KULICKE & SOFFA INDUSTRIES INC
Form 10-Q
February 01, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 29, 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 No. 0-121
KULICKE AND SOFFA INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

PENNSYLVANIA	23-1498399
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)

23A Serangoon North Avenue 5, #01-01 K&S Corporate Headquarters, Singapore 554369
(Address of principal executive offices and Zip Code)
(215) 784-6000
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x 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. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	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 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 x

As of January 28, 2019, there were 66,140,665 shares of the Registrant's Common Stock, no par value, outstanding.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

FORM 10 – Q

December 29, 2018
Index

		Page Number
PART I - FINANCIAL INFORMATION		
Item 1.	FINANCIAL STATEMENTS (Unaudited)	
	Consolidated Condensed Balance Sheets as of December 29, 2018 and September 29, 2018	1
	Consolidated Condensed Statements of Operations for the three months ended December 29, 2018 and December 30, 2017	2
	Consolidated Condensed Statements of Comprehensive Income for the three months ended December 29, 2018 and December 30, 2017	3
	Consolidated Condensed Statements of Shareholders' Equity for the three months ended December 29, 2018 and December 30, 2017	4
	Consolidated Condensed Statements of Cash Flows for the three months ended December 29, 2018 and December 30, 2017	5
	Notes to Consolidated Condensed Financial Statements	6
Item 2.	MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	26
Item 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	35
Item 4.	CONTROLS AND PROCEDURES	36
PART II - OTHER INFORMATION		
Item 1A.	RISK FACTORS	37
Item 2.	UNREGISTERED SALES OF EQUITY SECURITIES	37
Item 6.	EXHIBITS	38
	SIGNATURES	39

Table of Contents

PART I. - FINANCIAL INFORMATION
Item 1. – FINANCIAL STATEMENTS
KULICKE AND SOFFA INDUSTRIES, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(in thousands)
Unaudited

	As of	
	December 29, 2018	September 29, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$277,426	$ 320,630
Restricted cash	516	518
Short-term investments	355,000	293,000
Accounts and other receivable, net of allowance for doubtful accounts of $8 and $385 respectively	187,240	243,373
Inventories, net	109,731	115,191
Prepaid expenses and other current assets	13,667	14,561
Total current assets	943,580	987,273
Property, plant and equipment, net	77,320	76,067
Goodwill	56,340	56,550
Intangible assets, net	50,252	52,871
Deferred income taxes	9,456	9,017
Equity investments	1,330	1,373
Other assets	2,508	2,589
TOTAL ASSETS	$1,140,786	$ 1,185,740
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$46,437	$ 48,527
Accrued expenses and other current liabilities	75,905	105,978
Income taxes payable	21,115	19,571
Total current liabilities	143,457	174,076
Financing obligation	15,003	15,187
Deferred income taxes	25,359	25,591
Income taxes payable	89,295	81,491
Other liabilities	9,263	9,188
TOTAL LIABILITIES	$282,377	$ 305,533
Commitments and contingent liabilities (Note 14)		
SHAREHOLDERS' EQUITY:		
Preferred stock, without par value:		
Authorized 5,000 shares; issued - none	$—	$—
Common stock, no par value:		
Authorized 200,000 shares; issued 85,309 and 84,659, respectively; outstanding 66,560 and 67,143 shares, respectively	523,117	519,244

Treasury stock, at cost, 18,749 and 17,516 shares, respectively	(274,149)	(248,664)
Retained earnings	613,525	613,529
Accumulated other comprehensive loss	(4,084)	(3,902)
TOTAL SHAREHOLDERS' EQUITY	$858,409	$880,207
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,140,786	$1,185,740

The accompanying notes are an integral part of these consolidated condensed financial statements.

1

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
Unaudited

	Three months ended	
	December 29, 2018	December 30, 2017
Net revenue	$157,208	$ 213,691
Cost of sales	82,409	116,489
Gross profit	74,799	97,202
Selling, general and administrative	30,441	27,793
Research and development	29,803	30,250
Operating expenses	60,244	58,043
Income from operations	14,555	39,159
Interest income	3,826	1,975
Interest expense	(251)	(266)
Income before income taxes	18,130	40,868
Income tax expense	10,570	110,412
Share of results of equity-method investee, net of tax	43	(16)
Net income/(loss)	$7,517	$ (69,528)
Net income/(loss) per share:		
Basic	$0.11	$ (0.99)
Diluted	$0.11	$ (0.99)
Weighted average shares outstanding:		
Basic	67,176	70,577
Diluted	67,851	70,577

The accompanying notes are an integral part of these consolidated condensed financial statements.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
Unaudited

	Three months ended	
	December 29, 2018	December 30, 2017
Net income/(loss)	$7,517	$ (69,528)
Other comprehensive (loss)/income:		
Foreign currency translation adjustment	(979)	2,370
Unrecognized actuarial gain on pension plan, net of tax	4	12
	(975)	2,382
Derivatives designated as hedging instruments:		
Unrealized (loss)/gain on derivative instruments, net of tax	(72)	489
Reclassification adjustment for loss/(gain) on derivative instruments recognized, net of tax	865	(1,046)
Net decrease/(increase) from derivatives designated as hedging instruments, net of tax	793	(557)
Total other comprehensive (loss)/income	(182)	1,825
Comprehensive income/(loss)	$7,335	$ (67,703)

The accompanying notes are an integral part of these consolidated condensed financial statements.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands)
Unaudited

	Common Stock		Treasury Stock	Retained earnings	Accumulated Other Comprehensive loss	Shareholders' Equity
	Shares	Amount				
Balances as of September 29, 2018	67,143	$519,244	$(248,664)	$613,529	$ (3,902)	$ 880,207
Issuance of stock for services rendered	8	195		—	—	195
Repurchase of common stock	(1,233)	—	(25,485)	—	—	(25,485)
Issuance of shares for market-based restricted stock and time-based restricted stock	642	—	—	—	—	—
Equity-based compensation	—	3,678	—	—	—	3,678
Cumulative effect of accounting changes	—	—	—	534	—	534
Cash dividend declared	—	—	—	(8,055)	—	(8,055)
Components of comprehensive income/(loss):						
Net income	—	—	—	7,517	—	7,517
Other comprehensive loss	—	—	—	—	(182)	(182)
Total comprehensive income/(loss)	—	—	—	7,517	(182)	7,335
Balances as of December 29, 2018	66,560	$523,117	$(274,149)	$613,525	$ (4,084)	$ 858,409

	Common Stock		Treasury Stock	Retained earnings	Accumulated Other Comprehensive income	Shareholders' Equity
	Shares	Amount				
Balances as of September 30, 2017	70,197	$506,515	$(157,604)	$569,080	$ 2,039	$ 920,030
Issuance of stock for services rendered	9	195		—	—	195
Repurchase of common stock	(148)	—	(3,280)	—	—	(3,280)
Exercise of stock options	6	55		—	—	55
Issuance of shares for market-based restricted stock and time-based restricted stock	540	—	—	—	—	—
Equity-based compensation	—	2,557	—	—	—	2,557
Cumulative effect of accounting changes	—	1,414	—	4,006	—	5,420
Components of comprehensive (loss)/income:						
Net loss	—	—	—	(69,528)	—	(69,528)
Other comprehensive income	—	—	—	—	1,825	1,825
Total comprehensive (loss)/income	—	—	—	(69,528)	1,825	(67,703)
Balances as of December 30, 2017	70,604	$510,736	$(160,884)	$503,558	$ 3,864	$ 857,274

The accompanying notes are an integral part of these consolidated condensed financial statements.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)
Unaudited

	Three months ended	
	December 29, 2018	December 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	$7,517	$ (69,528)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,769	4,468
Equity-based compensation and employee benefits	3,873	3,109
Excess tax benefits from stock-based compensation	—	(50)
Adjustment for doubtful accounts	(369)	348
Adjustment for inventory valuation	189	1,352
Deferred income taxes	(648)	20,982
Gain on disposal of property, plant and equipment	24	21
Unrealized foreign currency translation	(33)	1,906
Share of results of equity-method investee	43	(16)
Changes in operating assets and liabilities:		
Accounts and other receivable	56,497	24,390
Inventory	5,401	13,883
Prepaid expenses and other current assets	855	1,259
Accounts payable, accrued expenses and other current liabilities	(32,943)	(37,139)
Income taxes payable	9,883	85,339
Other, net	943	9
Net cash provided by operating activities	56,001	50,333
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(3,273)	(5,183)
Purchase of short-term investments	(231,000)	(133,000)
Maturity of short-term investments	169,000	90,000
Net cash used in investing activities	(65,273)	(48,183)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment on debts	(183)	(166)
Proceeds from exercise of common stock options	—	55
Repurchase of common stock	(25,676)	(3,280)
Dividend payment	(8,057)	—
Net cash used in financing activities	(33,916)	(3,391)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(18)	(510)
Changes in cash, cash equivalents and restricted cash	(43,206)	(1,751)
Cash, cash equivalents and restricted cash at beginning of period	321,148	392,940
Cash, cash equivalents and restricted cash at end of period	$277,942	$ 391,189
CASH PAID FOR:		
Interest	$251	$ 266
Income taxes, net of refunds	$790	$ 2,299

The accompanying notes are an integral part of these consolidated condensed financial statements.

5

NOTE 1: BASIS OF PRESENTATION

These consolidated condensed financial statements include the accounts of Kulicke and Soffa Industries, Inc. and its subsidiaries (the “Company”), with appropriate elimination of intercompany balances and transactions.

The interim consolidated condensed financial statements are unaudited and, in management's opinion, include all adjustments (consisting only of normal and recurring adjustments) necessary for a fair statement of results for these interim periods. The interim consolidated condensed financial statements do not include all of the information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 29, 2018, filed with the Securities and Exchange Commission, which includes Consolidated Balance Sheets as of September 29, 2018 and September 30, 2017, and the related Consolidated Statements of Operations, Statements of Other Comprehensive Income, Changes in Shareholders' Equity and Cash Flows for each of the years in the three-year period ended September 29, 2018. The results of operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full year.

Fiscal Year

Each of the Company's first three fiscal quarters end on the Saturday that is 13 weeks after the end of the immediately preceding fiscal quarter. The fourth quarter of each fiscal year ends on the Saturday closest to September 30. Fiscal 2019 quarters end on December 29, 2018, March 30, 2019, June 29, 2019 and September 28, 2019. In fiscal years consisting of 53 weeks, the fourth quarter will consist of 14 weeks. Fiscal 2018 quarters ended on December 30, 2017, March 31, 2018, June 30, 2018 and September 29, 2018.

Nature of Business

The Company designs, manufactures and sells capital equipment and tools as well as services, maintains, repairs and upgrades equipment, all used to assemble semiconductor devices. The Company's operating results depend upon the capital and operating expenditures of semiconductor device manufacturers, integrated device manufacturers, outsourced semiconductor assembly and test providers (“OSATs”), and other electronics manufacturers including automotive electronics suppliers, worldwide which, in turn, depend on the current and anticipated market demand for semiconductors and products utilizing semiconductors. The semiconductor industry is highly volatile and experiences downturns and slowdowns which can have a severe negative effect on the semiconductor industry's demand for semiconductor capital equipment, including assembly equipment manufactured and sold by the Company and, to a lesser extent, tools, including those sold by the Company. These downturns and slowdowns have in the past adversely affected the Company's operating results. The Company believes such volatility will continue to characterize the industry and the Company's operations in the future.

Use of Estimates

The preparation of consolidated condensed financial statements requires management to make assumptions, estimates and judgments that affect the reported amounts of assets and liabilities, net revenue and expenses during the reporting periods, and disclosures of contingent assets and liabilities as of the date of the consolidated condensed financial statements. On an ongoing basis, management evaluates estimates, including but not limited to, those related to accounts receivable, reserves for excess and obsolete inventory, carrying value and lives of fixed assets, goodwill and intangible assets, valuation allowances for deferred tax assets and deferred tax liabilities, repatriation of un-remitted foreign subsidiary earnings, equity-based compensation expense, and warranties. Management bases its estimates on historical experience and on various other assumptions believed to be reasonable. As a result, management makes judgments regarding the carrying values of the Company's assets and liabilities that are not readily apparent from other sources. Authoritative pronouncements, historical experience and assumptions also are used as the basis for making estimates, and on an ongoing basis, management evaluates these estimates. Actual results may differ from

these estimates.

Vulnerability to Certain Concentrations

Financial instruments which may subject the Company to concentrations of credit risk as of December 29, 2018 and September 29, 2018 consisted primarily of trade receivables. The Company manages credit risk associated with investments by investing its excess cash in highly rated debt instruments of the U.S. Government and its agencies, financial institutions, and corporations. The Company has established investment guidelines relative to diversification and maturities designed to maintain safety and liquidity. These guidelines are periodically reviewed and modified as appropriate. The Company does not have any exposure to sub-prime financial instruments or auction rate securities.

Table of Contents

The Company's trade receivables result primarily from the sale of semiconductor equipment, related accessories and replacement parts, and tools to a relatively small number of large manufacturers in a highly concentrated industry. Write-offs of uncollectible accounts have historically not been significant. The Company actively monitors its customers' financial strength to reduce the risk of loss.

The Company's products are complex and require raw materials, components and subassemblies having a high degree of reliability, accuracy and performance. The Company relies on subcontractors to manufacture many of these components and subassemblies and it relies on sole source suppliers for some important components and raw material inventory.

Foreign Currency Translation and Remeasurement

The majority of the Company's business is transacted in U.S. dollars; however, the functional currencies of some of the Company's subsidiaries are their local currencies. In accordance with ASC No. 830, Foreign Currency Matters ("ASC 830"), for a subsidiary of the Company that has a functional currency other than the U.S. dollar, gains and losses resulting from the translation of the functional currency into U.S. dollars for financial statement presentation are not included in determining net income, but are accumulated in the cumulative translation adjustment account as a separate component of shareholders' equity (accumulated other comprehensive income / (loss)). Under ASC 830, cumulative translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries. Gains and losses resulting from foreign currency transactions are included in the determination of net income.

The Company's operations are exposed to changes in foreign currency exchange rates due to transactions denominated in currencies other than the location's functional currency. The Company is also exposed to foreign currency fluctuations that impact the remeasurement of net monetary assets of those operations whose functional currency, the U.S. dollar, differs from their respective local currencies, most notably in Israel, Malaysia, Singapore and Switzerland. In addition to net monetary remeasurement, the Company has exposures related to the translation of subsidiary financial statements from their functional currency, the local currency, into its reporting currency, the U.S. dollar, most notably in the Netherlands, China, Taiwan, Japan and Germany. The Company's U.S. operations also have foreign currency exposure due to net monetary assets denominated in currencies other than the U.S. dollar.

Derivative Financial Instruments

The Company's primary objective for holding derivative financial instruments is to manage the fluctuation in foreign exchange rates and accordingly is not speculative in nature. The Company's international operations are exposed to changes in foreign exchange rates as described above. The Company has established a program to monitor the forecasted transaction currency risk to protect against foreign exchange rate volatility. Generally, the Company uses foreign exchange forward contracts in these hedging programs. These instruments, which have maturities of up to twelve months, are recorded at fair value and are included in prepaid expenses and other current assets, or accrued expenses and other current liabilities.

Our accounting policy for derivative financial instruments is based on whether they meet the criteria for designation as a cash flow hedge. A designated hedge with exposure to variability in the functional currency equivalent of the future foreign currency cash flows of a forecasted transaction is referred to as a cash flow hedge. The criteria for designating a derivative as a cash flow hedge include the assessment of the instrument's effectiveness in risk reduction, matching of the derivative instrument to its underlying transaction, and the assessment of the probability that the underlying transaction will occur. For derivatives with cash flow hedge accounting designation, we report the after-tax gain / (loss) from the effective portion of the hedge as a component of accumulated other comprehensive income / (loss) and reclassify it into earnings in the same period in which the hedged transaction affects earnings and in the same line item on the Consolidated Condensed Statement of Operations as the impact of the hedged transaction. Derivatives that we designate as cash flow hedges are classified in the Consolidated Condensed Statement of Cash Flows in the same section as the underlying item, primarily within cash flows from operating activities.

The hedge effectiveness of these derivative instruments is evaluated by comparing the cumulative change in the fair value of the hedge contract with the cumulative change in the fair value of the forecasted cash flows of the hedged item.

If a cash flow hedge is discontinued because it is no longer probable that the original hedged transaction will occur as previously anticipated, the cumulative unrealized gain or loss on the related derivative is reclassified from accumulated other comprehensive income / (loss) into earnings. Subsequent gain / (loss) on the related derivative instrument is recognized into earnings in each period until the instrument matures, is terminated, is re-designated as a qualified cash flow hedge, or is sold. Ineffective portions of cash flow hedges, as well as amounts excluded from the assessment of effectiveness, are recognized in earnings.

Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. Cash equivalents are measured at fair value based on level one measurement, or quoted market prices, as defined by ASC No. 820, Fair Value Measurements and Disclosures.

Investments

Investments, other than cash equivalents, are classified as “trading,” “available-for-sale” or “held-to-maturity,” in accordance with ASC No. 320, Investments-Debt & Equity Securities, and depending upon the nature of the investment, its ultimate maturity date in the case of debt securities, and management's intentions with respect to holding the securities. Investments classified as “trading” are reported at fair market value, with unrealized gains or losses included in earnings. Investments classified as “available-for-sale” are reported at fair market value, with net unrealized gains or losses reflected as a separate component of shareholders' equity (accumulated other comprehensive income / (loss)). The fair market value of trading and available-for-sale securities is determined using quoted market prices at the balance sheet date. Investments classified as held-to-maturity are reported at amortized cost. Realized gains and losses are determined on the basis of specific identification of the securities sold.

Equity Investments

The Company applies the equity method of accounting to investments that provide it with ability to exercise significant influence over the entities in which it lacks controlling financial interest and is not a primary beneficiary. Our proportionate share of the income or loss is recognized on a one-quarter lag and is recorded as share of results of equity-method investee, net of tax.

Allowance for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from its customers' failure to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. If global or regional economic conditions deteriorate or political conditions were to change in some of the countries where the Company does business, it could have a significant impact on the results of operations, and the Company's ability to realize the full value of its accounts receivable.

Inventories

Inventories are stated at the lower of cost (on a first-in first-out basis) or net realizable value. The Company generally provides reserves for obsolete inventory and for inventory considered to be in excess of demand. Demand is generally defined as 18 months forecasted future consumption for equipment, 24 months forecasted future consumption for spare parts, and 12 months forecasted future consumption for tools. Forecasted consumption is based upon internal projections, historical sales volumes, customer order activity and a review of consumable inventory levels at customers' facilities. The Company communicates forecasts of its future consumption to its suppliers and adjusts commitments to those suppliers accordingly. If required, the Company reserves the difference between the carrying value of its inventory and the lower of cost or net realizable value, based upon projections about future consumption, and market conditions. If actual market conditions are less favorable than projections, additional inventory reserves may be required.

Inventory reserve provision for certain subsidiaries is determined based on management's estimate of future consumption for equipment and spare parts. This estimate is based on historical sales volumes, internal projections and market developments and trends.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. The cost of additions and those improvements which increase the capacity or lengthen the useful lives of assets are capitalized, while repair and maintenance costs are expensed as incurred. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives as follows: buildings 25 years; machinery, equipment, furniture and fittings 3 to 10 years; toolings 1 year; and leasehold

improvements are based on the shorter of the life of lease or life of asset. Purchased computer software costs related to business and financial systems are amortized over a five-year period on a straight-line basis. Land is not depreciated.

Valuation of Long-Lived Assets

In accordance with ASC No. 360, Property, Plant & Equipment ("ASC 360"), the Company's property, plant and equipment is tested for impairment based on undiscounted cash flows when triggering events occur, and if impaired, written-down to fair value based on either discounted cash flows or appraised values. ASC 360 also provides a single accounting model for long-lived assets to be disposed of by sale and establishes additional criteria that would have to be met to classify an asset as held for sale. The

carrying amount of an asset or asset group is not recoverable to the extent it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group. Estimates of future cash flows used to test the recoverability of a long-lived asset or asset group must incorporate the entity's own assumptions about its use of the asset or asset group and must factor in all available evidence.

ASC 360 requires that long-lived assets be tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Such events include significant under-performance relative to historical internal forecasts or projected future operating results; significant changes in the manner of use of the assets; significant negative industry or economic trends; or significant changes in market capitalization. During the three months ended December 29, 2018, no "triggering" events occurred.

Accounting for Impairment of Goodwill

ASC No. 350, Intangibles-Goodwill and Other ("ASC 350") requires goodwill and other intangible assets with indefinite lives to be reviewed for impairment annually, or more frequently if circumstances indicate a possible impairment. We assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If, after assessing the qualitative factors, a company determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying value, then performing the two-step impairment test is unnecessary. However, if a company concludes otherwise, then it is required to perform the first step of the two-step goodwill impairment test. If the carrying value of a reporting unit exceeds its fair value in the first step of the test, then a company is required to perform the second step of the goodwill impairment test to measure the amount of the reporting unit's goodwill impairment loss, if any.

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which eliminates the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. Under this guidance, the goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount, and recognizing an impairment charge for the amount by which the carrying amount of the reporting unit exceeds its fair value, although it cannot exceed the total amount of goodwill allocated to that reporting unit. This ASU will be effective for us beginning in our first quarter of 2021 and early adoption is permitted. During the third quarter of 2017, we elected to prospectively adopt ASU2017-04. This eliminates the requirement to perform step 2 of the goodwill impairment test.

As part of the annual evaluation, the Company performs an impairment test of its goodwill in the fourth quarter of each fiscal year to coincide with the completion of its annual forecasting and refreshing of its business outlook processes. On an ongoing basis, the Company monitors if a “triggering” event has occurred that may have the effect of reducing the fair value of a reporting unit below its respective carrying value. Adverse changes in expected operating results and/or unfavorable changes in other economic factors used to estimate fair values could result in a non-cash impairment charge in the future.

Impairment assessments inherently involve judgment as to the assumptions made about the expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact the assumptions as to prices, costs, growth rates or other factors that may result in changes in the estimates of future cash flows. Although the Company believes the assumptions that it has used in testing for impairment are reasonable, significant changes in any one of the assumptions could produce a significantly different result. Indicators of potential impairment may lead the Company to perform interim goodwill impairment assessments, including significant and unforeseen customer losses, a significant adverse change in legal factors or in the business climate, a significant adverse action or assessment by a regulator, a significant stock price decline or unanticipated competition.

For further information on goodwill and other intangible assets, see Note 3 below.

Revenue Recognition

In accordance with ASC No. 606, Revenue from Contracts with Customers, the Company recognizes revenue when we satisfy performance obligations as evidenced by the transfer of control of our products or services to customers. In

general, the Company generates revenue from product sales, either directly to customers or to distributors. In determining whether a contract exists, we evaluate the terms of the agreement, the relationship with the customer or distributor and their ability to pay.

The Company recognizes revenue from sales of our products, including sales to our distributors, at a point in time, generally upon shipment or delivery to the customer or distributor, depending upon the terms of the sales order. Control is considered transferred when title and risk of loss pass, when the customer becomes obligated to pay and, where applicable, when the customer has accepted the products or upon expiration of the acceptance period. For sales to distributors, payment is due on our standard commercial terms and is not contingent upon resale of the products. Our business is subject to contingencies related to customer orders, including:

Table of Contents
KULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
Unaudited (continued)

- Right of Return: A large portion of our revenue comes from the sale of equipments used in the semiconductor assembly process. Other product sales relate to consumable products, which are sold in high-volume quantities, and are generally maintained at low stock levels at our customer's facility. Customer returns have historically represented a very small percentage of customer sales on an annual basis.
- Warranties: Our equipment is generally shipped with a one-year warranty against manufacturing defects. We establish reserves for estimated warranty expense when revenue for the related equipment is recognized. The reserve for estimated warranty expense is based upon historical experience and management's estimate of future expenses, including product parts replacement, freight charges and labor costs expected to be incurred to correct product failures during the warranty period.
- Conditions of Acceptance: Sales of our consumable products generally do not have customer acceptance terms. In certain cases, sales of our equipment have customer acceptance clauses which may require the equipment to perform in accordance with customer specifications or when installed at the customer's facility. In such cases, if the terms of acceptance are satisfied at our facility prior to shipment, the revenue for the equipment will be recognized upon shipment. If the terms of acceptance are satisfied at our customers' facilities, the revenue for the equipment will not be recognized until acceptance, which is typically obtained after installation and testing, is received from the customer.

Service revenue is generally recognized over time as the services are performed. For the three months ended December 29, 2018, and December 30, 2017, the service revenue is not material.

The Company measures revenue based on the amount of consideration we expect to be entitled to in exchange for products or services. Any variable consideration such as sales incentives are recognized as a reduction of net revenue at the time of revenue recognition.

The length of time between invoicing and payment is not significant under any of our payment terms. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component.

Shipping and handling costs billed to customers are recognized in net revenue. Shipping and handling costs paid by the Company are included in cost of sales.

Research and Development

The Company charges research and development costs associated with the development of new products to expense when incurred. In certain circumstances, pre-production machines that the Company intends to sell are carried as inventory until sold.

Income Taxes

In accordance with ASC No. 740, Income Taxes, deferred income taxes are determined using the balance sheet method. The Company records a valuation allowance to reduce its deferred tax assets to the amount it expects is more likely than not to be realized. While the Company has considered future taxable income and its ongoing tax planning strategies in assessing the need for the valuation allowance, if it were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period when such determination is made. Likewise, should the Company determine it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax asset would decrease income in the period when such determination is made.

In accordance with ASC No. 740 Topic 10, Income Taxes, General (“ASC 740.10”), the Company accounts for uncertain tax positions taken or expected to be taken in its income tax return. Under ASC 740.10, the Company utilizes a two-step approach for evaluating uncertain tax positions. Step one, or recognition, requires a company to determine if the weight of available evidence indicates a tax position is more likely than not to be sustained upon examination solely based on its technical merit. Step two, or measurement, is based on the largest amount of benefit, which is more likely than not to be realized on settlement with the taxing authority, including resolution of related appeals or litigation processes, if any.

Equity-Based Compensation

The Company accounts for equity-based compensation under the provisions of ASC No. 718, Compensation - Stock Compensation (“ASC 718”). ASC 718 requires the recognition of the fair value of the equity-based compensation in net income. Compensation expense associated with Relative TSR Performance Share Units is determined using a Monte-Carlo valuation model, and compensation expense associated with time-based and Special/Growth Performance Share Units is determined based on the number of shares granted and the fair value on the date of grant. See Note 9 for a summary of the terms of these performance-based awards. The fair value of the Company's stock option awards is estimated using a Black-Scholes option valuation model. The fair value of equity-based awards is amortized over the vesting period of the award and the Company elected to use the straight-line method for awards granted after the adoption of ASC 718.

Earnings per Share

Earnings per share (“EPS”) are calculated in accordance with ASC No. 260, Earnings per Share. Basic EPS include only the weighted average number of common shares outstanding during the period. Diluted EPS include the weighted average number of common shares and the dilutive effect of stock options, restricted stock awards, performance share units and restricted share units outstanding during the period, when such instruments are dilutive.

Accounting for Business Acquisitions

The Company accounts for business acquisitions in accordance with ASC No. 805, Business Combinations. The fair value of the net assets acquired and the results of operations of the acquired businesses are included in the Unaudited Consolidated Condensed Financial Statements from the acquisition date forward. The Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and results of operations during the reporting period. Estimates are used in accounting for, among other things, the fair value of acquired net operating assets, property and equipment, deferred revenue, intangible assets and related deferred tax liabilities, useful lives of plant and equipment, and amortizable lives of acquired intangible assets. Any excess of the purchase consideration over the identified fair value of the assets and liabilities acquired is recognized as goodwill. The valuation of these tangible and identifiable intangible assets and liabilities is subject to further management review and may change materially between the preliminary allocation and end of the purchase price allocation period.

Restructuring charges

Restructuring charges may consist of voluntary or involuntary severance-related charges, asset-related charges and other costs due to exit activities. We recognize voluntary termination benefits when an employee accepts the offered benefit arrangement. We recognize involuntary severance-related charges depending on whether the termination benefits are provided under an ongoing benefit arrangement or under a one-time benefit arrangement. If the former, we recognize the charges once they are probable and the amounts are estimable. If the latter, we recognize the charges once the benefits have been communicated to employees.

Recent Accounting Pronouncements

Income Taxes

In October 2016, the FASB issued ASU 2016-16, Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory. The new guidance is effective for the Company beginning fiscal 2019 and requires the tax effects of intercompany transactions (other than transfers of inventory) to be recognized currently. The Company has adopted the modified retrospective approach for the transition based on the new guidance and, as of the beginning of the period of adoption, has recorded the cumulative effect of adjustments related to intra-entity transfers of intangible and fixed assets of $0.5 million prior years as an increase to retained earnings.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under current GAAP.

Subsequently in July 2018, the FASB issued ASU 2018-11 -Leases (Topic 842): Targeted Improvements, provides additional information concerning the new leases standard in ASU 2016-02, Leases (Topic 842). The targeted improvements provide entities with additional and optional transition methods.

In November 2018, the FASB issued ASU 2018-20 – Leases (Topic 842): Narrow-Scope Improvements for Lessors. This ASU provides guidance in several areas, including the accounting policy election for sales taxes and other similar taxes collected from lessees, accounting for certain lessor costs and accounting for variable payments for contracts with lease and nonlease components.

These ASUs will be effective for us beginning in our first quarter of fiscal 2020. The adoption of this ASU will result in an increase in our consolidated balance sheets for these right of use assets and corresponding liabilities. However, the ultimate impact of adopting this ASU will depend on the Company's lease portfolio as of the adoption date. We are currently evaluating the effects of the adoption of this ASU on our financial statements.

Financial Instruments

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU replaces the impairment methodology in current GAAP, which delays recognition of credit losses until it is probable a loss has been incurred, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU will be effective for us beginning in our first quarter of fiscal 2021. We are currently evaluating the impact of the adoption of this ASU on our financial statements.

Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities (Topic 815). The new guidance expands and refines hedge accounting for both financial and non-financial risks. The new guidance also modifies disclosure requirements for hedging activities. The new guidance will be effective for us beginning in our first quarter of fiscal 2020, and early adoption is permitted in any interim period. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements as well as whether to adopt the new guidance early.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which amends the accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers. Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (“ASU 2016-08”); ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing (“ASU 2016-10”); ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients (“ASU 2016-12”); and ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers (“ASU 2016-20” and collectively, the “new revenue standards”).

The Company has performed an evaluation of this ASU and its impact on the financial statements. This included tasks such as identifying contracts, performance obligations and reviewing the applicable revenue streams. We have completed our assessment and implemented policies, processes, and controls to support the standard's measurement and disclosure requirements. The new standard was adopted in the first quarter of fiscal 2019 using a modified retrospective approach.

Based on our review of all our customer agreements for the affected periods, our revenue from sales of our products, such as equipment and spare parts, will continue to be recognized at a point in time, generally upon shipment or delivery to customers or distributors, depending upon the terms of the sales order, consistent with our current revenue recognition model. Revenue related to the sale of services will generally continue to be recognized over time as the services are performed. In certain instances, where collection of consideration is not probable, recognition of revenue may occur later under the new model after we have completed all of our obligations under the contract. However, when adopting the new standard, we did not identify any balances where collection of consideration is not probable. This ASU did not have a material impact on the amount and timing of revenue recognized in the Company’s consolidated financial statements.

Collaborative Arrangements

In November 2018, the FASB issued ASU 2018-18 – Collaborative Arrangements (Topic 808). This ASU clarifies that certain transactions between collaborative arrangement participants should be accounted for as revenue when the

collaborative arrangement participant is a customer in the context of a unit of account and precludes recognizing as revenue consideration received from a collaborative arrangement participant if the participant is not a customer. This ASU will be effective for us in the first quarter of 2021 with early adoption permitted. This ASU requires retrospective adoption to the date we adopted ASC 606 by recognizing a cumulative-effect adjustment to the opening balance of retained earnings of the earliest annual period presented. We are currently evaluating the timing and the effects of the adoption of this ASU on our financial statements.

NOTE 2: BALANCE SHEET COMPONENTS

The following tables reflect the components of significant balance sheet accounts as of December 29, 2018 and September 29, 2018:

(in thousands)	As of December 29, 2018	September 29, 2018
Short term investments, available-for-sale[1]	$355,000	$ 293,000
Inventories, net:		
Raw materials and supplies	$63,633	$ 63,894
Work in process	36,204	37,829
Finished goods	36,711	40,357
	136,548	142,080
Inventory reserves	(26,817)	(26,889)
	$109,731	$ 115,191
Property, plant and equipment, net:		
Land	$2,182	$ 2,182
Buildings and building improvements	52,323	52,449
Leasehold improvements	12,868	12,728
Data processing equipment and software	36,105	35,469
Machinery, equipment, furniture and fixtures	70,066	68,666
Construction in progress	8,492	6,940
	182,036	178,434
Accumulated depreciation	(104,716)	(102,367)
	$77,320	$ 76,067
Accrued expenses and other current liabilities:		
Wages and benefits	$19,391	$ 44,505
Accrued customer obligations [2]	33,491	34,918
Dividend payable	8,055	8,057
Commissions and professional fees	3,981	5,549
Deferred rent	1,820	1,847
Severance	717	1,415
Other	8,450	9,687
	$75,905	$ 105,978

(1) All short-term investments were classified as available-for-sale and were measured at fair value based on level one measurement, or quoted market prices, as defined by ASC 820. The Company did not recognize any realized gains or losses on the sale of investments during the three months ended December 29, 2018 and December 30, 2017.

(2) Represents customer advance payments, customer credit program, accrued warranty expense and accrued retrofit obligations.

NOTE 3: GOODWILL AND INTANGIBLE ASSETS

Goodwill

Intangible assets classified as goodwill are not amortized. The goodwill established in connection with our acquisitions represents the estimated future economic benefits arising from the assets we acquired that did not qualify to be identified and recognized individually. The goodwill also includes the value of expected future cash flows of the acquisitions, expected synergies with our other affiliates and other unidentifiable intangible assets. The Company performs an annual impairment test of its goodwill during the fourth quarter of each fiscal year, which coincides with the completion of its annual forecasting and refreshing of business outlook process.

The Company performed its annual impairment test in the fourth quarter of fiscal 2018 and concluded that no impairment charge was required. Any future adverse changes in expected operating results and/or unfavorable changes in other economic factors used to estimate fair values could result in a noncash impairment in the future. During the three months ended December 29, 2018, the Company reviewed qualitative factors to ascertain if a "triggering" event may have taken place that may have the effect of reducing the fair value of the reporting unit below its carrying value and concluded that no triggering event had occurred.

The following table summarizes the Company's recorded goodwill as of December 29, 2018 and September 29, 2018:

(in thousands)	As of December 29, 2018	September 29, 2018
Capital Equipment	$29,993	$ 30,159
APS	26,347	26,391
Total goodwill	$56,340	$ 56,550

Intangible Assets

Intangible assets with determinable lives are amortized over their estimated useful lives. The Company's intangible assets consist primarily of developed technology, customer relationships and trade and brand names.

The following table reflects net intangible assets as of December 29, 2018 and September 29, 2018:

Table of Contents
KULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
Unaudited (continued)

(dollar amounts in thousands)	As of December 29, 2018	September 29, 2018	Average estimated useful lives (in years)
Developed technology	$89,687	$ 90,500	7.0 to 15.0
Accumulated amortization	(46,153)	(45,229)	
Net developed technology	$43,534	$ 45,271	
Customer relationships	$35,896	$ 36,131	5.0 to 6.0
Accumulated amortization	(30,352)	(29,820)	
Net customer relationships	$5,544	$ 6,311	
Trade and brand names	$7,338	$ 7,377	7.0 to 8.0
Accumulated amortization	(6,164)	(6,088)	
Net trade and brand name	$1,174	$ 1,289	
Other intangible assets	$2,500	$ 2,500	1.9
Accumulated amortization	(2,500)	(2,500)	
Net other intangible assets	$—	$ —	
Net intangible assets	$50,252	$ 52,871	

The following table reflects estimated annual amortization expense related to intangible assets as of December 29, 2018:

(in thousands)	As of December 29, 2018
Remaining fiscal 2019	$ 5,645
Fiscal 2020	7,526
Fiscal 2021	5,451
Fiscal 2022	4,467
Fiscal 2023 and onwards	27,163
Total amortization expense	$ 50,252

NOTE 4: CASH, CASH EQUIVALENTS, RESTRICTED CASH AND SHORT-TERM INVESTMENTS

Cash equivalents consist of instruments with remaining maturities of three months or less at the date of purchase. In general, these investments are free of trading restrictions.

KULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
Unaudited (continued)

Cash, cash equivalents, restricted cash and short-term investments consisted of the following as of December 29, 2018:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$ 53,793	$ —	$ —	$ 53,793
Cash equivalents:				
Money market funds (1)	153,617	—	—	153,617
Time deposits (2)	70,016	—	—	70,016
Total cash and cash equivalents	$ 277,426	$ —	$ —	$ 277,426
Restricted Cash (2)	516	—	—	516
Total cash, cash equivalents, and restricted cash	$ 277,942	$ —	$ —	$ 277,942
Short-term investments (2):				
Time deposits	256,000	—	—	256,000
Deposits (3)	99,000	—	—	99,000
Total short-term investments	$ 355,000	$ —	$ —	$ 355,000
Total cash, cash equivalents, restricted cash and short-term investments	$ 632,942	$ —	$ —	$ 632,942

(1) The fair value was determined using unadjusted prices in active, accessible markets for identical assets, and as such they were classified as Level 1 assets in the fair value hierarchy.
(2) Fair value approximates cost basis.
(3) Represents deposits that require a notice period of three months for withdrawal.

Cash, cash equivalents, restricted cash and short-term investments consisted of the following as of September 29, 2018:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$ 42,446	$ —	$ —	$ 42,446

Cash equivalents:				
Money market funds [1]	209,172	—	(5)	209,167
Time deposits [2]	69,017	—	—	69,017
Total cash and cash equivalents	$ 320,635	$ —	$ (5)	$ 320,630
Restricted Cash [2]	518	—	—	518
Total cash, cash equivalents, and restricted cash	$ 321,153	$ —	$ (5)	$ 321,148
Short-term investments [2]:				
Time deposits	197,000	—	—	197,000
Deposits [3]	96,000	—	—	96,000
Total short-term investments	$ 293,000	$ —	$ —	$ 293,000
Total cash, cash equivalents, restricted cash and short-term investments	$ 614,153	$ —	$ (5)	$ 614,148

(1) The fair value was determined using unadjusted prices in active, accessible markets for identical assets, and as such they were classified as Level 1 assets in the fair value hierarchy.
(2) Fair value approximates cost basis.
(3) Represents deposits that require a notice period of three months for withdrawal.

16

NOTE 5: EQUITY INVESTMENTS

Equity investments consisted of the following as of December 29, 2018 and September 29, 2018:

(in thousands)	As of December 29, 2018	September 29, 2018
Equity method investment	$1,330	$ 1,373

The Company has an investment in one of our strategic suppliers which provides the Company with the ability to exercise significant influence over the investment vehicle, in which it lacks a controlling financial interest and is not a primary beneficiary. Our share of gains and losses in the equity method investment is recognized on a one-quarter lag, and is reflected as share of results of equity-method investee, net of tax, in the accompanying Consolidated Condensed Statements of Operations.

NOTE 6: FAIR VALUE MEASUREMENTS

Accounting standards establish three levels of inputs that may be used to measure fair value: quoted prices in active markets for identical assets or liabilities (referred to as Level 1), inputs other than Level 1 that are observable for the asset or liability either directly or indirectly (referred to as Level 2) and unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities (referred to as Level 3).

Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis

We measure certain financial assets and liabilities at fair value on a recurring basis. There were no transfers between fair value measurement levels during the three months ended December 29, 2018.

Fair Value Measurements on a Nonrecurring Basis

Our non-financial assets such as intangible assets and property, plant and equipment are carried at cost unless impairment is deemed to have occurred. Our equity method investments are recorded at fair value only if an impairment is recognized.

Fair Value of Financial Instruments

Amounts reported as accounts receivables, prepaid expenses and other current assets, accounts payable and accrued expenses approximate fair value.

NOTE 7: DERIVATIVE FINANCIAL INSTRUMENTS

The Company’s international operations are exposed to changes in foreign exchange rates due to transactions denominated in currencies other than U.S. dollars. Most of the Company’s revenue and cost of materials are transacted in U.S. dollars. However, a significant amount of the Company’s operating expenses are denominated in local currencies, primarily in Singapore.

The foreign currency exposure of our operating expenses is generally hedged with foreign exchange forward contracts. The Company’s foreign exchange risk management programs include using foreign exchange forward contracts with cash flow hedge accounting designation to hedge exposures to the variability in the U.S. dollar equivalent of forecasted non-U.S. dollar-denominated operating expenses. These instruments generally mature within twelve months. For these derivatives, we report the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss), and we reclassify it into earnings in the same period or periods in which the hedged transaction affects earnings and in the same line item on the Consolidated Condensed Statements of Operations as the impact of the hedged transaction.

The fair value of derivative instruments on our Consolidated Condensed Balance Sheet as of December 29, 2018 and September 29, 2018 was as follows:

17

Table of Contents
KULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
Unaudited (continued)

(in thousands)	As of December 29, 2018		September 29, 2018	
	Notional Amount	Fair Value (Liability) Derivatives(1)	Notional Amount	Fair Value (Liability) Derivatives(1)
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts (2)	$32,540	(278)	$43,095	$ (1,071)
Total derivatives	$32,540	(278)	$43,095	$ (1,071)

(1) The fair value of derivative liabilities is measured using level 2 fair value inputs and is included in accrued expenses and other current liabilities on our Consolidated Condensed Balance Sheet.
(2) Hedged amounts expected to be recognized to income within the next twelve months.

The effects of derivative instruments designated as cash flow hedges in our Consolidated Condensed Statements of Comprehensive Income for the three months ended December 29, 2018 and December 30, 2017 are as follows:

(in thousands)	Three months ended December 29, 2018	December 30, 2017
Foreign exchange forward contract in cash flow hedging relationships:		
Net (loss)/gain recognized in OCI, net of tax(1)	$(72)	$ 489
Net (loss)/gain reclassified from accumulated OCI into income, net of tax(2)	$(865)	$ 1,046

(1) Net change in the fair value of the effective portion classified in other comprehensive income (“OCI”).
(2) Effective portion classified as selling, general and administrative expense.

NOTE 8: DEBT AND OTHER OBLIGATIONS
Financing Obligation
On December 1, 2013, Kulicke & Soffa Pte Ltd. (“Pte”), the Company's wholly owned subsidiary, signed a lease with DBS Trustee Limited as trustee of Mapletree Industrial Trust (the “Landlord”) to lease from the Landlord approximately 198,000 square feet, representing approximately 70% of a building in Singapore as our corporate headquarters, as well as a manufacturing, technology, sales and service center (the “Building”). The lease has a 10-year non-cancellable term (the "Initial Term") and contains options to renew for 2 further 10-year terms. The annual rent and service charge for the Initial Term range from $4 million to $5 million Singapore dollars.
Pursuant to ASC No. 840, Leases ("ASC 840"), we have classified the Building on our balance sheet as property, plant and equipment, which we are depreciating over its estimated useful life of 25 years. We concluded that the term of the financing obligation is 10 years. This is equal to the non-cancellable term of our lease agreement with the Landlord. At the inception of the lease, the asset and financing obligation recorded on the balance sheet was $20.0 million, which was based on an interest rate of 6.3% over the Initial Term. As of December 29, 2018, the financing obligation related to the Building is $15.8 million, which approximates fair value (Level 2). The financing obligation will be settled through a combination of periodic cash rental payments and the return of the leased property at the expiration of the lease. We do not report rent expense for the property, which is deemed owned for accounting purposes. Rather, rental payments required under the lease are considered debt service and applied to the deemed landlord financing obligation and interest expense. The Building and financing obligation are being amortized in a manner that will not generate a gain or loss upon lease termination.
Credit Facilities and Bank Guarantees
On November 22, 2013, the Company obtained a $5.0 million credit facility with Citibank in connection with the issuance of bank guarantees for operational purposes. As of December 29, 2018, the outstanding amount is $3.0

million. In addition, the Company has other bank guarantees for operational purposes which are secured with corresponding deposits placed with the issuer banks. These amounts are shown as restricted cash in the Consolidated Condensed Balance Sheets.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
Unaudited (continued)

NOTE 9: SHAREHOLDERS' EQUITY AND EMPLOYEE BENEFIT PLANS

Common Stock and 401(k) Retirement Plan

The Company has a 401(k) retirement plan (the "Plan") for eligible U.S. employees. The Plan allows for employee contributions and matching Company contributions from 4% to 6% based upon terms and conditions of the 401(k) Plan.

The following table reflects the Company's contributions to the Plan during the three months ended December 29, 2018 and December 30, 2017:

(in thousands)	Three months ended	
	December 29, 2018	December 30, 2017
Cash	$ 494	$ 501

Stock Repurchase Program

On August 15, 2017, the Company's Board of Directors authorized a program (the "Program") to repurchase up to $100 million of the Company's common stock on or before August 1, 2020. On July 10, 2018, the Board of Directors increased the share repurchase authorization under the Program to $200 million. The Company has entered into a written trading plan under Rule 10b5-1 of the Exchange Act to facilitate repurchases under the Program. The Program may be suspended or discontinued at any time and is funded using the Company's available cash, cash equivalents and short-term investments. Under the Program, shares may be repurchased through open market and/or privately negotiated transactions at prices deemed appropriate by management. The timing and amount of repurchase transactions under the Program depend on market conditions as well as corporate and regulatory considerations. During the three months ended December 29, 2018, the Company repurchased a total of 1.2 million shares of common stock under the Program at a cost of $25.5 million. The stock repurchases were recorded in the periods they were delivered and accounted for as treasury stock in the Company's Consolidated Condensed Balance Sheet. The Company records treasury stock purchases under the cost method using the first-in, first-out (FIFO) method. Upon reissuance of treasury stock, amounts in excess of the acquisition cost are credited to additional paid-in capital. If the Company reissues treasury stock at an amount below its acquisition cost and additional paid-in capital associated with prior treasury stock transactions is insufficient to cover the difference between acquisition cost and the reissue price, this difference is recorded against retained earnings. As of December 29, 2018, our remaining stock repurchase authorization under the Program was approximately $72.2 million.

Dividends

On December 12, 2018, the Board of Directors declared quarterly dividend of $0.12 per share of common stock. Dividends paid during the three months ended December 29, 2018 totaled $8.1 million. The declaration of any future cash dividend is at the discretion of the Board of Directors and will depend on the Company's financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination that such dividends are in the best interests of the Company's stockholders.

Accumulated Other Comprehensive Income

The following table reflects accumulated other comprehensive loss reflected on the Consolidated Condensed Balance Sheets as of December 29, 2018 and September 29, 2018:

(in thousands)	As of	
	December 29, 2018	September 29, 2018
Loss from foreign currency translation adjustments	$(2,190)	$ (1,211)
Unrecognized actuarial loss on pension plan, net of tax	(1,616)	(1,620)
Unrealized loss on hedging	(278)	(1,071)
Accumulated other comprehensive loss	$(4,084)	$ (3,902)

Equity-Based Compensation

The Company has stockholder-approved equity-based employee compensation plans (the “Employee Plans”) and director compensation plans (the “Director Plans”) (collectively, the “Equity Plans”). As of December 29, 2018, 4.0 million shares of common stock are available for grant to its employees and directors under the 2017 Equity Plan, including previously registered shares that have been carried forward for issuance from the 2009 Equity Plan.

- In general, stock options and Time-based Restricted Share Units ("Time-based RSUs") awarded to employees vest annually over a three-year period provided the employee remains employed by the Company. The Company follows the non-substantive vesting method for stock options and recognizes compensation expense immediately for awards granted to retirement eligible employees, or over the period from the grant date to the date retirement eligibility is achieved.
- Relative TSR Performance Share Units ("Relative TSR PSUs") entitles the employee to receive common shares of the Company on the award vesting date, if market performance objectives that measure relative total shareholder return (“TSR”) are attained. Relative TSR is calculated based upon the 90-calendar day average price of the Company's stock as compared to specific peer companies that comprise the GICS (45301020) Semiconductor Index. TSR is measured for the Company and each peer company over a performance period, which is generally three years. Vesting percentages range from 0% to 200% of awards granted. The provisions of the Relative TSR PSUs are reflected in the grant date fair value of the award; therefore, compensation expense is recognized regardless of whether the market condition is ultimately satisfied. Compensation expense is reversed if the award is forfeited prior to the vesting date.
- Special/Growth Performance Share Units (“Special/Growth PSUs”) entitles the employee to receive common shares of the Company on the three-year anniversary of the grant date (if employed by the Company) if revenue growth targets set by the Management Development and Compensation Committee (“MDCC”) of the Board of Directors on the date of grant are met. If revenue growth targets are not met, the Special/Growth PSUs do not vest. Certain Special/Growth PSUs vest based on achievement of strategic goals over a certain time period or periods set by the MDCC. If the strategic goals are not achieved, the Special/Growth PSUs do not vest.

Equity-based compensation expense recognized in the Consolidated Condensed Statements of Operations for the three months ended December 29, 2018 and December 30, 2017 was based upon awards ultimately expected to vest. Following the early adoption of ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting in this quarter, forfeitures have been accounted for when they occur.

The following table reflects Time-based RSUs, Relative TSR PSUs, Special/Growth PSUs and common stock granted during the three months ended December 29, 2018 and December 30, 2017:

(shares in thousands)	Three months ended December 29, 2018	December 30, 2017
Time-based RSUs	507	430
Relative TSR PSUs	157	153
Special/Growth PSUs	52	59
Common stock	8	9
Equity-based compensation in shares	724	651

The following table reflects total equity-based compensation expense, which includes Time-based RSUs, Relative TSR PSUs, Special/Growth PSUs and common stock, included in the Consolidated Condensed Statements of Operations during the three months ended December 29, 2018 and December 30, 2017:

(in thousands)	Three months ended December 29, 2018	December 30, 2017
Cost of sales	$150	$ 132
Selling, general and administrative	2,925	2,323
Research and development	798	654
Total equity-based compensation expense	$3,873	$ 3,109

Table of Contents
KULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
Unaudited (continued)

The following table reflects equity-based compensation expense, by type of award, for the three months ended December 29, 2018 and December 30, 2017:

(in thousands)	Three months ended December 29, 2018	December 30, 2017
Time-based RSUs	$2,141	$ 2,135
Relative TSR PSUs	1,375	723
Special/Growth PSUs	162	56
Common stock	195	195
Total equity-based compensation expense	$3,873	$ 3,109

NOTE 10: REVENUE AND CONTRACT LIABILITIES
The Company recognizes revenue when we satisfy performance obligations as evidenced by the transfer of control of our products or services to customers. In general, the Company generates revenue from product sales, either directly to customers or to distributors. In determining whether a contract exists, we evaluate the terms of the agreement, the relationship with the customer or distributor and their ability to pay. Service revenue is generally recognized over time as the services are performed. For the three months ended December 29, 2018, and December 30, 2017, the service revenue is not material. Please refer to Note 1: Basis of Presentation- Revenue Recognition, for disclosure on the Company's revenue recognition.
The Company disaggregates revenue based on our reportable segments. The Company believes that disaggregating revenue into these categories achieves the disclosure objective to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. Please refer to Note 13: Segment information, for disclosure of disaggregated revenue.
Contract Liabilities
Our contract liabilities are primarily relates to advance payments received from customers to secure product in future periods where we have received amounts in advance of satisfying performance obligations and are reported in the accompanying consolidated condensed balance sheets within accrued expenses and other current liabilities.
Contract liabilities increase as a result of receiving new advance payments from customers and decrease as revenue is recognized from customers purchasing product under advance payment arrangements upon meeting the performance obligations.
The following table shows the changes in contract liability balances during the three months ended December 29, 2018:

(in thousands)	
Contract liabilities as at September 29, 2018	$997
Revenue recognized	(3,178)
Additions	2,729
Contract liabilities as at December 29, 2018	$548

NOTE 11: EARNINGS PER SHARE
Basic income per share is calculated using the weighted average number of shares of common stock outstanding during the period. Stock options and restricted stock are included in the calculation of diluted earnings per share, except when their effect would be anti-dilutive. For the three months ended December 30, 2017, 1.2 million shares of stock options and restricted stock were excluded due to the Company's net loss.

21

Table of Contents
KULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
Unaudited (continued)

The following tables reflect a reconciliation of the shares used in the basic and diluted net income per share computation for the three months ended December 29, 2018 and December 30, 2017:

(in thousands, except per share data)	Three months ended December 29, 2018		December 30, 2017	
	Basic	Diluted	Basic	Diluted
NUMERATOR:				
Net income/(loss)	$7,517	$7,517	$(69,528)	$(69,528)
DENOMINATOR:				
Weighted average shares outstanding - Basic	67,176	67,176	70,577	70,577
Dilutive effect of Equity Plans		675		—
Weighted average shares outstanding - Diluted		67,851		70,577
EPS:				
Net income/(loss) per share - Basic	$0.11	$0.11	$(0.99)	$(0.99)
Effect of dilutive shares		—		—
Net income/(loss) per share - Diluted		$0.11		$(0.99)

NOTE 12: INCOME TAXES

The following table reflects the provision for income taxes and the effective tax rate for the three months ended December 29, 2018 and December 30, 2017:

(dollar amounts in thousands)	Three months ended December 29, 2018	December 30, 2017
Income tax expense	$10,570	$110,412
Effective tax rate	58.4 %	270.2 %

For the three months ended December 29, 2018, the effective income tax rate differed from the federal statutory tax rate primarily due to tax expense related to an adjustment to the one-time transition tax on deemed repatriation of previously untaxed accumulated earnings and profits of certain foreign subsidiaries as a result of the enactment of the Tax Cuts and Jobs Act of 2017 (the “Act”), foreign withholding taxes, and tax liabilities from foreign operations, partially offset by tax benefits from profits generated in foreign operations subject to a lower statutory tax rate than the federal rate, tax benefits from domestic research expenditures, foreign tax credit, and the impact of tax holidays.

For the three months ended December 30, 2017, the effective income tax rate differed from the federal statutory tax rate primarily due to tax expense related to the enactment of the Act, foreign withholding taxes, and tax liabilities from foreign operations, partially offset by tax benefits from profits generated in foreign operations subject to a lower statutory tax rate than the federal rate, tax benefits from domestic research expenditures, foreign tax credit, and the impact of tax holidays.

The decrease in tax expense for the three months ended December 29, 2018 of $10.6 million from the tax expense for the three months ended December 30, 2017 of $110.4 million was primarily related to the enactment of the Act and lower worldwide profits in the first quarter of fiscal 2019, net of $7.7 million tax expense primarily related to an adjustment to the one-time transition tax due to new guidance issued by the U.S. Department of Treasury on November 28, 2018.

The Company's future effective tax rate would be affected by the decrease in earnings in countries where it has lower statutory rates or increase in earnings in countries where it has higher statutory rates, by changes in the valuation of its deferred tax assets and liabilities, or by changes in tax laws, regulations, accounting principles, or interpretations

thereof.
It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain unrecognized tax positions will increase or decrease during the next 12 months due to the expected lapse of statutes of limitation and / or settlements of tax examinations. The Company is under income tax examination by tax authorities in certain foreign jurisdictions.

Table of Contents
KULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
Unaudited (continued)

In accordance with Staff Accounting Bulletin No. 118 (“SAB 118"), the accounting for the tax effects for the Act has been completed in the first quarter of fiscal 2019. In addition, the Company has made an accounting policy election to record tax effects of its global intangible low-taxed income as a period cost in the period the tax is incurred.

NOTE 13: SEGMENT INFORMATION
Reportable segments are defined as components of an enterprise that engage in business activities for which discrete financial information is available and regularly reviewed by the chief operating decision maker in deciding how to allocate resources and to assess performance. The Company's Chief Executive Officer is the Company's chief operating decision maker. The chief operating decision maker does not review discrete asset information. The Company operates two reportable segments consisting of: (i) Capital Equipment; and (ii) Aftermarket Products and Services ("APS").
The following table reflects operating information by segment for the three months ended December 29, 2018 and December 30, 2017:

(in thousands)	Three months ended	
	December 29, 2018	December 30, 2017
Net revenue:		
Capital Equipment	$115,938	$ 171,603
APS	41,270	42,088
Net revenue	157,208	213,691
Income from operations:		
Capital Equipment	5,130	29,981
APS	9,425	9,178
Income from operations	$14,555	$ 39,159

The following tables reflect capital expenditures, depreciation expense and amortization expense for the three months ended December 29, 2018 and December 30, 2017.

(in thousands)	Three months ended	
	December 29, 2018	December 30, 2017
Capital expenditures:		
Capital Equipment	$2,184	$ 1,835
APS	2,758	4,422
	$4,942	$ 6,257

(in thousands)	Three months ended	
	December 29, 2018	December 30, 2017
Depreciation expense:		
Capital Equipment	$1,738	$ 1,788
APS	1,154	737
	$2,892	$ 2,525
Amortization expense:		
Capital Equipment	$1,007	$ 1,043
APS	870	900
	$1,877	$ 1,943

23

Table of Contents
KULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
Unaudited (continued)

NOTE 14: COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

Warranty Expense

The Company's equipment is generally shipped with a one-year warranty against manufacturing defects. The Company establishes reserves for estimated warranty expense when revenue for the related equipment is recognized. The reserve for estimated warranty expense is based upon historical experience and management's estimate of future warranty costs, including product part replacement, freight charges and labor costs incurred in correcting product failures during the warranty period.

The following table reflects the reserve for warranty activity for the three months ended December 29, 2018 and December 30, 2017:

(in thousands)	Three months ended	
	December 29, 2018	December 31, 2017
Reserve for warranty, beginning of period	$14,475	$13,796
Provision for warranty	3,086	2,960
Utilization of reserve	(3,160)	(3,064)
Reserve for warranty, end of period	$14,401	$13,692

Other Commitments and Contingencies

The following table reflects obligations not reflected on the Consolidated Condensed Balance Sheet as of December 29, 2018:

		Payments due by fiscal year				
(in thousands)	Total	2019	2020	2021	2022	thereafter
Inventory purchase obligation (1)	$109,536	$109,536	$—	$—	$—	$ —
Operating lease obligations (2)	18,027	2,928	3,603	2,340	1,912	7,244
Total	$127,563	$112,464	$3,603	$2,340	$1,912	$ 7,244

(1) The Company orders inventory components in the normal course of its business. A portion of these orders are non-cancellable, however, some orders impose varying penalties and charges in the event of cancellation.

(2) The Company has minimum rental commitments under various leases (excluding taxes, insurance, maintenance and repairs, which are also paid by the Company) primarily for various facility and equipment leases, which expire periodically through 2027 (not including lease extension options, if applicable).

Pursuant to ASC No. 840, Leases, for lessee's involvement in asset construction, the Company was considered the owner of the Building during the construction phase. The Building was completed on December 1, 2013 and Pte signed an agreement with the Landlord to lease from the Landlord approximately 198,000 square feet, representing approximately 70% of the Building. Following the completion of construction, we performed a sale-leaseback analysis pursuant to ASC 840-40 and determined that because of our continuing involvement, ASC 840-40 precluded us from derecognizing the asset and associated financing obligation. As such, we reclassified the asset from construction in progress to property, plant and equipment and began to depreciate the building over its estimated useful life of 25 years. We concluded that the term of the financing obligation is 10 years. This is equal to the non-cancellable term of our lease agreement with the Landlord. As of December 29, 2018, we recorded a financing obligation related to the Building of $15.8 million (see Note 8 above). The financing obligation is not reflected in the table above.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
Unaudited (continued)

Concentrations

The following table reflects significant customer concentrations as a percentage of net revenue for the three months ended December 29, 2018 and December 30, 2017.

	Three months ended	
	December 29, 2018	December 30, 2017
Micron Technology, Inc	18.5 %	*
Haoseng Industrial Company Limited (1)	*	10.9 %
Tesla, Inc	*	10.9 %

(1) Distributor of the Company's products.
* Represented less than 10% of total net revenue

The following table reflects significant customer concentrations as a percentage of total accounts receivable as of December 29, 2018 and December 30, 2017:

	As of	
	December 29, 2018	December 30, 2017
Micron Technology, Inc	17.7 %	*
Haoseng Industrial Company Limited (1)	15.5 %	29.6 %
Super Power International (1)	15.4 %	*

(1) Distributor of the Company's products.
* Represented less than 10% of total accounts receivable

NOTE 15: SUBSEQUENT EVENTS

On January 22, 2019, the Company entered into foreign exchange forward contracts with notional amount of $13.9 million. The Company entered into these foreign exchange forward contracts to hedge a portion of our forecasted foreign currency-denominated expenses in the normal course of business and, accordingly, they are not speculative in nature. These foreign exchange forward contracts have maturities of up to twelve months.

On January 31, 2019, the Company made a $5.0 million investment in one of our collaborative partners. The investment is accounted for under ASC 321- Investments- Equity Securities.

On January 31, 2019, the Board of Directors increased the share repurchase authorization under the Program by an additional $100 million to $300 million.

Table of Contents

Item 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

In addition to historical information, this filing contains statements relating to future events or our future results. These statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and are subject to the safe harbor provisions created by statute. Such forward-looking statements include, but are not limited to, our future revenue, sustained, increasing, continuing or strengthening, or decreasing or weakening, demand for our products, replacement demand, our research and development efforts, our ability to identify and realize new growth opportunities, our ability to control costs and our operational flexibility as a result of (among other factors):

- projected growth rates in the overall semiconductor industry, the semiconductor assembly equipment market, and the market for semiconductor packaging materials; and
- projected demand for ball, wedge bonder, advanced packaging and electronic assembly equipment and for tools, spare parts and services.

Generally, words such as “may,” “will,” “should,” “could,” “anticipate,” “expect,” “intend,” “estimate,” “plan,” “continue,” “g “believe,” or the negative of or other variations on these and other similar expressions identify forward-looking statements. These forward-looking statements are made only as of the date of this filing. We do not undertake to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

Forward-looking statements are based on current expectations and involve risks and uncertainties. Our future results could differ significantly from those expressed or implied by our forward-looking statements. These risks and uncertainties include, without limitation, those described below and under the heading “Risk Factors” in our amended Annual Report on Form 10-K for the fiscal year ended September 29, 2018 (the “Annual Report”) and our other reports and registration statements filed from time to time with the Securities and Exchange Commission. This discussion should be read in conjunction with the Consolidated Condensed Financial Statements and Notes included in this report, as well as our audited financial statements included in the Annual Report.

We operate in a rapidly changing and competitive environment. New risks emerge from time to time and it is not possible for us to predict all risks that may affect us. Future events and actual results, performance and achievements could differ materially from those set forth in, contemplated by or underlying the forward-looking statements, which speak only as of the date on which they were made. Except as required by law, we assume no obligation to update or revise any forward-looking statement to reflect actual results or changes in, or additions to, the factors affecting such forward-looking statement. Given those risks and uncertainties, investors should not place undue reliance on forward-looking statements as predictions of actual results.

OVERVIEW

Kulicke and Soffa Industries, Inc. ("We", the "Company" or "K&S") designs, manufactures and sells capital equipment and tools used to assemble semiconductor devices, including integrated circuits (“ICs”), high and low powered discrete devices, light-emitting diodes (“LEDs”), and power modules. In addition, we have a portfolio of equipment that are used to assemble components onto electronic circuit boards. We also service, maintain, repair and upgrade our equipment. Our customers primarily consist of semiconductor device manufacturers, integrated device manufacturers ("IDMs"), outsourced semiconductor assembly and test providers (“OSATs”), other electronics manufacturers and automotive electronics suppliers.

Our goal is to be the technology leader and the most competitive supplier in terms of cost and performance in each of our major product lines. Accordingly, we invest in research and engineering projects intended to enhance our position as a leader in the semiconductor assembly technology. We also remain focused on our cost structure through continuous improvement and optimization of operations. Cost reduction efforts are an important part of our normal ongoing operations and are intended to generate savings without compromising overall product quality and service levels.

The Company operates two reportable segments consisting of: Capital Equipment and Aftermarket Products and Services ("APS"). The Company has aggregated twelve operating segments as of December 29, 2018, with six operating segments within the Capital Equipment reportable segment and six operating segments within APS reportable segment.

Our Capital Equipment segment is comprised of the manufacturing and selling of ball bonders, wafer level bonders, wedge bonders, advanced packaging and electronic assembly solutions to semiconductor device manufacturers, IDMs, OSATs, other electronics manufacturers and automotive electronics suppliers. Our APS segment is comprised of the manufacturing and selling of a variety of tools for a broad range of semiconductor packaging applications, spare parts, equipment repair, maintenance and servicing, training services, refurbishment and upgrades for our equipment.

Table of Contents

Business Environment

The semiconductor business environment is highly volatile and is driven by internal dynamics, both cyclical and seasonal, in addition to macroeconomic forces. Over the long term, semiconductor consumption has historically grown, and is forecast to continue to grow. This growth is driven, in part, by regular advances in device performance and by price declines that result from improvements in manufacturing technology. In order to exploit these trends, semiconductor manufacturers, both IDMs and OSATs, periodically invest aggressively in latest generation capital equipment. This buying pattern often leads to periods of excess supply and reduced capital spending—the so-called semiconductor cycle. Within this broad semiconductor cycle there are also, generally weaker, seasonal effects that are specifically tied to annual, end-consumer purchasing patterns. Typically, semiconductor manufacturers prepare for heightened demand by adding or replacing equipment capacity by the end of the September quarter. Occasionally, this results in subsequent reductions in the December quarter. This annual seasonality can be overshadowed by effects of the broader semiconductor cycle. Macroeconomic factors also affect the industry, primarily through their effect on business and consumer demand for electronic devices, as well as other products that have significant electronic content such as automobiles, white goods, and telecommunication equipment.

Our Capital Equipment segment is primarily affected by the industry's internal cyclical and seasonal dynamics in addition to broader macroeconomic factors that can positively or negatively affect our financial performance. The sales mix of IDM and OSAT customers in any period also impacts financial performance, as changes in this mix can affect our products' average selling prices and gross margins due to differences in volume purchases and machine configurations required by each customer type.

Our APS segment has historically been less volatile than our Capital Equipment segment. APS sales are more directly tied to semiconductor unit consumption rather than capacity requirements and production capability improvements.

We continue to position our business to leverage our research and development leadership and innovation and to focus our efforts on mitigating volatility, improving profitability and ensuring longer-term growth. We remain focused on operational excellence, expanding our product offerings and managing our business efficiently throughout the business cycles. Our visibility into future demand is generally limited, forecasting is difficult, and we generally experience typical industry seasonality.

To limit potential adverse cyclical, seasonal and macroeconomic effects on our financial position, we have continued our efforts to maintain a strong balance sheet. As of December 29, 2018, our total cash, cash equivalents, restricted cash and short-term investments were $632.9 million, a $18.8 million increase from the prior fiscal year end. We believe this strong cash position will allow us to continue to invest in product development and pursue non-organic opportunities.

Technology Leadership

We compete largely by offering our customers advanced equipment and expendable tools available for the interconnect processes. We believe our technology leadership contributes to the strong market positions of our ball bonder, wedge bonder and expendable tools products. To maintain our competitive advantage, we invest in product development activities designed to produce improvements to existing products and to deliver next-generation products. These investments often focus as much on improvements in the semiconductor assembly process as on specific pieces of assembly equipment or expendable tools. In order to generate these improvements, we typically work in close collaboration with customers, end users, and other industry members. In addition to producing technical advances, these collaborative development efforts strengthen customer relationships and enhance our reputation as a technology leader and solutions provider.

In addition to gold, silver alloy wire and aluminum wire, our leadership in the industry's use of copper wire for the bonding process is an example of the benefits of our collaborative efforts. By working with customers, material suppliers, and other equipment suppliers, we have developed a series of robust, high-yielding production processes, which have made copper wire widely accepted and significantly reduced the cost of assembling an integrated circuit.

Our leadership also has allowed us to maintain a competitive position in the latest generations of ball bonders. Gen-S is our smart bonder series and RAPID™ is the first product in the series to address the Industry 4.0 requirements. The key features of this series include Real-time Process & Performance Monitoring, Real-time Equipment Health Monitoring, Advanced Data Analytics & Traceability, Predictive Maintenance Monitoring & Analysis, and Detection

& Enhanced Post bond Inspection.
We optimize our bonder platforms to deliver variants of our products to serve emerging high-growth markets. For example, we have developed extensions of our Gen-S platforms (Rapid™ MEM) to address opportunities in memory assembly, in particular for NAND Flash storage.
Our leading technology for wedge bonder equipment uses ribbon or heavy wire for different applications such as power electronics, automotive and semiconductor applications. The advanced interconnect capabilities of PowerFusion^{PS} improve the processing of high-density power packages, due to an expanded bondable area, wider leadframe capability, indexing accuracy and teach mode. In all cases, we are making a concerted effort to develop commonality of subsystems and design practices, in order to improve

performance and design efficiencies. We believe this will benefit us as it increases synergies between the various engineering product groups. Furthermore, we continually research adjacent market segments where our technologies could be used. Although many of these initiatives are in the early stages of development, some have already yielded results such as the Asterion™ hybrid wedge bonder which is built on an enhanced architecture that includes an expanded bond area, new robust pattern recognition capabilities and extremely tight process controls. Another example of our developing equipment for high-growth niche markets is our AT Premier PLUS. This machine utilizes a modified wire bonding process to mechanically place bumps on devices in a wafer format, for variants of the flip chip assembly process. Typical applications include complementary metal-oxide semiconductor (“CMOS”) image sensors, surface acoustical wave (“SAW”) filters and high brightness LEDs. These applications are commonly used in most, if not all, smartphones available in the market. We also have expanded the use of AT Premier PLUS for wafer level wire bonding for micro-electro-mechanical systems (“MEMS”) and other sensors.

Our technology leadership and bonding process know-how have enabled us to develop highly function-specific equipment with high throughput and accuracy. This forms the foundation for our advanced packaging equipment development. We established a dedicated team to develop and manufacture advanced packaging bonders for the emerging 2.5 dimensional integrated circuit (“2.5D IC”) and 3 dimensional integrated circuit (“3D IC”) markets. By reducing the interconnect dimensions, 2.5D ICs and 3D ICs are expected to provide form factor, performance and power efficiency enhancements over traditional flip-chip packages in production today. High-performance processing and memory applications, in addition to mobile devices such as smartphones and tablets, are anticipated to be earlier adopters of this new packaging technology.

We have also broadened our advanced packaging solutions for mass reflow to include flip chip, wafer level packaging ("WLP"), fan-out wafer level packaging ("FOWLP"), advanced package-on-package, embedded die, and System-in-Package ("SiP"). These solutions enable us to diversify our business while further expanding market reach into the automotive, LED lighting, medical and industrial segments with electronic assembly solutions.

We bring the same technology focus to our APS business, driving tool design and manufacturing technology to optimize the performance and process capability of the equipment in which our tools are used. For all our equipment products, expendable tools are an integral part of their process capability. We believe our unique ability to simultaneously develop both equipment and tools, spare parts and services is a core strength supporting our products' technological differentiation.

Products and Services

The following tables reflect net revenue by business segment for the three months ended December 29, 2018 and December 30, 2017:

	Three months ended			
	December 29, 2018		December 30, 2017	
(dollar amounts in thousands)	Net revenues	% of total net revenue	Net revenues	% of total net revenue
Capital Equipment	$115,938	73.7 %	$171,603	80.3 %
APS	41,270	26.3 %	42,088	19.7 %
	$157,208	100.0%	$213,691	100.0%

Table of Contents

RESULTS OF OPERATIONS

The following tables reflect our income from operations for the three months ended December 29, 2018 and December 30, 2017:

(dollar amounts in thousands)	Three months ended December 29, 2018	December 30, 2017	$ Change	% Change
Net revenue	$157,208	$213,691	$(56,483)	(26.4)%
Cost of sales	82,409	116,489	(34,080)	(29.3)%
Gross profit	74,799	97,202	(22,403)	(23.0)%
Selling, general and administrative	30,441	27,793	2,648	9.5 %
Research and development	29,803	30,250	(447)	(1.5)%
Operating expenses	60,244	58,043	2,201	3.8 %
Income from operations	$14,555	$39,159	$(24,604)	(62.8)%

Our net revenues for the three months ended December 29, 2018 decreased as compared to our net revenues for the three months ended December 30, 2017. The decrease in net revenue was primarily due to lower volume as a result of lower demand from our customers, particularly in our Capital Equipment segment. The lower volume was primarily due to lower market demand in consumer, enterprise, automotive and industrial applications.

The semiconductor industry is volatile and our operating results are adversely impacted by volatile worldwide economic conditions. Though the semiconductor industry's cycle can be independent of the general economy, global economic conditions may have a direct impact on demand for semiconductor units and ultimately demand for semiconductor capital equipment and expendable tools. Accordingly, our business and financial performance is impacted, both positively and negatively, by fluctuations in the macroeconomic environment. Our visibility into future demand is generally limited and forecasting is difficult. There can be no assurances regarding levels of demand for our products and we believe historic industry-wide volatility will persist.

Net Revenue

Approximately 93.4% and 85.7% of our net revenue for the three months ended December 29, 2018 and December 30, 2017, respectively, was for shipments to customer locations outside of the U.S., primarily in the Asia/Pacific region. In the Asia/Pacific region, our customer base is also becoming more geographically concentrated as a result of economic and industry conditions. Approximately 37.7% and 40.3% of our net revenue for the three months ended December 29, 2018 and December 30, 2017, respectively, was for shipments to customers located in China.

The following tables reflect net revenue by business segment for the three months ended December 29, 2018 and December 30, 2017:

(dollar amounts in thousands)	Three months ended December 29, 2018	December 30, 2017	$ Change	% Change
Capital Equipment	$115,938	$ 171,603	$(55,665)	(32.4)%
APS	41,270	42,088	(818)	(1.9)%
Total net revenue	$157,208	$ 213,691	$(56,483)	(26.4)%

Table of Contents

Capital Equipment

The following table reflects the components of Capital Equipment net revenue change between the three months ended December 29, 2018 and December 30, 2017:

	December 29, 2018 vs. December 30, 2017 Three months ended		
(in thousands)	Price	Volume	$ Change
Capital Equipment	$(2,118)	$(53,547)	$(55,665)

For the three months ended December 29, 2018, the lower Capital Equipment net revenue as compared to the prior year period was primarily due to lower volume and unfavorable price variance. The lower sales volume was primarily due to lower market demand in consumer, enterprise, automotive and industrial applications. The unfavorable price variance was primarily due to competition in power module, power discrete and battery application.

APS

The following table reflects the components of APS net revenue change between the three months ended December 29, 2018 and December 30, 2017:

	December 29, 2018 vs. December 30, 2017 Three months ended		
(in thousands)	Price	Volume	$ Change
APS	$(3,296)	$2,478	$(818)

For the three months ended December 29, 2018, the lower Aftermarket Product and Services net revenue as compared to prior year period was primarily due to price reduction in consumable business as a result of competition and partially offset by higher contribution from capillaries, spares and wedge bonder consumables.

Gross Profit

The following tables reflect gross profit by reportable segment for the three months ended December 29, 2018 and December 30, 2017:

	Three months ended			
(dollar amounts in thousands)	December 29, 2018	December 30, 2017	$ Change	% Change
Capital Equipment	$50,931	$ 74,584	$(23,653)	(31.7)%
APS	23,868	22,618	1,250	5.5 %
Total gross profit	$74,799	$ 97,202	$(22,403)	(23.0)%

The following tables reflect gross profit as a percentage of net revenue by reportable segments for the three months ended December 29, 2018 and December 30, 2017:

	Three months ended		Basis Point
	December 29, 2018	December 30, 2017	Change
Capital Equipment	43.9%	43.5 %	40
APS	57.8%	53.7 %	410
Total gross margin	47.6%	45.5 %	210

Table of Contents

Capital Equipment

The following table reflects the components of Capital Equipment gross profit change between the three months ended December 29, 2018 and December 30, 2017:

	December 29, 2018 vs. December 30, 2017			
	Three months ended			
(in thousands)	Price	Cost	Volume	$ Change
Capital Equipment	$(2,118)	$1,746	$(23,281)	$(23,653)

For the three months ended December 29, 2018, the lower Capital Equipment gross profit as compared to the prior year period was primarily due to lower volume and unfavorable price variance. The lower sales volume was primarily due to lower market demand in consumer, enterprise, automotive and industrial applications. The unfavorable price variance was primarily due to competition in power module, power discrete and battery application. The lower volume and unfavorable price variance were partially offset by lower cost as a result of lower manufacturing activities.

APS

The following table reflects the components of APS gross profit change between the three months ended December 29, 2018 and December 30, 2017:

	December 29, 2018 vs. December 30, 2017			
	Three months ended			
(in thousands)	Price	Cost	Volume	$ Change
APS	$(3,296)	$916	$3,630	$1,250

For the three months ended December 29, 2018, the higher Aftermarket Product and Services gross profit as compared to prior year period was primarily due to higher contribution from capillaries, spares, wedge bonder consumables, and lower cost, and partially offset by price reduction in consumable business as a result of compeition.

Operating Expenses

The following tables reflect operating expenses as a percentage of net revenue for the three months ended December 29, 2018 and December 30, 2017:

	Three months ended		Basis point change
	December 29, 2018	December 30, 2017	
Selling, general & administrative	19.4%	13.0%	640
Research & development	19.0%	14.2%	480
Total	38.4%	27.2%	1,120

Selling, General and Administrative ("SG&A")

For the three months ended December 29, 2018, higher SG&A expenses as compared to prior year period was primarily due to $2.8 million higher staff costs, and $1.6 million net unfavorable variance in foreign exchange due to weakening of US dollar against foreign currencies. These are partially offset by $1.3 million lower severance expense and $0.7 million net favorable change in doubtful debt accounts as we were able to collect balances from a customer that were previously reserved.

Research and Development ("R&D")

For the three months ended December 29, 2018, the R&D expenses have remained generally consistent compared to prior period.

Interest Income and Expense

The following tables reflect interest income and interest expense for the three months ended December 29, 2018 and December 30, 2017:

Table of Contents

(dollar amounts in thousands)	Three months ended December 29, 2018	December 30, 2017	$ Change	% Change
Interest income	$3,826	$ 1,975	$ 1,851	93.7 %
Interest expense	$(251)	$ (266)	$ 15	(5.6)%

For the three months ended December 29, 2018, interest income was higher as compared to the prior year period. This was primarily due to higher interest rates and a larger average cash, cash equivalents and short-term investments balance.

Interest expense for the three months ended December 29, 2018 and December 30, 2017 was attributable to the interest on financing obligation relating to our corporate headquarters, which was incurred subsequent to the completion of the building in December 2013 (Refer to Note 8 of Item 1).

Provision for Income Taxes

The following table reflects the provision for income taxes and the effective tax rate for the three months ended December 29, 2018 and December 30, 2017:

(dollar amounts in thousands)	Three months ended December 29, 2018	December 30, 2017
Income tax expense	$10,570	$110,412
Effective tax rate	58.4 %	270.2 %

Please refer to Note 12 of Item 1 for discussion on the provision for income taxes and the effective tax rate for the three months ended December 29, 2018 and December 30, 2017.

LIQUIDITY AND CAPITAL RESOURCES

The following table reflects total cash, cash equivalents, restricted cash and short-term investments as of December 29, 2018 and September 29, 2018:

(dollar amounts in thousands)	As of December 29, 2018	September 29, 2018	Change
Cash and cash equivalents	$277,426	$ 320,630	$(43,204)
Restricted cash	516	518	(2)
Short-term investments	355,000	293,000	62,000
Total cash, cash equivalents, restricted cash and short-term investments	$632,942	$ 614,148	$18,794
Percentage of total assets	55.5 %	51.8 %	

The following table reflects a summary of the Consolidated Condensed Statement of Cash Flow information for the three months ended December 29, 2018 and December 30, 2017:

(in thousands)	Three months ended December 29, 2018	December 30, 2017
Net cash provided by operating activities	$ 56,001	$ 50,333
Net cash used in investing activities	(65,273)	(48,183)
Net cash used in financing activities	(33,916)	(3,391)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(18)	(510)

Changes in cash, cash equivalents and restricted cash	$	(43,206	)	$	(1,751	)
Cash, cash equivalents and restricted cash, beginning of period	321,148			392,940		
Cash, cash equivalents and restricted cash, end of period	$	277,942		$	391,189	

32

Table of Contents

Three months ended December 29, 2018

Net cash provided by operating activities was primarily due to the increase in net change in operating assets and liabilities of $40.6 million, non-cash adjustments to net income of $7.8 million and net income of $7.5 million. The increase in net change in operating assets and liabilities was primarily driven by a decrease in accounts and notes receivable of $56.5 million related to the slower sales levels, increase in income tax payable of $9.9 million and a decrease in inventory of $5.4 million. This was partially offset by a decrease in accounts payable, accrued expenses and other current liabilities of $32.9 million, also related to the slower sales levels.

The decrease in accounts receivables was due to higher sales in the fourth quarter of fiscal 2018 as compared to the first quarter of fiscal 2019 as well as timing of collections. The increase in income tax payable was mainly due to additional tax payable (refer to Note 12 of Item 1 for discussion on the provision for income taxes). The decrease in inventory was due to lower manufacturing activities in first quarter of fiscal 2019 as compared to the fourth quarter of fiscal 2018. The lower accounts payable, accrued expenses and other current liabilities was primarily due to lower accruals on incentive compensation and other bonuses as a result of payment made in the first quarter of fiscal 2019.

Net cash used in investing activities was due to net purchases of short-term investments of $62.0 million, and capital expenditures of $3.3 million.

Net cash used in financing activities was primarily due to common stock repurchases of $25.7 million and dividend payment of $8.1 million.

Three months ended December 30, 2017

Net cash provided by operating activities was primarily due to the combination of net loss of $69.5 million, non-cash adjustments of $32.1 million and an increase in net change in operating assets and liabilities of $87.7 million. The increase in net change in operating assets and liabilities was primarily driven by an increase in income tax payable of $85.3 million, a decrease in accounts and notes receivable of $24.4 million, and a decrease in inventories of $13.9 million. This was partially offset by a decrease in accounts payable, accrued expenses and other current liabilities of $37.1 million.

The increase in income tax payable was mainly due to additional tax payable subsequent to the enactment of the Tax Cuts and Jobs Act. The decrease in accounts receivables and notes receivables and inventories was mainly due to improved working capital management where days sales outstanding and days inventory outstanding in the first quarter of fiscal 2018 were lower as compared to the fourth quarter of fiscal 2017 due to higher collection and lower inventory on hand in current quarter respectively. The lower accounts payable, accrued expenses and other current liabilities was primarily due to lower accruals on incentive compensation and other bonuses.

Net cash used in investing activities was due to purchases of short-term investments of $133.0 million and capital expenditures of $5.2 million. This was offset by the proceeds from the maturity of short-term investments of $90.0 million.

Net cash used in financing activities was primarily due to repurchase of common stock of $3.3 million.

Fiscal 2019 Liquidity and Capital Resource Outlook

We expect our aggregate fiscal 2019 capital expenditures to be between $24.0 million and $28.0 million, of which approximately $5 million has been incurred through the first quarter. The actual amounts for 2019 will vary depending on market conditions. Expenditures are anticipated to be primarily used for R&D projects, enhancements to our manufacturing operations in Asia, improvements to our information technology infrastructure and leasehold improvements for our facilities.

We believe that our existing cash and investments and anticipated cash flows from operations will be sufficient to meet our liquidity and capital requirements for at least the next twelve months. Our liquidity is affected by many factors, some based on normal operations of our business and others related to global economic conditions and industry uncertainties, which we cannot predict. We also cannot predict economic conditions and industry downturns or the timing, strength or duration of recoveries. We intend to continue to use our cash for working capital needs and for general corporate purposes.

We may seek, as we believe appropriate, additional debt or equity financing that would provide capital for corporate purposes, working capital funding, additional liquidity needs or to fund future growth opportunities, including possible acquisitions. The timing and amount of potential capital requirements cannot be determined at this time and

will depend on a number of factors, including our actual and projected demand for our products, semiconductor and semiconductor capital equipment industry conditions, competitive factors, and the condition of financial markets.
As of December 29, 2018 and September 29, 2018, approximately $600.3 million and $545.0 million of cash, cash equivalents, and short-term investments were held by the Company's foreign subsidiaries, respectively. As a result of the Tax Cuts and Jobs

Table of Contents

Act of 2017, signed into law on December 22, 2017, the cash amount as of December 29, 2018 is expected to be available for use in the U.S. without incurring additional U.S. income tax.

Share Repurchase Program

On August 15, 2017, the Company's Board of Directors authorized a program (the "Program") to repurchase up to $100 million in total of the Company's common stock on or before August 1, 2020. On July 10, 2018, the Board of Directors increased the share repurchase authorization under the Program to $200 million. The Company has entered into a written trading plan under Rule 10b5-1 of the Exchange Act to facilitate repurchases under the Program. The Program may be suspended or discontinued at any time and is funded using the Company's available cash, cash equivalents and short-term investments. Under the Program, shares may be repurchased through open market and/or privately negotiated transactions at prices deemed appropriate by management. The timing and amount of repurchase transactions under the Program depend on market conditions as well as corporate and regulatory considerations. During the three months ended December 29, 2018, the Company repurchased a total of 1.2 million shares of common stock under the Program at a cost of $25.5 million. As of December 29, 2018, our remaining stock repurchase authorization under the Program was approximately $72.2 million.

Dividends

On December 12, 2018, the Board of Directors declared a quarterly dividend of $0.12 per share of common stock. Dividends paid during the three months ended December 29, 2018 totaled $8.1 million. The declaration of any future cash dividend is at the discretion of the Board of Directors and will depend on the Company's financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination that such dividends are in the best interests of the Company's stockholders.

Other Obligations and Contingent Payments

In accordance with U.S. generally accepted accounting principles, certain obligations and commitments are not required to be included in the Consolidated Condensed Balance Sheets and Statements of Operations. These obligations and commitments, while entered into in the normal course of business, may have a material impact on our liquidity. Certain of the following commitments as of December 29, 2018 are appropriately not included in the Consolidated Condensed Balance Sheets and Statements of Operations included in this Form 10-Q; however, they have been disclosed in the table below for additional information.

The Company's other non-current liabilities in the Consolidated Condensed Balance Sheets consist primarily of deferred tax liabilities, gross long-term tax payable and retirement obligations. As of December 29, 2018, the Company had deferred tax liabilities of $25.4 million and long-term tax payable of $13.8 million of which the Company is unable to make a reasonably reliable estimate of the timing of payments due to uncertainties in the timing of tax audit outcomes; therefore, such amounts are not included in the below contractual obligation table. In addition, the Company has retirement obligations and other severances of $7.7 million which are payable on employee departures.

The following table presents certain payments due by the Company under contractual obligations with minimum firm commitments as of December 29, 2018:

		Payments due in			
(in thousands)	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Inventory purchase obligations [1]	$109,536	$109,536	$ —	$ —	$ —
Operating lease obligations [2]	18,027	3,899	5,487	3,698	4,943
Long-term tax payable [3] (reflected on our Balance Sheets)	75,447	6,642	13,285	13,285	42,235
Asset retirement obligations [4] (reflected on our Balance Sheets)	1,546	41	406	983	116
Total	$204,556	$120,118	$ 19,178	$ 17,966	$ 47,294

(1) We order inventory components in the normal course of our business. A portion of these orders are non-cancellable and a portion may have varying penalties and charges in the event of cancellation.

(2)

Represents minimum rental commitments under various leases (excluding taxes, insurance, maintenance and repairs, which are also paid by us) primarily for various facility and equipment leases, which expire periodically through 2027 (not including lease extension options, if applicable).

Table of Contents

The annual rent and service charge for our corporate headquarters range from $4 million to $5 million Singapore dollars and is not included in the table above.

In accordance with ASC No. 840, Leases ("ASC 840"), the Company was considered to be the owner of its headquarters during the construction phase due to its involvement in the asset construction. As a result of the Company's continued involvement during the lease term, the Company did not fulfill the criteria to apply sale-leaseback accounting under ASC 840. Therefore, at completion, the building remained on the Consolidated Condensed Balance Sheet, and the corresponding financing obligation was reclassified to long-term liability. As of December 29, 2018, we recorded a financing obligation of $15.8 million. The financing obligation is not reflected in the table above.

(3) Associated with the one-time transition tax of our foreign subsidiaries in relation to the Act. (Refer to Note 12 of Item 1).

(4) Asset retirement obligations are associated with commitments to return the property to its original condition upon lease termination at various sites.

Off-Balance Sheet Arrangements

Credit facilities and Bank Guarantees

On November 22, 2013, the Company obtained a $5.0 million credit facility with Citibank in connection with the issuance of bank guarantees for operational purposes. As of December 29, 2018, the outstanding amount is $3.0 million. In addition, the Company has other bank guarantees for operational purposes which are secured with corresponding deposits placed with the issuer banks. These amounts are shown as restricted cash in the Consolidated Condensed Balance Sheets.

As of December 29, 2018, we did not have any other off-balance sheet arrangements, such as contingent interests or obligations associated with variable interest entities.

Item 3. - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our available-for-sale securities, if applicable, may consist of short-term investments in highly rated debt instruments of the U.S. Government and its agencies, financial institutions, and corporations. We continually monitor our exposure to changes in interest rates and credit ratings of issuers with respect to any available-for-sale securities and target an average life to maturity of less than 18 months. Accordingly, we believe that the effects on us of changes in interest rates and credit ratings of issuers are limited and would not have a material impact on our financial condition or results of operations.

Foreign Currency Risk

Our international operations are exposed to changes in foreign currency exchange rates due to transactions denominated in currencies other than the location's functional currency. Our international operations are also exposed to foreign currency fluctuations that impact the remeasurement of net monetary assets of those operations whose functional currency, the U.S. dollar, differs from their respective local currencies, most notably in Israel, Malaysia, Singapore and Switzerland. In addition to net monetary remeasurement, we have exposures related to the translation of subsidiary financial statements from their functional currency, the local currency, into its reporting currency, the U.S. dollar, most notably in the Netherlands, China, Taiwan, Japan and Germany. Our U.S. operations also have foreign currency exposure due to net monetary assets denominated in currencies other than the U.S. dollar.

Based on our foreign currency exposure as of December 29, 2018, a 10.0% fluctuation could impact our financial position, results of operations or cash flows by $1.0 to $2.0 million. Our attempts to hedge against these risks may not be successful and may result in a material adverse impact on our financial results and cash flow.

We enter into foreign exchange forward contracts to hedge a portion of our forecasted foreign currency-denominated expenses in the normal course of business and, accordingly, they are not speculative in nature. These instruments generally mature within twelve months. We have foreign exchange forward contracts with a notional amount of $32.5 million outstanding as of December 29, 2018.

Table of Contents

Item 4. - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 29, 2018. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 29, 2018 our disclosure controls and procedures were effective in providing reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure.

Changes in Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

In connection with the evaluation by our management, including with the participation of our Chief Executive Officer and Chief Financial Officer, of our internal control over financial reporting, no changes during the three months ended December 29, 2018 were identified to have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. - OTHER INFORMATION

Item 1A. - RISK FACTORS

Certain Risks Related to Our Business

There have been no material changes from the risk factors discussed in Part I, Item 1A, “Risk Factors”, of our 2018 Annual Report on Form 10-K.

Item 2. - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes the repurchases of common stock during the three months ended December 29, 2018 (in millions, except number of shares, which are reflected in thousands, and per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (1)
September 30, 2018 to October 27, 2018	346	$ 21.67	346	$ 90.2
October 28, 2018 to December 1, 2018	459	$ 20.84	459	$ 80.6
December 2, 2018 to December 29, 2018	428	$ 19.69	428	$ 72.2
For the three months ended December 29, 2018	1,233		1,233	

(1) On August 15, 2017, the Company's Board of Directors authorized a program (the "Program") to repurchase of up to $100 million in total of the Company's common stock on or before August 1, 2020. On July 10, 2018, the Board of Directors increased the share repurchase authorization under the Program to $200 million. The Company may purchase shares of its common stock through open market and privately negotiated transactions at prices deemed appropriate by management. The Company has entered into a written trading plan under Rule 10b5-1 of the Exchange Act to facilitate repurchases under the Program. The Program may be suspended or discontinued at any time and will be funded using the Company's available cash, cash equivalents and short-term investments. The timing and amount of repurchase transactions under the Program depend on market conditions as well as corporate and regulatory considerations.

Table of Contents

Item 6. - EXHIBITS

Exhibit No.	Description
31.1	Certification of Fusen Chen, Chief Executive Officer of Kulicke and Soffa Industries, Inc., pursuant to Rule 13a-14(a) or Rule15d-14(a).
31.2	Certification of Lester Wong, Chief Financial Officer of Kulicke and Soffa Industries, Inc., pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32.1	Certification of Fusen Chen, Chief Executive Officer of Kulicke and Soffa Industries, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Lester Wong, Chief Financial Officer of Kulicke and Soffa Industries, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

Table of Contents

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.

KULICKE AND SOFFA INDUSTRIES, INC.

Date: February 1, 2019 By: /s/ LESTER WONG

Lester Wong

Senior Vice President, Chief Financial Officer and General Counsel

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification of Fusen Chen, Chief Executive Officer of Kulicke and Soffa Industries, Inc., pursuant to Rule 13a-14(a) or Rule15d-14(a).
31.2	Certification of Lester Wong, Chief Financial Officer of Kulicke and Soffa Industries, Inc., pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32.1	Certification of Fusen Chen, Chief Executive Officer of Kulicke and Soffa Industries, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Lester Wong, Chief Financial Officer of Kulicke and Soffa Industries, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

40

> 22,080

Provision for income taxes

4,707 952 5,659

Net income			
	$14,993	$1,428	$16,421

Total non-fiduciary assets of the trust and investment services segment were $3.7 million and $4.0 million at March 31, 2015 and 2014, respectively. All other assets, including goodwill and other intangible assets, were allocated to the community banking segment.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s Discussion and Analysis (MD&A) represents an overview of the results of operations and financial condition of WesBanco for the three months ended March 31, 2015. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

FORWARD-LOOKING STATEMENTS

Forward-looking statements in this report relating to WesBanco s plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The information contained in this report should be read in conjunction with WesBanco s Form 10-K for the year ended December 31, 2014 and documents subsequently filed by WesBanco with the Securities and Exchange Commission (SEC), which are available at the SEC s website, www.sec.gov or at WesBanco s website, www.wesbanco.com. Investors are cautioned that forward-looking statements, which are not historical fact, involve risks and uncertainties, including those detailed in WesBanco s most recent Annual Report on Form 10-K filed with the SEC under Risk Factors in Part I, Item 1A. Such statements are subject to important factors that could cause actual results to differ materially from those contemplated by such statements, including, without limitation, that the businesses of WesBanco and ESB may not be integrated successfully or such integration may take longer to accomplish than expected; the expected cost savings and any revenue synergies from the merger of WesBanco and ESB may not be fully realized within the expected timeframes; disruption from the merger of WesBanco and ESB may make it more difficult to maintain relationships with clients, associates, or suppliers; the effects of changing regional and national economic conditions; changes in interest rates, spreads on earning assets and interest-bearing liabilities, and associated interest rate sensitivity; sources of liquidity available to WesBanco and its related subsidiary operations; potential future credit losses and the credit risk of commercial, real estate, and consumer loan customers and their borrowing activities; actions of the Federal Reserve Board, the Federal Deposit Insurance Corporation, the SEC, the Financial Institution Regulatory Authority, the Municipal Securities Rulemaking Board, the Securities Investors Protection Corporation, and other regulatory bodies; potential legislative and federal and state regulatory actions and reform, including, without limitation, the impact of the implementation of the Dodd-Frank Act; adverse decisions of federal and state courts; fraud, scams and schemes of third parties; internet hacking; competitive conditions in the financial services industry; rapidly changing technology affecting financial services; marketability of debt instruments and corresponding impact on fair value adjustments; and/or other external developments materially impacting WesBanco s operational and financial performance. WesBanco does not assume any duty to update forward-looking statements.

OVERVIEW

WesBanco is a multi-state bank holding company operating through 142 branches, one loan production office and 130 ATM machines in West Virginia, Ohio and western Pennsylvania, offering retail banking, corporate banking, personal and corporate trust services, brokerage services, mortgage banking and insurance. WesBanco s businesses are significantly impacted by economic factors such as market interest rates, federal monetary and regulatory policies, local and regional economic conditions and the competitive environment s effect upon WesBanco s business volumes. WesBanco s deposit levels are affected by numerous factors including personal savings rates, personal income, and competitive rates on alternative investments, as well as competition from other financial institutions within the markets we serve and liquidity needs of WesBanco. Loan levels are also subject to various factors including construction demand, business financing needs, consumer spending and interest rates, as well as loan terms offered by competing lenders.

On February 10, 2015, WesBanco completed the acquisition of ESB a Pennsylvania savings bank holding company, headquartered in Ellwood City, Lawrence County, northwest of Pittsburgh, PA, with approximately $1.9 billion in assets and 23 offices in four southwestern PA counties, three of which are in the Pittsburgh Metropolitan Statistical Area (MSA). WesBanco now has $8.2 billion in total assets; the transaction expanded WesBanco s franchise in western Pennsylvania from 16 to 38 offices with approximately $1.7 billion in total deposits. ESB s results were included in WesBanco s results from the date of the consummation of the merger.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

WesBanco s critical accounting policies involving the significant judgments and assumptions used in the preparation of the Consolidated Financial Statements as of March 31, 2015 have remained unchanged from the disclosures presented in WesBanco s Annual Report on Form 10-K for the year ended December 31, 2014 within the section Management s Discussion and Analysis of Financial Condition and Results of Operations.

RESULTS OF OPERATIONS

EARNINGS SUMMARY

Net income for the three months ended March 31, 2015 was $13.9 million, while diluted earnings per share were $0.40, compared to $16.4 million or $0.56 per share for the first quarter of 2014. After tax merger-related expenses of $6.3 million, and temporary extra operating costs of approximately $0.5 million associated with ESB were the reasons for the decrease in net income in the first quarter. Net income for the three months ended March 31, 2015, excluding after-tax merger-related expenses, was $20.2 million (non-GAAP measure) compared to $16.4 million for the first quarter of 2014, representing an increase of 23.1%. Diluted earnings per share, excluding after-tax merger-related expenses, were $0.59 (non-GAAP measure), compared to $0.56 per share for the first quarter of 2014.

	For the Three Months Ended March 31,			
	2015		2014	
(unaudited, dollars in thousands, except per share amounts)	**Net Income**	**Diluted Earnings Per Share**	**Net Income**	**Diluted Earnings Per Share**
Net income, excluding after-tax merger-related expenses (Non-GAAP) [1]	$ 20,213	$ 0.59	$ 16,421	$ 0.56
Less: After tax merger-related expenses	(6,326)	(0.19)		
Net income (GAAP)	$ 13,887	$ 0.40	$ 16,421	$ 0.56

(1) The above non-GAAP financial measures used by WesBanco provide information useful to investors in understanding WesBanco s operating performance and trends, and facilitate comparisons with the performance of WesBanco s peers.

Net interest income increased $7.6 million or 16.1% in the first quarter of 2015 compared to the first quarter of 2014 due to a 16.9% increase in average earning assets, primarily through the ESB acquisition, and through a 6.4% increase in average loan balances, exclusive of ESB, slightly offset by a 4 basis point decrease in the net interest margin. Growth in net interest income has been consistent. The first quarter of 2015 is the seventh consecutive quarter that net interest income has increased. The net interest margin decreased to 3.59% in the first quarter compared to 3.63% in the same quarter of 2014. The net interest margin has ranged from 3.64% to 3.58% over the last five quarters as reduced funding costs have generally exceeded the effect of lower rates on newly acquired securities and loans. In addition, the aforementioned loan growth improves asset yields as the average rate on loans is higher than the average rate on securities. Funding costs continued to decrease in 2015 as a result of a 14.2% increase in average lower-cost demand, money market and savings account deposits, while higher-cost CDs increased by only 8.6%, entirely due to the ESB acquisition. The average rate on CDs declined by 27 basis points as higher-rate CDs matured. Overall, average deposits increased by 12.6% in the first quarter of 2015 compared to the same quarter of 2014. In addition, a 20.0% reduction in higher-rate average other borrowings improved funding costs through the prepayment of a higher-rate $22.0 million repurchase agreement with another bank in the third quarter of 2014, and through maturities. Increased average FHLB borrowings in the first quarter were generally short to medium-term with an average rate lower than the average CD rate. The increase in other interest income was due to FHLB special dividends totaling $0.6 million received in the first quarter. Excluding accretion of various purchase accounting adjustments relating to recent acquisitions, the net interest margin would have been 3.49% in the first quarter of 2015 compared to 3.58% for the same quarter of 2014. The reduction is primarily due to asset and liability mix shifts post-ESB, with a greater percentage of lower-yielding investment securities and a greater percentage of CDs versus lower-cost deposits. Loan accretion included in interest income on acquired ESB loans is estimated to approximate $1.9 million in 2015, while accretion of $2.9 million is estimated on acquired ESB interest bearing liabilities in 2015, primarily CDs.

Continued improvement in the credit quality of the pre-acquisition legacy portfolio resulted in a provision for credit losses of $1.3 million in the first quarter of 2015 compared to $2.2 million in the same quarter of 2014. Net charge-offs for the first three months of 2015 were $1.7 million or 0.16% of average portfolio loans compared to $4.1 million or 0.43% in the first quarter of 2014.

For the first quarter of 2015, non-interest income increased $1.1 million or 6.7% compared to the first quarter of 2014. Trust fees increased $0.4 million or 7.2% for the quarter as assets under management continued to increase from customer development initiatives and overall market improvements. Total trust assets were $3.9 billion at March 31, 2015, representing an increase of 2.7% from March 31, 2014. Net securities brokerage revenues increased $0.2 million or 12.6%, due to significant production increases from the addition of support and sales staff in several regions, as well as an increase in referrals and production from a licensed retail banker program. Bank-owned life insurance increased $0.4 million or 43.0%, primarily due to a death claim in the first quarter, and electronic banking fees increased $0.3 million or 10.4%. Mortgage

loan sale gains increased slightly, as production increased from last year s first quarter. Service charges on deposits decreased $0.2 million or 5.4% compared to the 2014 first quarter due to lower overdraft fees that are affected by customer usage patterns and consistent increases in deposit levels and higher average deposits per account.

In the first quarter of 2015, non-interest expense increased $13.3 million compared to the first quarter of 2014 due to normal operating expenses from the ESB acquisition and $9.7 million of merger-related expenses. Excluding merger-related expenses, non-interest expense increased just $3.6 million or 9.0%, primarily due to the ESB acquisition, with approximately $0.7 million of such increase related to post-merger personnel and IT costs that will be immediately saved as a result of the April 24 weekend systems and branch conversions. Salaries and wages increased $1.9 million or 11.5%, due to an 8.6% increase in average full-time equivalent employees, routine annual adjustments to compensation, and increased commissions on higher brokerage sales, partially offset by increased deferred loan costs. Employee benefits expense increased $1.6 million or 28.2%, primarily from increased pension, health insurance and other benefit plan costs. Even with the ESB acquisition, net occupancy, marketing and other expenses were down from last year due to efficiencies applied in several of our vendor contracts, lower real estate owned (REO) costs, marketing campaign timing and other seasonal factors. The merger of ESB s information systems into WesBanco s will result in additional cost savings beyond those noted above over the course of the next 12 18 months.

Table of Contents

The provision for income taxes in the first quarter of 2015 included a credit of $0.5 million relating to the completion of an IRS audit which closed the 2011 and 2012 tax years. As a result, the effective tax rate decreased to 24.59% compared to 25.63% for the first quarter of 2014.

NET INTEREST INCOME

TABLE 1. NET INTEREST INCOME

	For the Three Months Ended March 31,	
(unaudited, dollars in thousands)	**2015**	**2014**
Net interest income	**$ 54,955**	$ 47,325
Taxable equivalent adjustments to net interest income	**1,902**	1,823
Net interest income, fully taxable equivalent	**$ 56,857**	$ 49,148
Net interest spread, non-taxable equivalent	**3.38%**	3.39%
Benefit of net non-interest bearing liabilities	**0.09%**	0.11%
Net interest margin	**3.47%**	3.50%
Taxable equivalent adjustment	**0.12%**	0.13%
Net interest margin, fully taxable equivalent	**3.59%**	3.63%

Net interest income, which is WesBanco s largest source of revenue, is the difference between interest income on earning assets, primarily loans and securities, and interest expense on liabilities (deposits and short and long-term borrowings). Net interest income is affected by the general level and changes in interest rates, the steepness and shape of the yield curve, changes in the amount and composition of interest earning assets and interest bearing liabilities, as well as the frequency of repricing of existing assets and liabilities. Net interest income increased $7.6 million or 16.1% in the first quarter of 2015 compared to the first quarter of 2014 due to a 16.9% increase in average earning assets, primarily through the ESB acquisition, and through a 6.4% increase in average portfolio loan balances, exclusive of ESB. The increase was slightly offset by a 4 basis point decrease in the net interest margin. Average loan balances increased by $629.1 million or 16.2% from the first quarter of 2014, of which $243.6 million of the increase was from organic loan growth. Total average deposits increased by $645.4 million or 12.6% as all major categories within deposits increased. Excluding the ESB acquisition, average certificates of deposit, which have the highest interest cost among interest bearing deposits, decreased by $214.4 million or 14.2%, while all other deposit types increased by $184.9 million or 5.1%. These lower-cost and non-interest bearing deposit increases were the result of marketing campaigns, customer incentives, wealth management and business initiatives as well as deposits from Marcellus and Utica shale gas bonus and royalty payments. The net interest margin decreased to 3.59% in the first quarter of 2015 from 3.63% in the same period of 2014. The reduction is primarily due to asset and liability mix shifts post-ESB. The cost of funds continued to improve, declining 13 basis points from the first quarter of 2014 due to lower offered rates, increases in the percentage of lower-cost and non-interest bearing deposit balances to total deposits and lower rates on FHLB and other borrowings.

Interest income increased in the first quarter of 2015 by $6.9 million or 13.0% compared to the same period in 2014 due to higher average balances of earning assets acquired both in the ESB acquisition and organically, offset by lower yields on loans and the investment portfolio. Rates decreased 18 basis points in the first quarter on average loan balances from reduced rates on acquired, organic and repriced assets due to the necessity of offering lower rates on quality credits in an increasingly competitive and low interest rate environment. However, the increase in average loans helped to mitigate the effect of the lower rates, as rates earned on loans are higher than those on securities. In the first quarter of 2015, average loans represented 70.3% of average earning assets, a slight decrease compared to 70.7% in the same quarter of 2014 due to the acquired loan portfolio being smaller than the acquired investment portfolio. Total securities yields decreased by 22 basis points in the first quarter of 2015 from the same period in 2014 due to the ESB acquisition, net of sales, and the reinvestment of funds from pre-acquisition portfolio restructuring at current lower available interest rates. Within the investment portfolio, the average rate declined on taxable and tax-exempt securities by 12 and 29 basis points, respectively, from the first quarter of 2014, offset somewhat by the aforementioned higher average balances in each category. The average balance of tax-exempt securities, which provide the highest yield within securities, increased 10.5% or $42.1 million over the last year, but were only 23.9% of total average securities in the first quarter of 2015 compared to 26.0% in the first quarter of 2014, contributing to the overall lower yield on total securities. Taxable securities balances increased by $269.2 million or 23.6% from the first quarter of 2014 as a significant portion of the acquired securities consisted of 10-15 year residential mortgage pools. Shorter-term mortgage pools reduce the average life of the portfolio, particularly for the portion accounted for as available-for-sale, positioning the Bank for

possible future increases in interest rates, while maintaining required levels of pledgeable securities.

Portfolio loans increased $986.6 million in the twelve months ended March 31, 2015 with $699.0 million from the ESB acquisition and $287.6 million or 7.4% from loan growth exclusive of ESB as originations continued to outpace paydowns. Organic loan growth from December 31, 2014, annualized was 8.7%, primarily due to $357 million in loan originations for the first quarter compared to $273 million last year. Loan growth was driven by increased business activity, additional commercial and lending personnel in our urban markets, focused marketing efforts, and continued improvement in loan origination processes, while paydowns decreased.

Interest expense decreased $0.7 million or 11.5% in the first quarter of 2015 compared to the same period in 2014 due to decreases in average rates paid, and a continued shift in the liability mix towards less expensive sources of funding; offset slightly by an increase in average balances of interest bearing deposits and FHLB borrowings. Total average interest bearing liabilities increased $763.6 million or 17.3% in the first quarter due to deposits from the ESB acquisition, increased organic deposits and increased short to medium-term FHLB borrowings. The average rate paid on

interest bearing liabilities decreased 13 basis points in the first quarter of 2015 compared to the same period in 2014. Rates paid on interest bearing deposits declined by 11 basis points to 0.34% in the first quarter due to a significant decline in rates on certificates of deposit, as a result of management reducing offered rates and the repricing, through purchase accounting, of acquired CDs on the acquisition date at lower market rates. The average rate paid on certificates of deposit declined by 27 basis points from the first quarter of 2014, while the rates paid on other deposit types remained nearly unchanged. Improvements in the deposit funding mix also lowered the cost of funds, with average certificates of deposit decreasing to 28.3% of total average deposits from 29.3% in the first quarter of last year, even after the acquisition of ESB. Average CDs increased by only 8.6%, entirely due to the ESB acquisition, as average demand, money market and savings deposits increased by 14.2%. WesBanco continues to focus on reducing rate offerings and growing customers with multiple banking relationships, as opposed to single service certificates of deposit customers. In addition, non-interest bearing demand deposits increased to 20.1% of total average deposits in the first quarter of 2015 compared to 19.2% in the same period of 2014. Average total other borrowings decreased by $23.0 million or 20.0% in the first quarter which further improved funding costs due to the prepayment of a higher-rate $22.0 million repurchase agreement with another bank in the third quarter of 2014. Average FHLB borrowings increased in the first quarter of 2015 to manage normal liquidity needs and were generally short to medium-term with an average rate of 0.68%, which is lower than the average CD rate.

TABLE 2. AVERAGE BALANCE SHEETS AND NET INTEREST MARGIN ANALYSIS

	For the Three Months Ended March 31,			
	2015		2014	
(unaudited, dollars in thousands)	Average Balance	Average Rate	Average Balance	Average Rate
ASSETS				
Due from banks - interest bearing	**$ 29,585**	**0.14%**	$ 51,149	0.17%
Loans, net of unearned income (1)	**4,502,920**	**4.30%**	3,873,789	4.48%
Securities: (2)				
Taxable	**1,410,138**	**2.41%**	1,140,982	2.53%
Tax-exempt (3)	**441,923**	**4.92%**	399,794	5.21%
Total securities	**1,852,061**	**3.01%**	1,540,776	3.23%
Other earning assets (4)	**17,817**	**14.03%**	11,568	2.73%
Total earning assets (3)	**6,402,383**	**3.93%**	5,477,282	4.08%
Other assets	**1,128,712**		709,216	
Total Assets	**$ 7,531,095**		$ 6,186,498	
LIABILITIES AND SHAREHOLDERS EQUITY				
Interest bearing demand deposits	**$ 1,041,608**	**0.16%**	$ 887,518	0.17%
Money market accounts	**978,086**	**0.19%**	945,412	0.19%
Savings deposits	**962,987**	**0.06%**	808,710	0.07%
Certificates of deposit	**1,633,854**	**0.71%**	1,504,605	0.98%
Total interest bearing deposits	**4,616,535**	**0.34%**	4,146,245	0.45%
Federal Home Loan Bank borrowings	**331,703**	**0.68%**	35,028	2.44%
Other borrowings	**92,307**	**0.33%**	115,326	1.96%
Junior subordinated debt	**125,826**	**2.88%**	106,141	3.02%
Total interest bearing liabilities (1)	**5,166,371**	**0.43%**	4,402,740	0.56%
Non-interest bearing demand deposits	**1,158,228**		983,096	
Other liabilities	**249,660**		41,821	
Shareholders equity	**956,836**		758,841	

Total Liabilities and Shareholders Equity	**$ 7,531,095**	$ 6,186,498
Taxable equivalent net interest spread	**3.50%**	3.52%
Taxable equivalent net interest margin	**3.59%**	3.63%

(1) Gross of allowance for loan losses and net of unearned income. Includes non-accrual and loans held for sale. Loan fees included in interest income on loans totaled $1.1 million and $0.9 million for the three months ended March 31, 2015 and 2014, respectively. Additionally, loan accretion included in net interest income on loans acquired from prior acquisitions was $0.8 million and $0.4 million for the three months ended March 31, 2015 and 2014, respectively, while accretion on interest bearing liabilities from prior acquisitions was $0.8 million and $0.2 million for the three months ended March 31, 2015 and 2014, respectively.

(2) Average yields on available-for-sale securities are calculated based on amortized cost and include premium amortization and discount accretion from prior acquisitions.

(3) Taxable equivalent basis is calculated on tax-exempt securities using a tax rate of 35% for each year presented.

(4) Interest income on other earning assets includes $0.6 million from a special dividend from FHLB Pittsburgh for the three months ended March 31, 2015.

Table of Contents

TABLE 3. RATE/VOLUME ANALYSIS OF CHANGES IN INTEREST INCOME AND INTEREST EXPENSE

	Three Months Ended March 31, 2015 Compared to March 31, 2014		
(unaudited, in thousands)	Volume	Rate	Net Increase (Decrease)
Increase (decrease) in interest income:			
Due from banks - interest bearing	$ (7)	$ (5)	$ (12)
Loans, net of unearned income	6,720	(1,753)	4,967
Taxable securities	1,636	(363)	1,273
Tax-exempt securities [1]	528	(300)	228
Other earning assets	67	479	546
Total interest income change [1]	8,944	(1,942)	7,002
Increase (decrease) in interest expense:			
Interest bearing demand deposits	63	(15)	48
Money market accounts	16		16
Savings deposits	24	(6)	18
Certificates of deposit	291	(1,049)	(758)
Federal Home Loan Bank borrowings	599	(253)	346
Other borrowings	(93)	(389)	(482)
Junior subordinated debt	141	(37)	104
Total interest expense change	1,041	(1,749)	(708)
Net interest income increase (decrease) [1]	$ 7,903	$ (193)	$ 7,710

(1) Taxable equivalent basis is calculated on tax-exempt securities using a tax rate of 35% for each year presented.

PROVISION FOR CREDIT LOSSES

The provision for credit losses is the amount to be added to the allowance for credit losses after net charge-offs have been deducted to bring the allowance to a level considered appropriate to absorb probable losses in the loan portfolio. The provision for credit losses also includes the amount to be added to the reserve for loan commitments to bring that reserve to a level considered appropriate to absorb probable losses on unfunded commitments. Continued improvement in the credit quality of the pre-acquisition legacy portfolio resulted in a provision for credit losses of $1.3 million in the first quarter of 2015 compared to $2.2 million in the same quarter of 2014. Net charge-offs for the first three months of 2015 were $1.7 million or 0.16% of average portfolio loans compared to $4.1 million or 0.43% in the first quarter of 2014. Legacy non-performing loans, including TDRs, as well as criticized and classified loans, also improved as a percentage of total portfolio loans from their pre-acquisition levels in the fourth quarter of 2014. (Please see the Allowance for Credit Losses section of this MD&A for additional discussion).

NON-INTEREST INCOME

TABLE 4. NON-INTEREST INCOME

(unaudited, dollars in thousands)	**For the Three Months Ended March 31, 2015**	**2014**	**$ Change**	**% Change**
Trust fees	**$ 6,053**	$ 5,648	$ 405	7.2
Service charges on deposits	**3,652**	3,860	(208)	(5.4)
Electronic banking fees	**3,325**	3,013	312	10.4
Net securities brokerage revenue	**2,059**	1,829	230	12.6
Bank-owned life insurance	**1,251**	875	376	43.0
Net gains on sales of mortgage loans	**272**	154	118	76.6
Net securities gains	**22**	10	12	120.0
Net gain on other real estate owned and other assets	**122**	113	9	8.0
Net insurance services revenue	**862**	741	121	16.3
Other	**572**	806	(234)	(29.0)
Total non-interest income	**$ 18,190**	$ 17,049	$ 1,141	6.7

Non-interest income is a significant source of revenue and an important part of WesBanco s results of operations. WesBanco offers its customers a wide range of retail, commercial, investment and electronic banking services, which are viewed as a vital component of WesBanco s ability to attract and maintain customers, as well as providing additional fee income beyond normal spread-related income to WesBanco. For the first quarter of 2015, non-interest income increased $1.1 million or 6.7% compared to the first quarter of 2014. The increase was primarily due to improved trust fee income and securities brokerage revenue, a $0.4 million bank-owned life insurance death benefit and a 10.4% increase in electronic banking fees, while service charges on deposits decreased due to lower overdraft fees affected by customer usage and increases in customer deposits.

Trust fees increased $0.4 million or 7.2% as assets under management continued to increase from customer development initiatives and overall market improvements. Total trust assets were up 2.7% from $3.8 billion at March 31, 2014 to $3.9 billion at March 31, 2015. At March 31, 2015, trust assets include managed assets of $3.2 billion and non-managed (custodial) assets of $0.7 billion. Assets managed for the WesMark Funds, a proprietary group of mutual funds that is advised by WesBanco s trust and investment services group, were $961.0 million as of March 31, 2015 and $915.1 million at March 31, 2014 and are included in trust managed assets.

Service charges on deposits decreased 5.4% for the quarter compared to the first quarter of 2014 due to lower overdraft fees that were affected by lower customer usage patterns, implementation of certain FDIC guidelines for overdraft products, consistent increases in deposit levels and higher average deposits per account. The acquisition somewhat mitigated these factors.

Electronic banking fees, which include debit card interchange fees, continued to grow, increasing 10.4% compared to the first quarter of 2014, due to a higher volume of debit card transactions from the acquisition and WesBanco s legacy customers. The volume increase is due to marketing and process initiatives and as customers move more towards electronic transactions and a higher percentage of customers using these products.

Net securities brokerage revenue increased $0.2 million or 12.6% from the first quarter of 2014 due to significant production increases from existing markets, additional market coverage in the expanded western Pennsylvania market, the addition of support and producing staff in several regions, as well as an increase in referrals and production from a licensed retail banker program.

Net gains on sales of mortgage loans increased 76.6% compared to the three months ended March 31, 2014 due to increased production and a greater volume of loans sold into the secondary market, despite the recently-adopted Qualified Mortgage and Ability-to-Repay rules, which have somewhat limited our product offerings and overall loan approvals. Total mortgage production was $80.5 million in the first quarter of 2015, up 74.3% from the comparable 2014 quarter. Mortgages sold into the secondary market represented $22.9 million or 28.4% of overall mortgage loan production in the first quarter of 2015 compared to $17.1 million or 37.0% in the first quarter of 2014.

Table of Contents

NON-INTEREST EXPENSE

TABLE 5. NON-INTEREST EXPENSE

	For the Three Months Ended March 31,			
(unaudited, dollars in thousands)	**2015**	**2014**	**$ Change**	**% Change**
Salaries and wages	**$ 18,357**	$ 16,467	$ 1,890	11.5
Employee benefits	**7,316**	5,708	1,608	28.2
Net occupancy	**3,490**	3,491	(1)	(0.0)
Equipment	**2,973**	2,783	190	6.8
Marketing	**965**	1,003	(38)	(3.8)
FDIC insurance	**910**	877	33	3.8
Amortization of intangible assets	**566**	495	71	14.3
Restructuring and merger-related expenses	**9,733**		9,733	100.0
Miscellaneous, franchise, and other taxes	**1,561**	1,626	(65)	(4.0)
Postage	**788**	841	(53)	(6.3)
Consulting, regulatory, accounting and advisory fees	**1,330**	1,144	186	16.3
Other real estate owned and foreclosure expenses	**170**	259	(89)	(34.4)
Legal fees	**541**	658	(117)	(17.8)
Communications	**346**	521	(175)	(33.6)
ATM and interchange expenses	**1,021**	1,102	(81)	(7.4)
Supplies	**637**	626	11	1.8
Other	**2,737**	2,494	243	9.7
Total non-interest expense	**$ 53,441**	$ 40,095	$ 13,346	33.3

Non-interest expense increased $13.3 million in the first quarter compared to the first quarter of 2014 due to normal operating expenses from the ESB acquisition and $9.7 million of merger-related expenses. Total non-interest expense would have increased $3.6 million or 9.0% for the quarter without merger-related expenses, to a large extent due to the normal operating expenses from the 23 ESB offices acquired in the Pittsburgh area and increased revenue generation activity throughout the organization. Even with the ESB acquisition, other expenses including marketing, communications, and legal were down from last year due to efficiencies applied in several of our vendor contracts, lower REO costs and marketing campaign timing. The merger of ESB s information systems into WesBanco s will result in additional cost savings beyond those noted above over the course of the next 12 18 months as per our earlier announced plans.

Salaries and wages increased $1.9 million or 11.5% from the first quarter of 2014 due to an 8.6% increase in average full-time equivalent employees, with approximately $0.5 million of such increase related to post-merger personnel costs that will be immediately saved as a result of the April 24 weekend systems and branch conversions. In addition, routine annual adjustments to compensation and increased brokerage revenue commissions increased over the prior comparable period. Employee benefit expenses increased 28.2%, primarily from increased pension, health insurance and other benefit plan costs as well as the addition of ESB s personnel.

Net occupancy and equipment expense increased $0.2 million or 3.0% due to increased depreciation and other maintenance costs resulting primarily from the 23 ESB offices. In addition, new teller cash recycling machines continue to be introduced into our branches, which have improved the speed of customer service, improved cash controls and reduced full-time equivalent employees.

Amortization of intangible assets increased due to the ESB acquisition, which added approximately $5.3 million in core deposit intangibles.

Restructuring and merger-related expenses of $9.7 million in 2015 related to the ESB acquisition include $7.5 million in executive change-in-control and employee severance expenses, $1.7 million in investment banking services, $0.2 million in legal expenses, and $0.3 million of various other merger-related expenses.

Other real estate owned and foreclosure expenses decreased $0.1 million in 2015 compared to 2014 due to lower foreclosure and liquidation activity. Other real estate owned and repossessed assets increased $0.8 million from the first quarter of 2014 to $6.2 million due to the ESB

acquisition, which added approximately $1.4 million.

Communications expense decreased 33.6% from the first quarter of 2014 due to the implementation of a company-wide modernization of the communication infrastructure during 2014.

Table of Contents

INCOME TAXES

The provision for federal and state income taxes was $4.5 million in 2015 compared to $5.7 million in the first quarter of 2014. The decrease in income tax expense was due to a decrease in pre-tax income, from merger-related expenses of $9.7 million, and a $0.5 million benefit relating to the completion of an IRS audit which closed the 2011 and 2012 tax years, which resulted in an effective tax rate of 24.6% for 2015 compared to 25.6% for 2014. The effective tax rate is anticipated to range between 26.5% and 27.5% for the remainder of 2015.

FINANCIAL CONDITION

Total assets increased 30.8% during the quarter, while deposits and shareholders equity increased 27.1% and 38.5%, respectively, compared to December 31, 2014 primarily due to the acquisition of ESB. Total loans increased $787.2 million or 19.2% with $699.0 million from the ESB acquisition and the remaining $88.2 million from WesBanco s originations outpacing pay downs, which were a result of increased business activity, additional lending personnel, focused marketing efforts, an expanded presence in larger urban markets, and continued improvement in the loan origination process. Deposits increased $1.4 billion, with $1.2 billion from the ESB acquisition and $134.9 million from organic growth. The organic growth in deposits resulted from a 5.8% increase in demand deposits, a 3.8% increase in savings deposits and a 2.6% increase in money market deposits, which more than offset the 2.6% decrease in certificates of deposit due to lower rate offerings on maturities. The increase in demand deposits, savings deposits and money market deposits were attributable to marketing, incentives paid to customers, focused retail and business strategies to obtain more account relationships, and customers preference for short-term maturities, coupled with initial deposits from bonus and royalty payments for Marcellus and Utica shale gas payments from energy companies in WesBanco s southwestern Pennsylvania, eastern Ohio and northern West Virginia markets. Total borrowings increased 58.9% during the quarter. FHLB borrowings increased $209.3 million from December 31, 2014, due primarily to $173.9 million in new borrowings, coupled with $35.4 million in FHLB borrowings provided from the ESB acquisition. New borrowings were utilized to manage WesBanco s normal liquidity needs, including loan and investment funding, as well as certificates of deposit runoff. Total shareholders equity increased by approximately $303.2 million or 38.5%, compared to December 31, 2014, primarily due to $293.6 million of common stock issued in the ESB acquisition and net income exceeding dividends for the period by $5.0 million, coupled with $5.2 million of additional unrealized gains in accumulated other comprehensive income.

Table of Contents

TABLE 6. COMPOSITION OF SECURITIES (1)

(unaudited, dollars in thousands)	March 31, 2015	December 31, 2014	$ Change	% Change
Available-for-sale (at fair value)				
Obligations of government agencies	**$ 80,768**	$ 87,736	$ (6,968)	(7.9)
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies	**1,283,445**	701,113	582,332	83.1
Obligations of states and political subdivisions	**95,653**	91,433	4,220	4.6
Corporate debt securities	**183,090**	25,996	157,094	604.3
Total debt securities	**1,642,956**	906,278	736,678	81.3
Equity securities	**11,308**	11,146	162	1.5
Total available-for-sale securities	**$ 1,654,264**	$ 917,424	$ 736,840	80.3
Held-to-maturity (at amortized cost)				
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies	**$ 126,935**	$ 79,004	$ 47,931	60.7
Obligations of states and political subdivisions	**610,249**	507,927	102,322	20.1
Corporate debt securities	**6,741**	6,739	2	0.0
Total held-to-maturity securities	**743,925**	593,670	150,255	25.3
Total securities	**$ 2,398,189**	$ 1,511,094	$ 887,095	58.7
Available-for-sale securities:				
Weighted average yield at the respective period end (2)	**2.06%**	2.34%		
As a % of total securities	**69.0%**	60.7%		
Weighted average life (in years)	**4.1**	4.0		
Held-to-maturity securities:				
Weighted average yield at the respective period end (2)	**4.29%**	4.67%		
As a % of total securities	**31.0%**	39.3%		
Weighted average life (in years)	**5.0**	5.1		
Total securities:				
Weighted average yield at the respective period end (2)	**2.76%**	3.27%		
As a % of total securities	**100.0%**	100.0%		
Weighted average life (in years)	**4.4**	4.4		

(1) At March 31, 2015 and December 31, 2014, there were no holdings of any one issuer, other than the U.S. government and certain federal or federally-related agencies, in an amount greater than 10% of WesBanco s shareholders equity.

(2) Weighted average yields have been calculated on a taxable-equivalent basis using the federal statutory tax rate of 35%.

Total investment securities, which are a source of liquidity for WesBanco as well as a contributor to interest income, increased by $887.1 million or 58.7% from December 31, 2014 to March 31, 2015. This increase is attributable to the ESB acquisition. On the date of merger, the investment portfolio increased by $486.9 million. Portfolio restructuring on the acquired portfolio began prior to merger, and continued after the merger which resulted in purchases of $457.2 million in the first quarter. Offsetting the acquired securities and purchases in the first quarter were maturities, paydowns, and calls that totaled $62.2 million. Through the first quarter, the available-for-sale portfolio increased by $736.8 million or 80.3%, while the held-to-maturity portfolio increased by $150.3 million or 25.3%. The weighted average yield of the portfolio declined from 3.27% at December 31, 2014 to 2.76% at March 31, 2015 due to the ESB acquisition and purchases of securities in the first quarter at lower

current market rates.

Net unrealized gains on available-for-sale securities included in accumulated other comprehensive income, net of tax, as of March 31, 2015 and December 31, 2014 were $12.1 million and $4.6 million, respectively. Unrealized gains increased on available-for-sale securities due to a decrease in market rates from December 31, 2014. With approximately 31% of the investment portfolio in the held-to-maturity category, the recent volatility in interest rates does not have as much impact on other comprehensive income as if the entire portfolio were included in the category available-for-sale.

WesBanco s municipal portfolio comprises 29.4% of the overall securities portfolio as of March 31, 2015 as compared to 39.7% as of December 31, 2014, and it carries different risks that are not as prevalent in other security types contained in the portfolio. The following table presents the allocation of the municipal bond portfolio based on the combined S&P and Moody s ratings of the individual bonds (at fair value):

TABLE 7. MUNICIPAL BOND RATINGS

	March 31, 2015		December 31, 2014	
(unaudited, dollars in thousands)	Amount	% of Total	Amount	% of Total
Municipal bonds (at fair value) (1):				
Moody s: Aaa / S&P: AAA	**$ 66,260**	**9.1**	$ 50,205	8.1
Moody s: Aa1 ; Aa2 ; Aa3 / S&P: AA+ ; AA ; AA-	**530,741**	**72.5**	449,219	72.1
Moody s: A1 ; A2 ; A3 / S&P: A+ ; A ; A-	**128,608**	**17.6**	117,398	18.9
Moody s: Baa1 ; Baa2 ; Baa3 / S&P: BBB+ ; BBB ; BBB- (2)	**3,035**	**0.4**	1,958	0.3
Not rated by either agency	**2,940**	**0.4**	3,454	0.6
Total municipal bond portfolio	**$ 731,584**	**100.0**	$ 622,234	100.0

(1) The highest available rating was used when placing the bond into a category in the table.
(2) As of March 31, 2015 and December 31, 2014, there are no securities in the municipal portfolio rated below investment grade.

WesBanco s municipal bond portfolio consists of both taxable (primarily Build America Bonds) and tax-exempt general obligation and revenue bonds. The following table presents additional information regarding the municipal bond type and issuer (at fair value):

TABLE 8. COMPOSITION OF MUNICIPAL SECURITIES

	March 31, 2015		December 31, 2014	
(unaudited, dollars in thousands)	Amount	% of Total	Amount	% of Total
Municipal bond type:				
General Obligation	**$ 506,111**	**69.2**	$ 432,967	69.6
Revenue	**225,473**	**30.8**	189,267	30.4
Total municipal bond portfolio	**$ 731,584**	**100.0**	$ 622,234	100.0
Municipal bond issuer:				
State Issued	**$ 69,888**	**9.6**	$ 53,931	8.7
Local Issued	**661,696**	**90.4**	568,303	91.3
Total municipal bond portfolio	**$ 731,584**	**100.0**	$ 622,234	100.0

The amortized cost of the municipal bond portfolio at March 31, 2015 and December 31, 2014 was $700.2 million and $594.0 million, respectively.

WesBanco s municipal bond portfolio is broadly spread across the United States. The following table presents the top five states of municipal bond concentration based on total fair value at March 31, 2015:

TABLE 9. CONCENTRATION OF MUNICIPAL SECURITIES

	March 31, 2015	
(unaudited, dollars in thousands)	Fair Value	% of Total
Pennsylvania	**$ 180,130**	**24.6**
Texas	**102,953**	**14.1**
Ohio	**85,508**	**11.7**
Illinois	**40,595**	**5.5**
Michigan	**27,451**	**3.8**
All other states (1)	**294,947**	**40.3**
Total municipal bond portfolio	**$ 731,584**	**100.0**

(1) WesBanco s municipal bond portfolio contains obligations in the state of West Virginia totaling $14.8 million or 2.0% of the total municipal portfolio.

WesBanco uses prices from independent pricing services and, to a lesser extent, indicative (non-binding) quotes from independent brokers, to measure the fair value of its securities. WesBanco validates prices received from pricing services or brokers using a variety of methods, including, but not limited to, comparison to secondary pricing services, corroboration of pricing by reference to other independent market data such as secondary broker quotes and relevant benchmark indices, review of pricing by personnel familiar with market liquidity and other market-related conditions, review of pricing service methodologies, review of independent auditor reports received from the pricing service regarding its internal controls, and through review of inputs and assumptions used in pricing certain securities thinly traded or with limited observable data points. The

procedures in place provide management with a sufficient understanding of the valuation models, assumptions, inputs and pricing to reasonably measure the fair value of WesBanco s securities. For additional disclosure relating to fair value measurements, refer to Note 7, Fair Value Measurement in the Consolidated Financial Statements.

LOANS AND CREDIT RISK

Loans represent WesBanco s single largest balance sheet asset classification and the largest source of interest income. Business purpose loans consist of commercial real estate (CRE) loans and other commercial and industrial (C&I) loans that are not secured by real estate. CRE loans are further segmented into land and construction loans, and loans for improved property. Consumer purpose loans consist of residential real estate loans, home equity lines of credit and other consumer loans. Loans held for sale generally consist of residential real estate loans originated for sale in the secondary market, but at times may also include other types of loans. The outstanding balance of each major category of the loan portfolio is summarized in Table 10.

The risk that borrowers will be unable or unwilling to repay their obligations and default on loans is inherent in all lending activities. Credit risk arises from many sources including general economic conditions, external events that impact businesses or industries, isolated events that impact a major employer, individual loss of employment or other personal hardships as well as changes in interest rates or the value of collateral. Credit risk is also impacted by a concentration of exposure within a geographic market or to one or more borrowers, industries or collateral types. The primary goal in managing credit risk is to minimize the impact of default by an individual borrower or group of borrowers. Credit risk is managed through the initial underwriting process as well as through ongoing monitoring and administration of the portfolio that varies by the type of loan. The Bank s credit policies establish standard underwriting guidelines for each type of loan and require an appropriate evaluation of the credit characteristics of each borrower. This evaluation includes the borrower s primary source of repayment capacity; the adequacy of collateral, if any, to secure the loan; the potential value of personal guarantees as secondary sources of repayment; and other factors unique to each loan that may increase or mitigate its risk. Credit bureau scores are also considered when evaluating consumer purpose loans as well as guarantors of business purpose loans. However, the Bank does not periodically update credit bureau scores subsequent to when loans are made to determine changes in credit history.

Credit risk is mitigated for all types of loans by continuously monitoring delinquency levels and pursuing collection efforts at the earliest stage of delinquency. The Bank also monitors general economic conditions, including employment, housing activity and real estate values in its market. The Bank also periodically evaluates and changes its underwriting standards when warranted based on market conditions, the historical performance of a category of the portfolio, or other external factors. Credit risk is also regularly evaluated for the impact of adverse economic and other events that increase the risk of default and the potential loss in the event of default to understand their impact on the Bank s earnings and capital.

TABLE 10. COMPOSITION OF LOANS (1)

	March 31, 2015		December 31, 2014	
(unaudited, dollars in thousands)	**Amount**	**% of Loans**	**Amount**	**% of Loans**
Commercial real estate:				
Land and construction	**$ 288,075**	**5.9**	$ 262,643	6.4
Improved property	**1,908,869**	**39.1**	1,682,817	41.1
Total commercial real estate	**2,196,944**	**45.0**	1,945,460	47.5
Commercial and industrial	**709,621**	**14.6**	638,410	15.6
Residential real estate:				
Land and construction	**37,038**	**0.8**	19,681	0.5
Other	**1,202,125**	**24.6**	909,089	22.2
Home equity	**362,163**	**7.4**	330,031	8.1
Consumer	**365,830**	**7.5**	244,095	6.0
Total portfolio loans	**4,873,721**	**99.9**	4,086,766	99.9
Loans held for sale	**6,064**	**0.1**	5,865	0.1
Total loans	**$ 4,879,785**	**100.0**	$ 4,092,631	100.0

(1) Loans are presented gross of the allowance for loan losses and net of unearned income, credit valuation adjustments, and unamortized net deferred loan fee income and loan origination costs.

Total loans increased $787.2 million compared to December 31, 2014 with $699.0 million from the ESB acquisition. Excluding the acquisition, the legacy portfolio increased $88.2 million, or 2.2% for the quarter and 8.7% annualized. Organic loan growth was achieved through $357.0 million in loan originations during the quarter, which represents a 30.6% increase over the first quarter in 2014. Loan growth was driven by increased business activity, additional lending personnel, focused marketing efforts, an expanded presence in our larger urban markets, a reduction in unscheduled payoffs and a less severe winter that did not stifle certain types of business activity as much as it did the prior year. Excluding the ESB acquisition, CRE improved property and C&I loans provided the most significant organic growth, respectively increasing 2.2% and 2.0% for the quarter. A portion of the increase in CRE improved property came from CRE land and construction loans upon completion of the project. Organic loan growth was achieved without sacrificing profitability, loan structure and credit quality of the loan portfolio despite a highly competitive lending market for high quality borrowers.

Total loan commitments, including loans approved but not closed, increased $244.8 million from December 2014 with $85.3 million from the ESB acquisition and the remainder due primarily to increases in CRE land and construction and home equity lines of credit originations.

Table of Contents

NON-PERFORMING ASSETS, IMPAIRED LOANS AND LOANS PAST DUE 90 DAYS OR MORE

Non-performing assets consist of non-accrual loans and TDRs, other real estate acquired through or in lieu of foreclosure, bank premises held for sale, and repossessed automobiles acquired to satisfy defaulted consumer loans.

TABLE 11. NON-PERFORMING ASSETS

(unaudited, dollars in thousands)	**March 31, 2015**	**December 31, 2014**
Non-accrual loans:		
Commercial real estate - land and construction	**$ 1,463**	$ 1,488
Commercial real estate - improved property	**22,143**	20,227
Commercial and industrial	**3,849**	4,110
Residential real estate	**11,249**	10,329
Home equity	**1,899**	1,923
Consumer	**771**	741
Total non-accrual loans (1)	**41,374**	38,818
TDRs accruing interest:		
Commercial real estate - land and construction	**1,013**	
Commercial real estate - improved property	**6,804**	2,437
Commercial and industrial	**351**	329
Residential real estate	**7,883**	8,215
Home equity	**718**	740
Consumer	**561**	345
Total TDRs accruing interest (1)	**17,330**	12,066
Total non-performing loans	**$ 58,704**	$ 50,884
Other real estate owned and repossessed assets	**6,226**	5,082
Total non-performing assets	**$ 64,930**	$ 55,966
Non-performing loans/total loans	**1.20%**	1.25%
Non-performing assets/total assets	**0.79%**	0.89%
Non-performing assets/total loans, other real estate and repossessed assets	**1.33%**	1.37%

(1) TDRs on nonaccrual of $9.2 million and $5.4 million at March 31, 2015 and December 31, 2014, respectively, are included in total nonaccrual loans.

Non-performing loans, which consist of non-accrual loans and TDRs, increased $7.8 million, or 15.4% from December 31, 2014 to March 31, 2015 with $9.3 million from the ESB acquisition, while legacy non-performing loans decreased $1.5 million or 3.0%. Non-performing loans acquired, recognized at their acquisition date fair value of $9.7 million with an unpaid principal balance of $16.0 million primarily consist of three commercial relationships with an acquisition date aggregate fair value of $8.9 million. Organic non-performing loans decreased primarily from an unscheduled principal payment on one loan as well as other successful exit strategies and overall improvement in economic conditions in our markets. (Please see the Notes to the Consolidated Financial Statements for additional discussion.)

Other real estate owned and repossessed assets increased $1.1 million from December 31, 2014 to March 31, 2015, entirely due to the ESB acquisition.

Table of Contents

The following table presents past due and accruing loans excluding non-accrual and TDRs:

TABLE 12. PAST DUE AND ACCRUING LOANS EXCLUDING NON-ACCRUAL AND TDRs

(unaudited, dollars in thousands)	**March 31, 2015**	December 31, 2014
Loans past due 90 days or more:		
Commercial real estate - land and construction	**$**	$ 71
Commercial real estate - improved property		
Commercial and industrial	**3**	22
Residential real estate	**74**	1,306
Home equity	**684**	570
Consumer	**270**	319
Total loans past due 90 days or more	**1,031**	2,288
Loans past due 30 to 89 days:		
Commercial real estate - land and construction		
Commercial real estate - improved property	**1,144**	480
Commercial and industrial	**848**	216
Residential real estate	**4,661**	3,105
Home equity	**2,433**	2,524
Consumer	**2,917**	3,022
Total loans past due 30 to 89 days	**12,003**	9,347
Total 30 days or more	**$ 13,034**	$ 11,635
Loans past due 90 days or more and accruing to total portfolio loans	**0.02%**	0.06%
Loans past due 30-89 days and accruing to total portfolio loans	**0.25%**	0.23%

Loans past due 90 days or more and accruing interest excluding TDRs decreased $1.3 million or 54.9% from December 31, 2014 due to loans being placed on nonaccrual or migrated back to 30-89 days past due or current status. These loans continue to accrue interest because they are both well-secured and in the process of collection. Loans past due 30-89 days increased $2.7 million or 28.4% between December 31, 2014 and March 31, 2015 with $1.3 million from the ESB acquisition and $1.4 million from the legacy portfolio as certain legacy loans migrated from the 90 days past due category. Loans past due 30-89 days to total portfolio loans improved to 0.25% from 0.38% one year ago, representing a 34.2% decrease. This improvement in delinquency is the result of management s focus on controlling early stage delinquency as well as improving economic conditions.

Table of Contents

ALLOWANCE FOR CREDIT LOSSES

Continued improvement in the credit quality of the pre-acquisition legacy portfolio resulted in a decrease in the allowance as supported by reductions in nearly all categories of legacy loans with adverse characteristics and continued improvement in economic conditions. The allowance was not affected by the acquired ESB loan portfolio, as these loans were recorded at fair value at the date of acquisition and credit quality adjustments of $21.3 million were reflected in the acquired loan portfolio at March 31, 2015.

The allowance for credit losses decreased $0.5 million from December 31, 2014 to March 31, 2015 as a result of a lower provision expense than net charge-offs, representing 0.91% of total loans at March 31, 2015 compared to 1.09% of total loans at December 31, 2014. However, if the credit component of the unaccreted loan mark on acquired loans of $24.2 million, including prior acquisitions, were added to the allowance, the resulting ratio provides greater coverage over total loans and is considered by management to be a better comparison of the adequacy of the allowance and the unaccreted credit mark to absorb potential losses.

The allowance for loans individually evaluated was relatively unchanged from December 31, 2014 to March 31, 2015, while the allowance for loans collectively evaluated decreased $0.4 million to $40.5 million due to lower charge-offs and continued improvement in delinquent, non-performing and classified and criticized loans.

The allowance for loan commitments of $0.5 million at March 31, 2015 was unchanged from December 31, 2014.

The allowance for credit losses by loan category, presented in Note 5 Loans and the Allowance for Credit Losses to the Consolidated Financial Statements, summarizes the impact of changes in various factors that affect the allowance for loan losses in each segment of the portfolio. The allowance for all segments is impacted by changes in loan balances, as well as changes in historical loss rates adjusted for qualitative factors such as economic conditions. The CRE and C&I segments of the portfolio are also impacted by changes in the risk grading distribution of the portfolio as well as the migration of CRE loans from land and construction to improved property upon the completion of construction.

The loss migration rate by internal risk grade is the primary factor for establishing the allowance for all commercial loans, and the portfolio segment loss history is the primary factor for establishing the allowance for residential real estate, home equity and consumer loans. The categorization of loans as non-performing is not as significant a factor as the loss migration rate by risk grade or the segment loss history, although certain non-performing loans that carry specific reserves are also typically considered classified under the internal risk grading system. Criticized and classified loans were $93.0 million, or 1.91% of total loans at March 31, 2015, which represents a decrease of 28.1% from $129.3 million or 3.33% of total loans at March 31, 2014, as credit quality continued to improve, enabling certain loans to be upgraded that were criticized but not classified throughout the economic downturn. The ESB acquisition increased criticized and classified loans by $9.6 million.

Table of Contents

Table 13 summarizes the allocation of the allowance for credit losses to each category of the loan portfolio. The decrease in the allowance for CRE land and construction loans is due primarily to that category of loans consisting of more multi-family apartment and other commercial building construction loans than land and residential development loans, which had higher loss rates during the recession but now represent a much smaller percentage of the category. The increase in the allowance for CRE improved property and home equity loans is primarily attributable to growth in those categories, while the decrease in the allowance for residential real estate and consumer loans reflects lower historical loss rates in each category.

TABLE 13. ALLOCATION OF THE ALLOWANCE FOR CREDIT LOSSES

(unaudited, dollars in thousands)	**March 31, 2015**	**Percent of Total**	**December 31, 2014**	**Percent of Total**
Allowance for loan losses:				
Commercial real estate - land and construction	**$ 5,331**	**11.9**	$ 5,654	12.5
Commercial real estate - improved property	**18,035**	**40.4**	17,573	39.0
Commercial and industrial	**9,011**	**20.2**	9,063	20.1
Residential real estate	**5,034**	**11.3**	5,382	11.9
Home equity	**2,497**	**5.6**	2,329	5.2
Consumer	**3,723**	**8.3**	4,078	9.0
Deposit account overdrafts	**542**	**1.2**	575	1.3
Total allowance for loan losses	**$ 44,173**	**98.9**	$ 44,654	99.0
Allowance for loan commitments:				
Commercial real estate - land and construction	**$ 178**	**0.4**	$ 194	0.4
Commercial real estate - improved property	**18**	**0.0**	10	0.0
Commercial and industrial	**120**	**0.4**	112	0.3
Residential real estate	**13**	**0.0**	9	0.0
Home equity	**107**	**0.2**	90	0.2
Consumer	**42**	**0.1**	40	0.1
Total allowance for loan commitments	**478**	**1.1**	455	1.0
Total allowance for credit losses	**$ 44,651**	**100.0**	$ 45,109	100.0

Although the allowance for credit losses is allocated as described in Table 13, the total allowance is available to absorb actual losses in any category of the loan portfolio. However, differences between management s estimation of probable losses and actual incurred losses in subsequent periods for any category may necessitate future adjustments to the provision for loan losses applicable to the category. Management believes the allowance for credit losses is appropriate to absorb probable losses at March 31, 2015.

42

DEPOSITS

TABLE 14. DEPOSITS

(unaudited, dollars in thousands)	**March 31, 2015**	**December 31, 2014**	**$ Change**	**% Change**
Deposits				
Non-interest bearing demand	**$ 1,249,521**	$ 1,061,075	$ 188,446	17.8
Interest bearing demand	**1,199,801**	885,037	314,764	35.6
Money market	**1,018,184**	954,957	63,227	6.6
Savings deposits	**1,064,808**	842,818	221,990	26.3
Certificates of deposit	**1,883,888**	1,305,096	578,792	44.3
Total deposits	**$ 6,416,202**	$ 5,048,983	$ 1,367,219	27.1

Deposits, which represent WesBanco s primary source of funds, are offered in various account forms at various rates through WesBanco s 142 branches. The FDIC insures deposits up to $250,000 per account.

Total deposits increased by $1.4 billion or 27.1% during the first three months of 2015 primarily due to the ESB acquisition which provided $1.2 billion of additional deposits, while organic deposit growth was an annualized 10.8%. Interest bearing demand and non-interest bearing deposits increased 35.6% and 17.8%, respectively, while savings and money market deposits increased 26.3% and 6.6%, respectively, due to the ESB acquisition and corresponding marketing, incentive compensation paid to customers and employees, focused retail and business strategies to obtain more account relationships and customers preferences for shorter-term maturities coupled with initial deposits from bonus and royalty payments for Marcellus and Utica shale gas payments from energy companies in WesBanco s southwestern Pennsylvania, eastern Ohio and northern West Virginia markets. Demand deposits, savings deposits and money market deposits acquired through the ESB acquisition were $391.1 million, $189.7 million and $38.3 million, respectively.

Certificates of deposit increased $578.8 million due primarily to the ESB acquisition. Certificates of deposit acquired from the ESB acquisition totaled $613.1 million, while organic balances declined 2.6% due to the effects of an overall corporate strategy designed to increase and remix retail deposit relationships with a focus on overall products that can be offered at a lower cost to the Bank. The decline is also impacted by lowered offered rates on maturing certificates of deposit and customer preferences for other non-maturity deposit types. WesBanco does not generally solicit brokered or other deposits out-of-market or over the internet, but does participate in the Certificate of Deposit Account Registry Services (CDARS®) program and the Insured Cash Sweep (ICS®) money market deposit program. CDARS® balances totaled $304.7 million in total outstanding balances at March 31, 2015, of which $205.0 million represented one-way buys, compared to $283.0 million in total outstanding balances at December 31, 2014, of which $172.3 million represented one-way buys. ICS® reciprocal balances totaled $143.3 million at March 31, 2015 compared to $117.1 million at December 31, 2014. Certificates of deposit greater than $250,000 were approximately $306.4 million at March 31, 2015 compared to $174.7 million at December 31, 2014. Certificates of deposit of $100,000 or more were approximately $974.9 million at March 31, 2015 compared to $706.1 million at December 31, 2014. The increase in jumbo certificates of deposit was primarily due to the acquisition. Certificates of deposit totaling approximately $1.2 billion at March 31, 2015 with a cost of 0.75% are scheduled to mature within the next 12 months. WesBanco will continue to focus on its core deposit strategies and improving its overall mix of transaction accounts to total deposits. From time to time the Bank may offer special promotions on certain certificates of deposit maturities and savings products based on competition, sales strategies, liquidity needs and wholesale borrowing costs, although in the current interest rate environment, CD rate offerings are generally equal or lower for all maturities and types compared to rates paid on existing CDs.

BORROWINGS

TABLE 15. BORROWINGS

(unaudited, dollars in thousands)	**March 31, 2015**	**December 31, 2014**	**$ Change**	**% Change**
Federal Home Loan Bank Borrowings	**$ 432,456**	$ 223,126	$ 209,330	93.8
Other short-term borrowings	**76,630**	80,690	(4,060)	(5.0)

Junior subordinated debt owed to unconsolidated subsidiary trusts	**142,269**	106,176	36,093	34.0
Total	**$ 651,355**	$ 409,992	$ 241,363	58.9

Borrowings are currently a less significant source of funding for WesBanco compared to total deposits. During the first quarter of 2015, FHLB borrowings increased $209.3 million due to the acquisition of ESB which provided $35.4 million in borrowings coupled with $173.9 million in new borrowings which were utilized to manage WesBanco s normal liquidity needs, including loan and investment funding, as well as CD runoff.

Other short-term borrowings, which consist of securities sold under agreements to repurchase at March 31, 2015, but may also include federal funds purchased and other borrowings, were $76.6 million at March 31, 2015 compared to $80.7 million at December 31, 2014. The ESB acquisition also provided $36.1 million in junior subordinated debentures which the Federal Reserve Bank has approved for redemption, which will occur on the next payment due date of May 11, 2015. WesBanco has a revolving line of credit, which is a senior obligation of the parent company, with another financial institution. This line of credit, which accrues interest at an adjusted LIBOR rate, provides for aggregate unsecured borrowings of up to $25.0 million. There were no outstanding balances as of March 31, 2015 or December 31, 2014.

Table of Contents

OFF-BALANCE SHEET ARRANGEMENTS

WesBanco enters into financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, letters of credit, loans approved but not closed, overdraft limits and contingent obligations to purchase loans funded by other entities. Since many of these commitments expire unused or partially used, these commitments may not reflect future cash requirements. Please refer to Note 9, Commitments and Contingent Liabilities, of the Consolidated Financial Statements and the Loans and Credit Risk section of this MD&A for additional information.

CAPITAL RESOURCES

Shareholders equity was $1.1 billion at March 31, 2015 compared to $788.2 million at December 31, 2014. The increase was due primarily to $293.6 million of common stock issued in the ESB acquisition coupled with net income during the current three month period of $13.9 million and a $5.2 million increase in other comprehensive income, which were partially offset by the declaration of common shareholder dividends totaling $8.8 million for the three months ended March 31, 2015. WesBanco also increased its quarterly dividend rate to $0.23 per share in February, representing a 4.5% increase over the prior quarterly rate and a cumulative 64% increase over the last seventeen quarters.

Regulatory guidelines require bank holding companies and commercial banks to maintain certain minimum capital ratios and define companies as well capitalized that sufficiently exceed the minimum ratios. At March 31, 2015, regulatory capital levels for both the Bank and WesBanco were substantially greater than the minimum amounts needed to be considered well capitalized under the regulations. There are various legal limitations under federal and state laws that limit the payment of dividends from the Bank to WesBanco. As of March 31, 2015, under FDIC regulations, WesBanco could receive, without prior regulatory approval, a dividend of approximately $29.2 million from the Bank. WesBanco intends to continue to improve its consolidated and Bank capital ratios primarily from retaining a majority of its increasing earnings.

The following table summarizes risk-based capital amounts and ratios for WesBanco and the Bank for the periods indicated:

			March 31, 2015			December 31, 2014		
(unaudited, dollars in thousands)	**Minimum Value (1)**	**Well Capitalized (2)**	**Amount**	**Ratio**	**Minimum Amount (1)**	**Amount**	**Ratio**	**Minimum Amount (1)**
WesBanco, Inc. (3)								
Tier 1 leverage	4.00%	5.00%	**$ 747,248**	**10.59%**	**$ 282,363**	$ 593,031	9.88%	$ 240,068
Common equity tier 1 (4)	4.50%	6.50%	**609,248**	**11.49%**	**238,684**	N/A	N/A	N/A
Tier 1 capital to risk-weighted assets	6.00%	8.00%	**747,248**	**14.09%**	**318,245**	593,031	13.76%	172,357
Total capital to risk-weighted assets	8.00%	10.00%	**791,455**	**14.92%**	**424,327**	638,064	14.81%	344,714
WesBanco Bank, Inc.								
Tier 1 leverage	4.00%	5.00%	**$ 676,262**	**9.66%**	**$ 279,973**	$ 516,689	8.63%	$ 239,533
Common equity tier 1 (4)	4.50%	6.50%	**676,262**	**12.79%**	**237,842**	N/A	N/A	N/A
Tier 1 capital to risk-weighted assets	6.00%	8.00%	**676,262**	**12.79%**	**317,122**	516,689	12.04%	171,612
Total capital to risk-weighted assets	8.00%	10.00%	**720,469**	**13.63%**	**422,829**	561,369	13.08%	343,225

(1) Minimum to remain adequately capitalized. Minimums prior to January 1, 2015 were 4.00% for Tier 1 leverage and Tier 1 capital and 8.00% for total capital.
(2) Well-capitalized under prompt corrective action regulations.
(3) March 31, 2015 regulatory ratios for Tier 1 leverage, Tier 1 capital and total capital will be reduced by approximately 50, 66 and 66 basis points, respectively, after payoff of ESB s trust preferred securities totaling $36.1 million on May 11, 2015.
(4) The Common Equity Tier 1 ratio (known as CET 1) is a new regulatory ratio as of March 31, 2015, as the regulatory agencies adopted new guidelines for such ratio as a result of international adoption of the BASEL III regulatory capital accords in 2013.

LIQUIDITY RISK

Liquidity is defined as a financial institution s capacity to meet its cash and collateral obligations at a reasonable cost. Liquidity risk is the risk that an institution s financial condition or overall safety and soundness is adversely affected by an inability, or perceived inability, to meet its obligations. An institution s obligations, and the funding sources to meet them, depend significantly on its business mix, balance sheet structure, and the cash flows of its on- and off-balance sheet obligations. Institutions confront various internal and external situations that can give rise to increased liquidity risk including funding mismatches, market constraints on funding sources, contingent liquidity events, changes in economic conditions, and exposure to credit, market, operation, legal and reputation risk. WesBanco actively manages liquidity risk through its ability to provide adequate funds to meet changes in loan demand, unexpected outflows in deposits and other borrowings as well as to take advantage of market opportunities and meet operating cash needs. This is accomplished by maintaining liquid assets in the form of securities, sufficient borrowing capacity and a stable core deposit base. Liquidity is centrally monitored by WesBanco s Asset/Liability Committee (ALCO).

WesBanco determines the degree of required liquidity by the relationship of total holdings of liquid assets to the possible need for funds to meet unexpected deposit losses and/or loan demands. The ability to quickly convert assets to cash at a minimal loss is a primary function of WesBanco s investment portfolio management. WesBanco believes its cash flow from the loan portfolio, the investment portfolio, and other sources, adequately meet its liquidity requirements. WesBanco s net loans to assets ratio was 58.7% at March 31, 2015 and deposit balances funded 77.9% of assets.

The following table lists the sources of liquidity from assets at March 31, 2015 expected within the next year:

(in thousands)	
Cash and cash equivalents	**$ 92,974**
Securities with a maturity date within the next year	**89,523**
Projected payments and prepayments on mortgage-backed securities and collateralized mortgage obligations (1)	**222,707**
Callable securities	**114,834**
Loans held for sale	**6,064**
Accruing loans scheduled to mature	**626,743**
Normal loan repayments	**529,717**
Total sources of liquidity expected within the next year	**$ 1,682,562**

(1) Projected prepayments are based on current prepayment speeds.

Deposit flows are another principal factor affecting overall WesBanco liquidity. Deposits totaled $6.4 billion at March 31, 2015. Deposit flows are impacted by current interest rates, products and rates offered by WesBanco versus various forms of competition, as well as customer behavior. Certificates of deposit scheduled to mature within one year totaled $1.2 billion at March 31, 2015, which includes jumbo regular certificates of deposit totaling $453.6 million with a weighted-average cost of 0.85%, and jumbo CDARS® deposits of $195.5 million with a cost of 0.55%.

WesBanco maintains a line of credit with the FHLB as an additional funding source. Available credit with the FHLB was approximately $1.7 billion and $1.5 billion at March 31, 2015 and December 31, 2014, respectively. At March 31, 2015, the Bank had unpledged available-for-sale securities with an amortized cost of $647.8 million, a portion of which is an available liquidity source, or such securities could be pledged to secure additional FHLB borrowings. The FHLB requires securities to be specifically pledged to the FHLB and maintained in a FHLB-approved custodial arrangement if the member wishes to include such securities in the maximum borrowing capacity calculation. WesBanco has elected not to specifically pledge to the FHLB otherwise unpledged securities.

WesBanco participates in the Federal Reserve Bank s Borrower-in-Custody Program (BIC) whereby WesBanco pledges certain consumer loans as collateral for borrowings. At March 31, 2015, WesBanco had a BIC line of credit totaling $146.9 million, none of which was outstanding. Alternative funding sources may include the utilization of existing overnight lines of credit with third party banks totaling $205.0 million, none of which was outstanding at March 31, 2015, along with seeking other lines of credit, borrowings under repurchase agreement lines, increasing deposit rates to attract additional funds, accessing brokered deposits, or selling securities available-for-sale or certain types of loans.

Other short-term borrowings of $76.6 million at March 31, 2015 consisted of overnight sweep checking accounts for large commercial customers. There has not been a significant fluctuation in the average deposit balance of the overnight sweep checking accounts during the first three months of 2015. The overnight sweep checking accounts require securities to be pledged equal to or greater than the average deposit balance in the related customer accounts.

The principal sources of parent company liquidity are dividends from the Bank, $31.8 million in cash and investments on hand, and a $25.0 million revolving line of credit with another financial institution, which did not have an outstanding balance at March 31, 2015. WesBanco is in compliance with all loan covenants. There are various legal limitations under federal and state laws that limit the payment of dividends from the Bank to the parent company. As of March 31, 2015, under FDIC and State of West Virginia regulations, WesBanco could receive, without prior regulatory approval, dividends of approximately $29.2 million from the Bank. Management believes these are appropriate levels of cash for the parent company given the current environment. Management continuously monitors the adequacy of parent company cash levels and sources of liquidity through the use of metrics that relate current cash levels to historical and forecasted cash inflows and outflows.

WesBanco had outstanding commitments to extend credit in the ordinary course of business approximating $1.5 billion and $1.2 billion at March 31, 2015 and December 31, 2014, respectively. On a historical basis, only a small portion of these commitments will result in an outflow of funds. Please refer to Note 9, Commitments and Contingent Liabilities, of the Consolidated Financial Statements and the Loans and Credit Risk section of this MD&A for additional information.

Table of Contents

Federal financial regulatory agencies previously have issued guidance to provide for sound practices for managing funding and liquidity risk and strengthening liquidity risk management practices. WesBanco maintains a comprehensive management process for identifying, measuring, monitoring, and controlling liquidity risk which is fully integrated into its risk management process. Management believes WesBanco has sufficient current liquidity to meet current obligations to borrowers, depositors and others as of March 31, 2015 and that WesBanco s current liquidity risk management policies and procedures adequately address this guidance.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The disclosures set forth in this item are qualified by the section captioned Forward-Looking Statements included in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations of this report.

MARKET RISK

The primary objective of WesBanco s ALCO is to maximize net interest income within established policy parameters. This objective is accomplished through the management of balance sheet composition, market risk exposures arising from changing economic conditions and liquidity risk.

Market risk is defined as the risk of loss due to adverse changes in the fair value of financial instruments resulting from fluctuations in interest rates and equity prices. Management considers interest rate risk to be WesBanco s most significant market risk. Interest rate risk is the exposure to adverse changes in net interest income due to changes in interest rates. The relative consistency of WesBanco s net interest income is largely dependent on effective management of interest rate risk. As interest rates change in the market, rates earned on interest rate sensitive assets and rates paid on interest rate sensitive liabilities do not necessarily move concurrently. Differing rate sensitivities may arise because fixed rate assets and liabilities may not have the same maturities, or because variable rate assets and liabilities differ in the timing and/or the percentage of rate changes.

WesBanco s ALCO, comprised of senior management from various functional areas, monitors and manages interest rate risk within Board approved policy limits. Interest rate risk is monitored primarily through the use of an earnings simulation model. The model is highly dependent on various assumptions, which change regularly as the balance sheet and market interest rates change. The key assumptions and strategies employed are analyzed bi-monthly and reviewed and documented by the ALCO.

The earnings simulation model projects changes in net interest income resulting from the effect of changes in interest rates. Forecasting changes in net interest income requires management to make certain assumptions regarding loan and security prepayment rates, bond call dates, and adjustments to non-maturing deposit rates, which may not necessarily reflect the manner in which actual yields and costs respond to changes in market interest rates. Assumptions used are based primarily on historical experience and current market rates. Security portfolio maturities and prepayments are assumed to be reinvested in similar instruments and callable bond forecasts are adjusted at varying levels of interest rates. While management believes such assumptions to be reasonable, there can be no assurance that assumed prepayment rates, callable bond forecasts and non-maturing deposit rates will approximate actual future results. Moreover, the net interest income sensitivity chart presented in Table 1, Net Interest Income Sensitivity, assumes the composition of interest sensitive assets and liabilities existing at the end of the period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve, regardless of the duration of the maturity or re-pricing of specific assets and liabilities. Since the assumptions used in the model relative to changes in interest rates are uncertain, the simulation analysis may not be indicative of actual results. In addition, the analysis may not consider all actions that management could employ in response to changes in interest rates and various earning asset and costing liability balances.

Management is aware of the significant effect inflation or deflation has upon interest rates and ultimately upon financial performance. WesBanco s ability to cope with inflation or deflation is best determined by analyzing its capability to respond to changing market interest rates, as well as its ability to manage the various elements of non-interest income and expense during periods of increasing or decreasing inflation or deflation. WesBanco monitors the level and mix of interest-rate sensitive assets and liabilities through ALCO in order to reduce the impact of inflation or deflation on net interest income. Management also controls the effects of inflation or deflation by conducting periodic reviews of the prices and terms of its various products and services, both in terms of the costs to offer the services as well as outside market influences upon such pricing, by introducing new products and services or reducing the availability of existing products and services, and by controlling overhead expenses.

Interest rate risk policy limits are determined by measuring the anticipated change in net interest income over a twelve month period assuming an immediate and sustained 100, 200 and 300 basis point increase or decrease in market interest rates compared to a stable rate environment or base model. WesBanco s current policy limits this exposure to a reduction of 5.0%, 12.5% and 25% or less, respectively, of net interest income from the base model over a twelve month period. The table below shows WesBanco s interest rate sensitivity at March 31, 2015 and December 31, 2014 assuming a 100, 200 and 300 basis point interest rate increase, compared to a base model. Due to the current low interest rate environment, particularly for short-term rates, the 200 and 300 basis point decreasing change is not calculated.

TABLE 1. NET INTEREST INCOME SENSITIVITY

Immediate Change in Interest Rates (basis points)	Percentage Change in Net Interest Income from Base over One Year March 31, 2015	December 31, 2014	ALCO Guidelines
+300	0.9%	0.9%	(25.0%)
+200	1.9%	2.1%	(12.5%)
+100	1.8%	1.9%	(5.0%)
-100	(2.4%)	(1.8%)	(5.0%)

As per the table above, the earnings simulation model at March 31, 2015 currently projects that net interest income for the next twelve month period would decrease by 2.4% if interest rates were to fall immediately by 100 basis points, compared to a decrease of 1.8% for the same scenario as of December 31, 2014.

For rising rate scenarios, net interest income would increase by 1.8%, 1.9%, and 0.9% if rates increased by 100, 200 and 300 basis points, respectively, as of March 31, 2015 compared to increases of 1.9%, 2.1% and 0.9% in a 100, 200 and 300 basis point increasing rate environment as of December 31, 2014.

The balance sheet is asset sensitive as of March 31, 2015, slightly less than at December 31, 2014, based upon changes in the mix of various earning assets and costing liabilities, 2015 loan and transaction deposit account growth, an increase in borrowings, the ESB transaction and certain changes in modeling assumptions. Should rates rise more rapidly and by a higher amount than currently anticipated in the short to intermediate term, overall asset sensitivity may be somewhat neutralized due to slower anticipated prepayment speeds and extension risk associated with residential mortgages and mortgage-backed securities. In addition, variable rate commercial loans with rate floors averaging 4.23% approximated $1.1 billion at March 31, 2015, which represented approximately 37% of commercial loans. In a 100 basis point rising rate environment, these loans would not as significantly re-price from their current floor level as compared to non-floor loans. However, not all such loans are currently priced at their floor. In the current lower spread and recently downward trending yield curve environment, WesBanco expects that the net interest margin may contract somewhat due to the acquisition and the continued low interest rate environment, until after rates begin to rise. A short-term rate increase is anticipated by late third quarter by a majority of economists and the Federal Reserve Board which should help the margin eventually improve assuming no earning asset or costing liability changes. Maturities of higher-costing certificates of deposit scheduled over the next year should help to mitigate potential compression from lower loan spreads and general loan re-pricing in an increasingly more competitive loan environment, along with anticipated loan growth in most loan categories. Of note, certificates of deposit totaling approximately $1.2 billion mature within the next year at an average cost of 0.75%.

The Bank has significant additional borrowing capacity with the FHLB of Pittsburgh, the Federal Reserve Bank of Cleveland, and various correspondent banks, and may utilize these funding sources as necessary to lengthen liabilities, help offset mismatches in various asset maturities, and manage short-term cash needs. CDARS® and ICS® deposits also continue to be used to lengthen maturities in certificates of deposit, and for customers seeking higher yielding instruments and to maintain deposit balances below insured limits.

Current balance sheet strategies to reduce the potential for margin compression in the current rate environment include:

- increasing total loans; primarily commercial and residential with fixed rate periods of between 3-15 years, or variable to a published index;
- investing available short-term liquidity;
- continuing marketing programs to increase consumer loans and transaction deposits versus certificates of deposit;
- reinvestment of securities cash flows into new loans as demand warrants, or into other investments such as short and intermediate-term CMO pay structures, lower coupon MBS, and mid-term tax-exempt municipal securities;
- paying down borrowings as they mature with available cash from deposit growth, or extending term borrowings at current lower rates to balance asset/liability mismatches; and
- extending a portion of CD maturities through the CDARS® program and continuing to decrease offered rates on CDs and other costing deposit types.

As an alternative to the immediate rate shock analysis, the ALCO monitors interest rate risk by ramping or increasing interest rates 200 basis points gradually over a twelve month period. WesBanco s current policy limits this exposure to 5.0% of net interest income from the base model for a twelve month period. Management believes that the ramping analysis reflects a more realistic movement of interest rates, whereas the

immediate rate shock reflects a less likely scenario. The simulation model at March 31, 2015, using the 200 basis point increasing rate ramp analysis, projects that net interest income would increase 2.0% over the next twelve months, compared to a 1.9% increase at December 31, 2014.

WesBanco also periodically measures the economic value of equity, which is defined as the market value of tangible equity in various increasing and decreasing rate scenarios. At March 31, 2015, the market value of tangible equity as a percent of base in a 200 basis point rising rate environment indicates an increase of 2.6%, compared to a increase of 6.0% at December 31, 2014. In a 100 basis point falling rate environment, the model indicates a decrease of 3.6%, compared to a decrease of 11.0% as of December 31, 2014. WesBanco s policy is to limit such change to minus 20% for a 200 basis point change in interest rates, as long as the Tier 1 leverage capital ratio is not forecasted to decrease below 5.0% as a result of the change. Balance sheet changes in loan and securities portfolios, new borrowings, transaction deposits and certificates of deposit, as well as certain other modeling assumptions, resulted in the change in equity market value from 2014.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES WesBanco s Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have concluded that WesBanco s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), based on their evaluation of these controls and procedures as of the end of the period covered by this Form 10-Q, are effective at the reasonable assurance level as discussed below to ensure that information required to be disclosed by WesBanco in the reports it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to WesBanco s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

LIMITATIONS ON THE EFFECTIVENESS OF CONTROLS WesBanco s management, including the CEO and CFO, does not expect that WesBanco s disclosure controls and internal controls will prevent all errors and all fraud. While WesBanco s disclosure controls and procedures are designed to provide reasonable assurance of achieving their objective, no control system, no matter how well conceived and operated, can provide absolute assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls.

CHANGES IN INTERNAL CONTROLS There were no changes in WesBanco s internal control over financial reporting that occurred during our fiscal quarter ended March 31, 2015 as required to be reported by paragraph (d) of Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, that materially affected, or are reasonably likely to materially affect, WesBanco s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Litigation Related to the ESB Merger

On October 29, 2014, ESB and WesBanco entered into an Agreement and Plan of Merger (the Merger Agreement), providing for the merger of ESB with and into WesBanco, with WesBanco as the surviving corporation (the Merger). Each of ESB and WesBanco filed a definitive joint proxy statement/prospectus, dated as of December 11, 2014 (the Joint Proxy Statement/Prospectus), with the Securities and Exchange Commission in connection with the Merger. The Merger was consummated on February 10, 2015.

As previously reported by each of ESB and WesBanco on Current Reports on Form 8-K, each dated December 15, 2014 and filed on December 19, 2014, two putative class action complaints were filed by purported shareholders of ESB with respect to the Merger. One complaint was filed in the United States District Court for the Western District of Pennsylvania (the Federal District Court), and is captioned and numbered James Elliott vs. ESB Financial, Inc., et al., Case No. 2:14-cv-01689-MRH (the Federal Lawsuit). The other complaint was filed in the Court of Common Pleas of Lawrence County, Pennsylvania, and is captioned and numbered Randall Kress v. ESB Bank, Case No. 11185/14 CA (the Lawrence County Lawsuit). Both complaints alleged generally, among other things, that each member of ESB s board of directors (the Director Defendants) breached their fiduciary duties in approving the Merger Agreement, that ESB and WesBanco aided and abetted such breaches of fiduciary duty and that the disclosure regarding the Merger contained in the Joint Proxy Statement/Prospectus was materially deficient.

On January 15, 2015, solely to avoid the costs, risks and uncertainties inherent in litigation, ESB, ESB Bank, WesBanco and the Director Defendants (ESB, ESB Bank, WesBanco and the Director Defendants, collectively the Defendants) entered into a Memorandum of Settlement (the MOS) with the respective plaintiffs (collectively, the Plaintiffs) regarding the settlement of both the Federal Lawsuit and the Lawrence County Lawsuit. Pursuant to the MOS, ESB and WesBanco agreed to file with the SEC and make publicly available to shareholders of ESB and WesBanco supplemental disclosures provided on Form 8-K and the Plaintiffs agreed to release ESB, ESB Bank, WesBanco and the Director Defendants from all claims related to the Merger Agreement and the Merger, subject to approval of the Federal District Court. If the court approves the settlement contemplated in the MOS, both the Federal Lawsuit and the Lawrence County Lawsuit will be dismissed with prejudice, and all claims that were or could have been brought challenging any aspect of the Merger, the Merger Agreement, and any disclosure made in connection therewith will be released and barred. Under the terms of the MOS, counsel for the Plaintiffs reserved the right to seek an award of attorneys fees and expenses. The Defendants have reserved the right to contest the fee and expense petition. The amount of any fees and expense awarded will ultimately be determined and approved by the court, and will not affect the amount of merger consideration paid by WesBanco. ESB or its successor or insurer will pay any fees and expenses awarded by the court. In the MOS, the parties have agreed to negotiate in good faith to prepare a stipulation of settlement to be filed with the court and other documentation as may be required to effectuate the settlement. There can be no assurance that the parties ultimately will enter into a stipulation of settlement or that the court will approve the settlement even if the parties were to enter into such stipulation. The proposed settlement contemplated by the MOS will become void in the event that the parties do not enter into such stipulation or the court does not approve the settlement.

The settlement did not affect the timing of the special meeting of shareholders of ESB held January 22, 2015 in Ellwood City, Pennsylvania to vote upon a proposal to adopt the Merger Agreement. Similarly, the settlement did not affect the timing of the special meeting of shareholders of WesBanco held January 22, 2015 in Wheeling, West Virginia to vote on a proposal to approve the issuance of shares of WesBanco common stock in connection with the Merger. The shareholders of both corporations approved the Merger. ESB and the other Defendants deny all of the allegations in the lawsuits and believe the disclosures previously included in the Joint Proxy Statement/Prospectus were appropriate under the law. Nevertheless, ESB and the other Defendants have agreed to settle the putative class action lawsuits in order to avoid the costs, disruptions and distraction of further litigation.

ESB and the other Defendants have vigorously denied, and continue to vigorously deny, that they have committed or aided and abetted in the commission of any violation of law or engaged in any of the wrongful acts that were alleged in the lawsuits, and expressly maintain that, to the extent applicable, they diligently and scrupulously complied with their fiduciary and other legal burdens and entered into the MOS solely to eliminate the burden and expense of further litigation and to put the claims that were or could have been asserted to rest. Nothing in the MOS or any stipulation of settlement shall be deemed an admission of the legal necessity or materiality under applicable laws of any of the disclosures set forth therein. WesBanco does not believe that a material loss related to these claims is reasonably possible.

Other Litigation

WesBanco is also involved in lawsuits, claims, investigations and proceedings which arise in the ordinary course of business. While any litigation contains an element of uncertainty, WesBanco does not believe that a material loss related to such proceedings or claims pending or known to be threatened is reasonably possible.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

As of March 31, 2015, WesBanco had a current stock repurchase plan in which up to one million shares can be acquired. The plan was originally approved by the Board of Directors on March 21, 2007 and provides for shares to be repurchased for general corporate purposes, which may include a subsequent resource for potential acquisitions, shareholder dividend reinvestment and employee benefit plans. The timing, price and quantity of purchases are at the discretion of WesBanco, and the plan may be discontinued or suspended at any time. There were no repurchases during the first quarter of 2015, other than those for the KSOP and dividend reinvestment plans and a repurchase to facilitate the payoff of ESB s ESOP loan.

The following table presents the monthly share purchase activity during the quarter ended March 31, 2015:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans
Balance at December 31, 2014				378,286
January 1, 2015 to January 31, 2015				
Open market repurchases				378,286
Other transactions (1)	13,627	$ 33.78	N/A	N/A
February 1, 2015 to February 28, 2015				
Open market repurchases				378,286
Other transactions (1)	1,601	$ 32.61	N/A	N/A
March 1, 2015 to March 31, 2015				
Open market repurchases				378,286
Other repurchases (2)	38,237	$ 33.01	38,237	340,049
Other transactions (1)	1,707	32.94	N/A	N/A
First Quarter 2015				
Open market repurchases				378,286
Other repurchases (2)	38,237	$ 33.01	38,237	340,049
Other transactions (1)	16,935	33.59	N/A	N/A
Total	55,172	$ 33.19	38,237	340,049

(1) Consists of open market purchases transacted in the KSOP and dividend reinvestment plans.
(2) Consists of repurchases to facilitate the payoff of ESB s ESOP loan.

ITEM 6. EXHIBITS

10.1	Separation Agreement and Release and Waiver of Claims, dated October 29, 2014, by and among ESB Financial Corporation, ESB Bank, Charlotte A. Zuschlag, WesBanco, Inc. and WesBanco Bank, Inc. (incorporated by reference to Exhibit 10.1 of the Form 8-K filed by the Registrant with the Securities and Exchange Commission on February 10, 2015).*
10.2	Employment Agreement, dated October 29, 2014, by and between WesBanco Bank, Inc., Charlotte A. Zuschlag, and WesBanco, Inc. (incorporated by reference to Exhibit 10.2 of the Form 8-K filed by the Registrant with the Securities and Exchange Commission on February 10, 2015).*
10.3	Non-competition Agreement, dated October 29, 2014, by and between WesBanco, Inc., WesBanco Bank, Inc. and Charlotte A. Zuschlag. (incorporated by reference to Exhibit 10.3 of the Form 8-K filed by the Registrant with the Securities and Exchange Commission on February 10, 2015).*
10.4	Amended and Restated Employment Agreement, dated February 25, 2015, by and between WesBanco Bank, Inc., Bernard P. Twigg and WesBanco, Inc. (incorporated by reference to Form 10-K filed by the Registrant with the Securities and Exchange Commission on February 27, 2015).*
31.1	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e).
31.2	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e).
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from WesBanco s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets at March 31, 2015 and December 31, 2014, (ii) the Consolidated Statements of Comprehensive Income for the three months ended March 31, 2015 and 2014, (iii) the Consolidated Statements of Changes in Stockholders Equity for the three months ended March 31, 2015 and 2014, (iv) the Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014, and (v) the Notes to Consolidated Financial Statements.

* Indicates management compensatory plan, contract or arrangement.

Table of Contents

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.

	WESBANCO, INC.
Date: May 7, 2015	/s/ Todd F. Clossin Todd F. Clossin President and Chief Executive Officer
	(Principal Executive Officer)
Date: May 7, 2015	/s/ Robert H. Young Robert H. Young Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

53