 92,713
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation	53,027	58,674
Amortization	14,078	16,485
Deferred income taxes	2,968	7,765
Equity-based compensation expense	4,151	2,794
Other	15,493	6,967
Changes in assets and liabilities providing (using) cash:		
Receivables	176	43,214
Inventories	3,786	(9,959)
Accounts payable	11,312	(16,456)
Customer advances	(3,097)	9,689
Accrued expenses	(180)	(7,106)
Accrued income taxes	(2,767)	686
Net pension and post retirement liabilities	(25,982)	(38,828)
Other assets and liabilities	(5,449)	(5,858)
Net cash provided by operating activities	169,324	160,780
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of businesses, net of cash acquired	(40,545)	(11,016)
Purchase of property, plant and equipment	(45,349)	(42,605)

Other investing transactions	3,031		1,164
Net cash (used) by investing activities	(82,863)		(52,457)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net short-term repayments	(1,280)		—
Proceeds from revolving lines of credit	185,045		274,670
Payments on revolving lines of credit	(235,045)		(261,570)
Proceeds from long-term debt	—		20,000
Payments on long-term debt	(133)		(10,047)
Proceeds from sale of treasury stock	2,135		2,229
Purchase of outstanding shares for treasury	(5,714)		(42,203)
Proceeds from sale of stock held by SECT	867		2,897
Purchase of stock held by SECT	(12,162)		(1,634)
Purchase of stock held by SERP Trust	—		(2,300)
Excess tax benefits from equity-based payment arrangements	—	(14)	

Includes 2,009 common shares held in an investment account by John C. Rogers, as to which Mr. Rogers exercises sole voting and investment power. Also includes 439 common shares held by John C. Rogers in the Peoples Bancorp Inc. Employee Stock Purchase Plan (the "ESPP"), as to which Mr. Rogers exercises sole voting and investment power. Also includes (i) 1,700 unvested restricted common shares which were granted to Mr. Rogers on February 13, 2017 and will vest as described in footnote (3) to the table under

“OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2018;” (ii) 2,540 unvested restricted common shares which were granted to Mr. Rogers on February 2, 2018 and will vest as described in footnote (5) to the table under “OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2018;” and (iii) 3,260 unvested restricted common shares which were granted to Mr. Rogers on February 2, 2019 and will vest as described in the section captioned “EXECUTIVE COMPENSATION DISCUSSION AND ANALYSIS – 2018 Executive Compensation Components – Cash and Equity-Based Incentive Program.” Mr. Rogers has voting power with respect to all of the reported restricted common shares and the right to receive dividends paid with respect to the underlying common shares at the same level as paid to other shareholders of Peoples; however, the dividends will be subject to the same restrictions on transfer as the restricted common shares with respect to which they were paid.

(15) Includes 8,937 common shares held jointly by Carol A. Schneeberger and her husband, as to which Ms.

Schneeberger exercises shared voting and investment power. Includes 18,844 common shares allocated to the account of Ms. Schneeberger in the Retirement Savings Plan, as to which Ms. Schneeberger has the power to direct the voting and investment. Includes 2,253 common shares held by Ms. Schneeberger in the ESPP. Also includes (i) 1,700 unvested restricted common shares which were granted to Ms. Schneeberger on February 13, 2017 and will vest as described in footnote (3) to the table under “OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2018;” (ii) 2,116 unvested restricted common shares which were granted to Ms. Schneeberger on February 2, 2018 and will vest as described in footnote (5) to the table under “OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2018;” and (iii) 3,150 unvested restricted common shares which were granted to Ms. Schneeberger on February 2, 2019 and will vest as described in the section captioned “EXECUTIVE COMPENSATION DISCUSSION AND ANALYSIS – 2018 Executive Compensation Components – Cash and Equity-Based Incentive Program.” Ms. Schneeberger has voting power with respect to all of the reported restricted common shares and the right to receive dividends paid with respect to the underlying common shares at the same level as paid to other shareholders of Peoples; however, the dividends will be subject to the same restrictions on transfer as the restricted common shares with respect to which they were paid.

(16) Includes 518 common shares allocated to the account of Robyn A. Stevens in the Retirement Savings Plan, as to which Ms. Stevens has the power to direct the voting and investment. Also includes (i) 1,000 unvested restricted common shares which were granted to Ms. Stevens on February 2, 2016 and will vest as described in footnote (2) to the table under “OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2018;” (ii) 1,700 unvested restricted common shares which were granted to Ms. Stevens on February 13, 2017 and will vest as described in footnote (3) to the table under “OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2018;” (iii) 1,975 unvested restricted common shares which were granted to Ms. Stevens on February 2, 2018 and will vest as described in footnote (5) to the table under “OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2018;” and (iv) 3,150 unvested restricted common shares which were granted to Ms. Stevens on February 2, 2019 and will vest as described in the section captioned “EXECUTIVE COMPENSATION DISCUSSION AND ANALYSIS – 2018 Executive Compensation Components – Cash and Equity-Based Incentive Program.” Ms. Stevens has voting power with respect to all of the reported restricted common shares and the right to receive dividends paid with respect to the underlying common shares at the same level as paid to other shareholders of Peoples; however, the dividends will be subject to the same restrictions on transfer as the restricted common shares with respect to which they were paid.

(17) Includes 38,239 common shares held in an investment account by Charles W. Sulerzyski, as to which Mr. Sulerzyski exercises sole voting and investment power. Includes 4,365 common shares held by Mr. Sulerzyski in the ESPP. Also includes (i) 6,107 unvested restricted common shares which were granted to Mr. Sulerzyski on February 13, 2017 and will vest as described in footnote (3) to the table under “OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2018;” (ii) 9,031 unvested restricted common shares which were granted to Mr. Sulerzyski on February 2, 2018 and will vest as described in footnote (5) the table under “OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2018;” and (iii) 11,108 unvested restricted common shares which were granted to Mr. Sulerzyski on February 2, 2019 and will vest as described in the section captioned “EXECUTIVE COMPENSATION DISCUSSION AND ANALYSIS – 2018 Executive Compensation Components – Cash and Equity-Based Incentive Program.” Mr. Sulerzyski has voting power with respect to all of the reported restricted common shares and the right to receive dividends paid with respect to the underlying common shares at the same level as paid to other shareholders of Peoples; however, the dividends will be subject

to the same restrictions on transfer as the restricted common shares with respect to which they were paid.

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- (18) Includes (i) 7,500 unvested restricted common shares which were granted to Douglas V. Wyatt on June 1, 2016 and will vest as described in footnote (4) to the table under “OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2018;” (ii) 970 unvested restricted common shares which were granted to Mr. Wyatt on February 13, 2017 and will vest as described in footnote (3) to the table under “OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2018;” (iii) 2,257 unvested restricted common shares which were granted to Mr. Wyatt on February 2, 2018 and will vest as described in footnote (5) the table under “OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2018;” and (iv) 3,105 unvested restricted common shares which were granted to Mr. Wyatt on February 2, 2019 and will vest as described in the section captioned “EXECUTIVE COMPENSATION DISCUSSION AND ANALYSIS – 2018 Executive Compensation Components – Cash and Equity-Based Incentive Program.” Mr. Wyatt has voting power with respect to all of the reported restricted common shares and the right to receive dividends paid with respect to the underlying common shares at the same level as paid to other shareholders of Peoples; however, the dividends will be subject to the same restrictions on transfer as the restricted common shares with respect to which they were paid.
- (19) Includes common shares held jointly by current directors and executive officers with other persons, as well as an aggregate of 19,362 common shares allocated to the accounts of the current executive officers of Peoples in the Retirement Savings Plan. See notes (3), (5) through (11), and (13) through (17) above.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), requires that Peoples’ directors and executive officers, and any persons beneficially holding more than 10 percent of Peoples’ outstanding common shares, file statements with the SEC reporting their initial beneficial ownership of common shares and any subsequent changes in their beneficial ownership. Peoples is required to disclose in this Proxy Statement any late statements, if any statements were not filed within the time periods mandated by the SEC. Based solely on Peoples’ review of (i) Section 16(a) statements filed on behalf of these persons for their transactions during Peoples’ 2018 fiscal year and (ii) written representations received from these persons that no other Section 16(a) statements were required to be filed by them for transactions during Peoples’ 2018 fiscal year, Peoples believes that all Section 16(a) filing requirements applicable to Peoples’ executive officers and directors, and persons holding more than 10 percent of Peoples’ outstanding common shares, were complied with.

TRANSACTIONS WITH RELATED PERSONS

During the 2018 fiscal year, Peoples Bank entered into banking transactions and lending relationships with certain executive officers and directors of Peoples, with members of their respective immediate families and with corporations or organizations as to which directors of Peoples serve as executive officers or beneficially own more than 10% of the equity securities. All such loans (i) were made in the ordinary course of business, (ii) were made on substantially the same terms, including interest rates charged and collateral required, as those prevailing at the time for comparable loans with persons not related to Peoples or Peoples Bank, and (iii) did not involve more than the normal risk of collectability or present other unfavorable features to Peoples or Peoples Bank.

The above loans were subject to Peoples Bank’s written policies, procedures and standard underwriting criteria applicable to loans generally, and were made in accordance with the Federal Reserve Board’s Regulation O (“Regulation O”) requiring loans to executive officers and directors of Peoples Bank in excess of \$500,000 to be approved by the full Board of Directors of Peoples Bank.

The Board has adopted the Peoples Bancorp Inc. Related Person Transaction Policy (the “Related Person Transaction Policy”), a copy of which is posted under the “Corporate Overview – Governance Documents” tab on the “Investor Relations” page of Peoples’ website at www.peoplesbancorp.com. The purpose of the Related Person Transaction Policy is to set forth the guidelines and procedures under which certain related person transactions must be reviewed and approved or ratified by the Audit Committee.

A “related person transaction” is any transaction, arrangement or relationship, or any series of similar transactions, arrangements or relationships, in which: (1) Peoples or one of our subsidiaries was, is or will be a party or participant, or had, has or will have a direct or indirect interest; (2) the amount involved exceeds or is expected to exceed \$120,000, or if the limitations prescribed by Regulation O apply, such lesser amount, if any, as may be prescribed by Regulation O; and (3) a related person had, has or will have a direct or indirect interest. A “related

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person” is a person who is or was a director, an executive officer, or a nominee for election as a director at any time since the beginning of Peoples’ last fiscal year or a five percent shareholder of Peoples at the time of the occurrence or at any time during the existence of the transaction, and their respective immediate family members. Related person transactions deemed pre-approved or ratified, as appropriate, include: (1) any transaction where the related person’s interest arises solely from ownership of common shares if all shareholders receive the same benefit; (2) any transaction involving compensation to an executive officer if the executive officer is not an immediate family member of another executive officer or director of Peoples and the compensation has been approved by the Compensation Committee or the Board; (3) any transaction involving compensation to Peoples’ directors if the compensation is required to be reported pursuant to Item 402(k) of SEC Regulation S-K; (4) any extension of credit by Peoples Bank to an immediate family member of a related person, or extension of credit in respect of which an immediate family member of a related person has an interest, if the extension of credit is not subject to Regulation O and meets certain terms specified in the Related Person Transaction Policy; (5) any transaction where the related person’s interest derives solely from the related person’s position as a director of another corporation or organization that is a party to the transaction; and (6) any transaction where the related person’s interest derives solely from the related person’s direct or indirect ownership of less than 10% of the equity interest in another person (other than a partnership) which is a party to the transaction or ownership of a limited partner interest of less than 10% of the partnership and the related person is not a general partner and does not hold another position in the partnership, with the determination of whether the ownership threshold is exceeded made in accordance with the terms of the Related Person Transaction Policy.

Under the Related Person Transaction Policy, all related person transactions not otherwise pre-approved are referred to the Audit Committee for review and approval or disapproval. The Audit Committee may approve or ratify a related person transaction only if the Audit Committee determines that the related person transaction is in the best interest of Peoples. In making this determination, the Audit Committee will review and consider all information available to it, which it deems relevant, including:

- the related person’s interest in the transaction;
- the approximate dollar value of the amount involved in the transaction;
- the approximate dollar value of the amount of the related person’s interest in the transaction computed without regard to the amount of any profit or loss;
- whether the transaction was undertaken in the ordinary course of business of Peoples or the applicable subsidiary of Peoples;
- whether the transaction is on terms no less favorable to Peoples or the applicable subsidiary of Peoples than terms that could have been reached with an unrelated third party;
- the purpose of, and the potential benefits to Peoples or the applicable subsidiary of Peoples of, the transaction;
- the impact of the transaction on the related person’s independence; and
- any other information regarding the transaction or the related person in the context of the proposed transaction that would be material to investors in light of the circumstances of the particular transaction.

PROPOSAL NUMBER 1:

ELECTION OF DIRECTORS

At the 2018 Annual Meeting of Shareholders, upon the recommendation of the Board, Peoples’ shareholders approved an amendment to Section 2.02 of Peoples’ Code of Regulations in order to provide for the annual election of all directors commencing with the election of directors at the Annual Meeting.

On November 15, 2018, Terry T. Sweet notified Peoples of his decision to resign from the Board effective November 15, 2018.

On December 5, 2018, the Board fixed the number of directors of Peoples at nine to reflect the number of directors remaining on the Board following Mr. Sweet’s resignation. Mr. Sweet was in the class whose terms were to have expired at the 2021 Annual Meeting of Shareholders (the “2021 Annual Meeting”).

As of the date of this Proxy Statement, there were nine members of the Board: four directors in the class whose terms expire at the Annual Meeting; three directors in the class whose terms were to have expired at the 2020 Annual Meeting; and two directors in the class whose terms were to have expired at the 2021 Annual Meeting. In order to facilitate the transition from classified three-year terms to non-classified one-year terms, each director whose term would not otherwise expire at the Annual Meeting has agreed to tender his or her resignation effective immediately prior to the Annual Meeting. Accordingly, each of the nine members of the Board is standing for election at the Annual Meeting for a one-year term expiring at the 2020 Annual Meeting.

Majority Vote Standard

We have adopted provisions in our Corporate Governance Guidelines providing that, in an election where the only nominees are those recommended by the Board, any nominee for election as a director who receives a greater number of votes “against” his or her election than votes “for” his or her election (a “Majority Withheld Vote”) will promptly tender his or her resignation to the Chairman of the Board following certification of the shareholder vote. The Governance and Nominating Committee will promptly consider the tendered resignation and will recommend to the full Board whether to accept or reject the tendered resignation no later than 60 days following the date of the shareholders’ meeting at which the election occurred (the “Shareholder Meeting Date”). In considering whether to accept or reject the tendered resignation, the Governance and Nominating Committee will consider factors deemed relevant by the Governance and Nominating Committee members, including, without limitation, the director’s length of service, the director’s particular qualifications and contributions to Peoples, the reasons underlying the Majority Withheld Vote (if known) and whether these reasons can be cured, and compliance with stock exchange listing standards and our Corporate Governance Guidelines.

The Board will act on the Governance and Nominating Committee’s recommendation no later than 90 days following the Shareholder Meeting Date. In considering the Governance and Nominating Committee’s recommendation, the Board will consider the factors considered by the Governance and Nominating Committee and such additional information and factors the Board believes to be relevant. Following the Board’s decision on the Governance and Nominating Committee’s recommendation, Peoples will promptly publicly disclose the Board’s decision whether to accept the resignation as tendered (providing an explanation of the process by which the decision was reached and, if applicable, the reasons for rejecting the tendered resignation) in a Current Report on Form 8-K filed with the SEC.

If one or more directors’ resignations are accepted by the Board, the Governance and Nominating Committee will recommend to the Board whether to fill such vacancy or vacancies or to reduce the size of the Board.

Any director who tenders his or her resignation pursuant to the Majority Withheld Vote provision will not participate in the Governance and Nominating Committee recommendation, or the Board consideration, regarding whether to accept or reject the tendered resignation. If a majority of the members of the Governance and Nominating Committee were to receive a Majority Withheld Vote at the same election, then the independent directors who are then members of the Board and did not receive a Majority Withheld Vote will automatically be appointed to a special Board committee solely for the purpose of considering the tendered resignations and will recommend to the Board whether to accept or reject the tendered resignations.

Recommendation and Vote Required

The Board proposes that each of the nominees identified below be re-elected for a new one-year term and until the nominee’s successor is duly elected and qualified, or until the nominee’s earlier resignation, removal from office or death. The Governance and Nominating Committee recommended each nominee for re-election.

The nominees for election as directors receiving the greatest number of votes “FOR” election as a director of Peoples will be elected. Except in the case of broker non-votes, common shares represented by properly-executed and returned proxy cards, or by properly-authenticated Internet or telephone voting instructions, that are submitted prior to the

deadline for doing so, will be voted as specified or, if no instructions are given, "FOR" the election of the Board's nominees. Common shares as to which the authority to vote is withheld and broker non-votes will not be counted toward the election of directors, or toward the election of the individual nominees specified on the proxy card and in the voting instructions.

THE BOARD UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE ELECTION OF ALL NOMINEES LISTED BELOW.

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Nominees

The following table gives certain information, as of the date of this Proxy Statement, concerning each nominee for re-election as a director of Peoples. Unless otherwise indicated, each individual has had the same principal occupation for more than five years. Each individual also serves as a director of Peoples Bank.

Nominee	Age	Position(s) Held with Peoples and Principal Occupation(s)	Director Continuously Since
Tara M. Abraham	52	Chairwoman and Co-CEO of Accel Inc., a contract packaging company. Co-owner of TaDa Holdings LLC, a holding company for eight businesses in the areas of real estate and business investment, product development and temporary staffing. Co-owner of Accel Business Solutions LLC, a company that sells and distributes technology. Co-owner of TMA Licensing LLC, a company that licenses retail products and consumer packaged goods. Co-owner of TMA Consulting LLC, a business consulting firm. All of these entities are based in New Albany, Ohio. Board Member of the Women's Business Enterprise National Council since 2007 and a former Board member of the National Women Business Council (2011-2014).	2012
<p>Ms. Abraham brings to the Board the perspective of an accomplished entrepreneur, business investor and strategist, with an in-depth knowledge of the retail industry. Ms. Abraham is a successful business operator in a market served by Peoples. She is also a dedicated supporter and advocate of women-owned businesses. In 2018, she earned a CERT Certification in Cyber Security Oversight from Carnegie Mellon University.</p>			
S. Craig Beam	67	Co-Owner of Thorobeam Farm, LLC, a thoroughbred horse business headquartered in Sabina, Ohio, since 2006, and private investor since his retirement in 1999. He sold his sand, gravel and stone production business in 1999 after 28 years of ownership and operation. He was a member of the Board of Directors of NB&T Financial Group, Inc., a bank holding company headquartered in Wilmington, Ohio ("NB&T"), from 1990 until March 6, 2015, when NB&T merged into Peoples. During that time, he served on and chaired NB&T's Compensation Committee, and Nominating and Corporate Governance Committee. Mr. Beam was one of the two former NB&T directors selected by Peoples to join the Board as required by the merger agreement.	2015

Mr. Beam brings to the Board many years of experience as a board member of a publicly-traded bank holding company and an in-depth knowledge of the southwest Ohio markets served by Peoples.

Director
Continuously

Nominee	Age	Position(s) Held with Peoples and Principal Occupation(s)	Since
George W. Broughton	61	Owner and President of Broughton Commercial Properties, LLC, a commercial properties rental company and coffee service distributor. Chairman of Broughton Foundation, a nonprofit charitable foundation, and Broughton Park, a park facility owned by the Broughton Foundation and made available to the public. President and Controller of George Broughton Family LP, an asset management company. Owner and President of GWB Oil & Gas LLC, an independent oil and gas producing company. All of these entities are based in Marietta, Ohio. Director of Peoples Bank Foundation, Inc. since December 2003. Mr. Broughton has served as Vice Chairman of the Boards of Peoples and Peoples Bank since July 2013.	1994

Mr. Broughton brings substantial experience in various small business ventures representing a number of different industries to the Board. His extensive experience and proven general business and leadership skills are valuable to the Board and enhance its overall capabilities. Mr. Broughton's service as a director of Peoples since 1994 allows him to provide valuable perspective to the Board about issues affecting local and regional businesses in Peoples' market area.

David F. Dierker	61	Retired banking executive with SunTrust Banks, Inc., a financial services company headquartered in Atlanta, Georgia. Mr. Dierker held various senior level positions with SunTrust Banks, Inc. from 1996 until his retirement in 2013, including serving as Chief Administrative Officer from 2006 to 2013.	2014
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Mr. Dierker brings to the Board more than 36 years of experience working with financial institutions, including roles in finance and administration. In his role as Chief Administrative Officer of SunTrust Banks, Inc., he directed a variety of corporate functions, such as human resources, internal audit, business strategy, supplier management, corporate real estate, regulatory reform and corporate communications. His extensive industry experience and financial expertise make him a valuable asset to the Board and, in particular, the Audit Committee and the Risk Committee.

James S. Huggins	62	Attorney-At-Law, Of Counsel, Theisen Brock, a Legal Professional Association, a law firm located in Marietta, Ohio ("Theisen Brock") where he has practice law since 1981. The status of Mr. Huggins with Theisen Brock changed from "partner" to "of counsel" on January 1, 2017, at which time he no longer owned a partnership interest in the firm. Director of Peoples Bank Foundation, Inc. since June 2016.	2012
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Mr. Huggins has over 35 years of experience as a practicing attorney in the areas of commercial law, creditor's rights, and oil and gas law. In addition to his expertise in these areas, he brings to the Board a wealth of knowledge of the Marietta, Ohio and Parkersburg, West Virginia market areas, having lived and worked in Marietta, Ohio since 1981.

Director
Continuously

Nominee	Age	Position(s) Held with Peoples and Principal Occupation(s)	Since
Brooke W. James	46	Partner and co-business administrator for WMSALL Farms, her family's farming operation in Wilmington, Ohio, since 1999. School teacher at the Columbus School for Girls in Columbus, Ohio, from 2001 to 2005. She was a member of the Board of Directors of NB&T from 2005 until March 6, 2015, when NB&T merged into Peoples. During that time, she served on NB&T's Audit Committee. Ms. James was one of the two former NB&T directors selected by Peoples to join the Board as required by the merger agreement.	2015

Ms. James brings to the Board many years of experience as a board member of a publicly-traded bank holding company and knowledge of the southwest Ohio markets served by Peoples. She also provides the Board with insight into the expectations of Peoples' shareholders.

David L. Mead	63	Associate Professor on the business faculty of Marietta College, located in Marietta, Ohio, from August 2011 through the end of the 2015-2016 academic year. Formerly interim President and Chief Executive Officer of Peoples from August 2010 until April 2011, interim President and Chief Executive Officer of Peoples Bank from August 2010 until April 2011, and interim President of Peoples Insurance Agency, LLC from December 2010 until April 2011. Prior to his service with Peoples and our subsidiaries, Mr. Mead served as Vice President for Business Affairs at Otterbein University, located in Westerville, Ohio, from September 2006 until June 2010; Associate Professor of Finance at Marietta College from August 2004 to September 2006; Chief Financial Officer and Treasurer of First Place Financial Corp., headquartered in Warren, Ohio, from December 2002 to June 2004; and Treasurer of First Place Bank, headquartered in Warren, Ohio, from May 2002 to December 2002. Mr. Mead has served as Chairman of the Board of Peoples and Peoples Bank since May 2016. Mr. Mead has been a Certified Public Accountant since 1978.	2006
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Mr. Mead's previous role as interim President and Chief Executive Officer of Peoples has provided him with intimate knowledge of the Peoples organization and its operations. Mr. Mead's 26 years of banking experience and his previous executive positions with bank holding companies provide significant value to the collective knowledge of our organization and the Board. His extensive experience, professional certification as a Certified Public Accountant, financial expertise and background are also assets to the Board. In addition, Mr. Mead's service as a director of Peoples Bank since 2005 and of Peoples since 2006 has provided valuable perspective to the Board in the areas of financial oversight, audit, accounting, and general financial knowledge relevant to the financial services industry.

		Director Continuously
Nominee	Age	Position(s) Held with Peoples and Principal Occupation(s)
Susan D. Rector	60	Attorney-At-Law, Partner in the law firm of Peterson Connors LLP in Columbus, Ohio since April 2017. Partner in the law firm of Ice Miller LLP (formerly Schottenstein, Zox & Dunn Co., LPA) in Columbus, Ohio from 1987 until April 2017.
		Since 2011

Ms. Rector brings to the Board valuable experience as an attorney, practicing primarily in the areas of intellectual property law, information technology law and business transactions, including business formation, restructurings, and mergers and acquisitions. Her extensive experience in assisting both start-up and established businesses with complex technology, information technology and e-commerce issues provide significant value to the Board as the Internet and mobile operations of Peoples Bank continue to grow. Her practice with regulated entities provides experience with compliance issues and governmental oversight. She also has over 25 years of experience serving on nonprofit boards where she has focused on trustee nominations, board governance and oversight.

Charles W. 61 President and Chief Executive Officer of Peoples and Peoples Bank since April 2011. 2011
Sulerzyski Member of the Board of Managers of Peoples Insurance Agency, LLC since 2011, serving as President from April 2011 to April 2012, and from June 2015 until October 2015. Formerly Regional President of the Great Lakes Region for KeyBank, N.A., a national bank located in Cleveland, Ohio, from 2005 to 2010; Managing Director at Marsh & McLennan, Inc., a company located in New York, New York, which provides risk and insurance services and solutions, from 2000 to 2005; and Executive Vice President, Community Banking Group, at The Provident Bank, Cincinnati, Ohio, from 1996 to 2000. Director of Peoples Bank Foundation, Inc. since May 2011.

Mr. Sulerzyski's role as President and Chief Executive Officer of Peoples and Peoples Bank provides him with intimate knowledge of the organization and its operations through his day-to-day management responsibilities. In addition, Mr. Sulerzyski's service as a director allows him to share this valuable day-to-day perspective with the full Board. Mr. Sulerzyski's many years of experience as a financial services executive also allow him to bring extensive industry knowledge in banking, insurance and investment organizations to the Board.

While it is contemplated that all nominees will stand for re-election at the Annual Meeting, if one or more nominees at the time of the Annual Meeting should be unable to serve or for good cause will not serve as a candidate for re-election as a director, the individuals designated as proxies on the proxy card or in the voting instructions will have full discretion to vote the common shares represented by the proxies they hold for the re-election of the remaining nominees and for the election of any substitute nominee or nominees designated by the Board following recommendation by the Governance and Nominating Committee. The Board knows of no reason why any of the nominees named above would be unavailable or unable to serve if re-elected to the Board.

There are no family relationships among any of the directors, nominees for election as a director and executive officers of Peoples.

None of the directors of Peoples is or has been involved in legal proceedings required to be reported or disclosed in this Proxy Statement.

EXECUTIVE OFFICERS

The following individuals serve as the executive officers of Peoples as of the date of this Proxy Statement. Each executive officer is elected annually and serves at the pleasure of the Board. The age of each executive officer as of the date of this Proxy Statement, the positions presently held by each executive officer with Peoples and our principal subsidiaries, and each executive officer's individual business experience are set forth below.

Name	Age	Position
Charles W. Sulerzyski	61	President and Chief Executive Officer
John C. Rogers	58	Executive Vice President, Chief Financial Officer and Treasurer
Douglas V. Wyatt	57	Executive Vice President, Chief Commercial Banking Officer
Carol A. Schneeberger	62	Executive Vice President, Chief Administrative Officer
Robyn A. Stevens	50	Executive Vice President, Chief Credit Officer

Mr. Sulerzyski serves as President and Chief Executive Officer of both Peoples and Peoples Bank, positions he has held since April 2011. Mr. Sulerzyski serves as a member of the boards of directors of Peoples and Peoples Bank, and as a member of the Board of Managers of Peoples Insurance Agency, LLC. From April 2011 to April 2012, and from June 2015 to October 2015, he served as President of Peoples Insurance Agency, LLC. Prior to joining Peoples, he served as Regional President of the Great Lakes Region for KeyBank, N.A., a national bank located in Cleveland, Ohio, from 2005 to 2010. From 2000 to 2005, Mr. Sulerzyski was a Managing Director at Marsh & McLennan, Inc., a company located in New York, New York, which provides risk and insurance services and solutions; and from 1996 to 2000, he served as Executive Vice President, Community Banking Group, at The Provident Bank, in Cincinnati, Ohio.

Mr. Rogers serves as Executive Vice President, Chief Financial Officer and Treasurer of Peoples and Peoples Bank, positions he has held since November 2015. Prior to joining Peoples, Mr. Rogers worked for PNC Financial Services Group, Inc. ("PNC") in Pittsburgh, Pennsylvania, from 2001 to October 2015. Mr. Rogers served at PNC as Risk Executive from 2011 to 2015, Executive Vice President and Chief Financial Officer, Retail Business Banking from 2003 to 2011, and Vice President and Chief Financial Officer, Consumer Lending from 2001 to 2003. Mr. Rogers worked as a Senior Manager for Ernst & Young LLP in Pittsburgh, Pennsylvania, from 1998 to 2001, and as Regional Line of Business Audit Director for PNC in Pittsburgh, Pennsylvania, from 1991 to 1998. He worked as an Audit Manager for Price Waterhouse LLP in Buffalo, New York, from 1982 to 1991.

Mr. Wyatt serves as Executive Vice President, Chief Commercial Banking Officer of both Peoples and Peoples Bank, positions he has held since April 2017. From April 2016 until April 2017, Mr. Wyatt served as Executive Vice President, Commercial Banking of Peoples Bank, where he led Peoples Bank's commercial line of business efforts in the central and southeastern portions of Ohio, as well as in West Virginia and Kentucky. Prior to joining Peoples, Mr. Wyatt worked for Fifth Third Bank in Cincinnati, Ohio from 2005 to April 2016. Mr. Wyatt served at Fifth Third Bank as Executive Vice President, Senior Commercial Banker, from 2006 to 2016, and as Vice President, Commercial Banking Division, from 2005 to 2006. Prior to 2006, Mr. Wyatt worked for 16 years for U.S. Bank, National Association, in Cincinnati, Ohio.

Ms. Stevens serves as Executive Vice President, Chief Credit Officer of both Peoples and Peoples Bank, positions she has held since June 2016. From January 2012 until June 2016, she served as Senior Vice President, Credit Administration of Peoples Bank. Ms. Stevens managed Peoples Bank's loan and appraisal review functions from 1997 to 2011. Prior to 1997, Ms. Stevens worked for five years with Bank One in Marietta, Ohio.

Ms. Schneeberger, a Certified Public Accountant, serves as Executive Vice President, Chief Administrative Officer of Peoples and Executive Vice President, Chief Administrative Officer and Cashier of Peoples Bank, positions she has held since July 2011. From April 1999 to July 2011, she served as Executive Vice President, Operations of Peoples,

and from February 2000 to July 2011, she served as Executive Vice President, Operations and Cashier of Peoples Bank. From April 2007 to May 2008, Ms. Schneeberger served as interim Chief Financial Officer and Treasurer of both Peoples and Peoples Bank. From October 1988 to April 1999, Ms. Schneeberger was Vice President of Operations of Peoples. Prior thereto, she was Auditor of Peoples from August 1987 to October 1988 and Auditor of Peoples Bank from January 1986 to October 1988. Ms. Schneeberger joined Peoples Bank in 1977.

None of the executive officers of Peoples is or has been involved in legal proceedings required to be reported or disclosed in this Proxy Statement.

THE BOARD AND COMMITTEES OF THE BOARD

The Board has adopted the Peoples Bancorp Inc. Corporate Governance Guidelines, a copy of which is posted under the “Corporate Overview – Governance Documents” tab on the “Investor Relations” page of Peoples’ website at www.peoplesbancorp.com. The Board has also adopted the Code of Ethics for Directors, Officers and Employees of Peoples Bancorp Inc. and its Subsidiaries, a copy of which is posted under the “Corporate Overview – Governance Documents” tab on the “Investor Relations” page of Peoples’ website at www.peoplesbancorp.com.

Independence of Directors

The rules (the “Nasdaq Rules”) of The Nasdaq Stock Market (“Nasdaq”) require that a majority of the members of the Board be independent directors. The definition of an independent director for purposes of the Nasdaq Rules includes a series of objective criteria, which the Board has used in determining whether its members are independent.

Peoples is led by Charles W. Sulerzyski, who serves as President and Chief Executive Officer and as a director, and David L. Mead, an independent director who serves as non-executive Chairman of the Board, a position he has held since May 2016. George W. Broughton, an independent director, serves as non-executive Vice Chairman of the Board, a position he has held since July 2013. The Board is comprised of Mr. Sulerzyski and eight non-management directors, seven of whom are independent. Peoples believes that the independent directors provide objective oversight of management performance as a key component of efficient corporate governance and overall risk management. The Board has determined that the most effective leadership structure for Peoples is for a different person to serve as each of the Chief Executive Officer and the Chairman of the Board, coupled with independent chairs of each of the Audit Committee, the Compensation Committee and the Governance and Nominating Committee. The Board regularly deliberates and discusses what it believes is the appropriate leadership structure based upon the needs of Peoples in order to provide effective oversight of management.

In addition to considering the objective criteria, as required by the Nasdaq Rules, the Board has made a subjective determination as to each independent director that no relationships exist, which, in the opinion of the Board, would interfere with such individual’s exercise of independent judgment in carrying out the responsibilities of a director. In making these independence determinations, the Board has reviewed, considered and discussed each director’s business and personal relationships, both direct and indirect, if any, with Peoples and our subsidiaries, and the compensation and other payments each director and such director’s immediate family members have, both directly and indirectly, received from or made to Peoples and our subsidiaries and presently expect to receive from or make to Peoples and our subsidiaries. Based on that review, consideration and discussion, the Board has determined that at least a majority of its members qualify as independent directors.

The Board has further determined that each of the following directors has no financial or personal ties, either directly or indirectly, with Peoples or our subsidiaries (other than compensation received in the individual’s capacity as a director of Peoples and our subsidiaries, non-preferential banking relationships in the ordinary course of business with Peoples Bank, ownership of common shares of Peoples as described in this Proxy Statement and, in the case of Mr. Mead, service for a period of approximately nine months as interim President and Chief Executive Officer of Peoples and Peoples Bank) and thus qualifies as independent: Tara M. Abraham; S. Craig Beam; George W. Broughton; David F. Dierker; Brooke W. James; David L. Mead; and Susan D. Rector.

The Board also determined that during his service in 2018 through his resignation date of November 15, 2018, Terry T. Sweet qualified as an independent director because he had no financial or personal ties, either directly or indirectly, with Peoples or our subsidiaries (other than compensation received in the capacity as a director of Peoples and our subsidiaries, non-preferential banking relationships in the ordinary course of business with Peoples Bank and ownership of common share of Peoples).

The Board has determined that, due to his status as a former partner in the law firm of Theisen Brock, having been a partner in the firm until January 1, 2017, James S. Huggins does not qualify as an independent director under the applicable Nasdaq Rules. The amount and variety of work Theisen Brock performed and continues to perform for Peoples, and Mr. Huggins' former role as a partner with Theisen Brock, were recognized and considered by the Board in its evaluation of Mr. Huggins' qualifications as a director.

Charles W. Sulerzyski does not qualify as an independent director, because he serves as an executive officer of Peoples and Peoples Bank.

Executive Sessions

In accordance with applicable Nasdaq Rules, the independent directors were given the opportunity to meet in executive session during each meeting of the Board and at such other times as the independent directors deemed necessary. Each executive session is presided over by the Chairman of the Board.

Meetings of the Board and Attendance at Annual Meetings of Shareholders

The Board held 12 meetings during the 2018 fiscal year. Each incumbent director attended 97% or more of the ag