

PARK OHIO HOLDINGS CORP

Form 10-Q

August 08, 2017

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-03134

Park-Ohio Holdings Corp.

(Exact name of registrant as specified in its charter)

Ohio

34-1867219

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

6065 Parkland Boulevard, Cleveland, Ohio

44124

(Address of principal executive offices)

(Zip Code)

(440) 947-2000

(Registrant's telephone number, including area code)

Not applicable

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

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 accountings 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



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Number of shares outstanding of registrant's Common Stock, par value \$1.00 per share, as of July 31, 2017:  
12,507,896 shares.

The Exhibit Index is located on page 31.

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Park-Ohio Holdings Corp. and Subsidiaries

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## Part I. Financial Information

## Item 1. Financial Statements

## Park-Ohio Holdings Corp. and Subsidiaries

## Condensed Consolidated Balance Sheets

(Unaudited)  
 June 30, December 31,  
 2017 2016  
 (In millions)

## ASSETS

## Current assets:

Cash and cash equivalents	\$72.7	\$ 64.3
Accounts receivable, net	223.8	194.4
Inventories, net	256.5	240.6
Other current assets	63.7	53.4
Total current assets	616.7	552.7
Property, plant and equipment, net	171.9	167.1
Goodwill	90.8	86.6
Intangible assets, net	95.4	96.6
Other long-term assets	77.5	71.3
Total assets	\$1,052.3	\$ 974.3

## LIABILITIES AND SHAREHOLDERS' EQUITY

## Current liabilities:

Trade accounts payable	\$155.2	\$ 133.6
Current portion of long-term debt and short-term debt	16.6	30.8
Accrued expenses and other	78.9	77.5
Total current liabilities	250.7	241.9
Long-term liabilities, less current portion:		
Debt	496.1	439.0
Deferred income taxes	27.2	27.7
Other long-term liabilities	22.1	29.7
Total long-term liabilities	545.4	496.4
Park-Ohio Holdings Corp. and Subsidiaries shareholders' equity	245.7	226.0
Noncontrolling interests	10.5	10.0
Total equity	256.2	236.0
Total liabilities and shareholders' equity	\$1,052.3	\$ 974.3

Refer to the accompanying notes to these unaudited condensed consolidated financial statements.

Table of ContentsPark-Ohio Holdings Corp. and Subsidiaries  
Condensed Consolidated Statements of Income (Unaudited)

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
	(In millions, except per share data)			
Net sales	\$350.9	\$329.4	\$694.7	\$657.4
Cost of sales	290.6	275.1	578.9	555.3
Gross profit	60.3	54.3	115.8	102.1
Selling, general and administrative expenses	36.2	34.0	72.8	66.5
Litigation settlement gain	—	—	(3.3 )	—
Asset impairment charge	—	—	—	4.0
Operating income	24.1	20.3	46.3	31.6
Interest expense	7.9	7.0	15.3	14.1
Loss on extinguishment of debt	11.0	—	11.0	—
Income before income taxes	5.2	13.3	20.0	17.5
Income tax expense	2.0	4.3	6.7	5.8
Net income	3.2	9.0	13.3	11.7
Net income attributable to noncontrolling interests	(0.2 )	—	(0.5 )	—
Net income attributable to Park-Ohio Holdings Corp. common shareholders	\$3.0	\$9.0	\$12.8	\$11.7
Earnings per common share attributable to Park-Ohio Holdings Corp. common shareholders:				
Basic	\$0.25	\$0.74	\$1.05	\$0.97
Diluted	\$0.24	\$0.73	\$1.03	\$0.96
Weighted-average shares used to compute earnings per share:				
Basic	12.2	12.1	12.2	12.1
Diluted	12.4	12.3	12.5	12.2
Dividends per common share	\$0.125	\$0.125	\$0.250	\$0.250

Refer to the accompanying notes to these unaudited condensed consolidated financial statements.

Table of ContentsPark-Ohio Holdings Corp. and Subsidiaries  
Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Net income	\$3.2	\$9.0	\$13.3	\$11.7
Other comprehensive income (loss):				
Foreign currency translation adjustment	7.5	(6.5 )	11.5	(3.9 )
Pension and other postretirement benefit adjustments, net of tax	0.2	0.2	0.4	0.4
Total other comprehensive income (loss)	7.7	(6.3 )	11.9	(3.5 )
Total comprehensive income, net of tax	10.9	2.7	25.2	8.2
Comprehensive income attributable to noncontrolling interests	(0.2 )	—	(0.5 )	—
Comprehensive income attributable to Park-Ohio Holdings Corp. common shareholders	\$10.7	\$2.7	\$24.7	\$8.2

Refer to the accompanying notes to these unaudited condensed consolidated financial statements.

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## Park-Ohio Holdings Corp. and Subsidiaries

## Condensed Consolidated Statements of Cash Flows (Unaudited)

Six Months Ended June 30,

2017

2016

(In millions)

OPERATING  
ACTIVITIES

Net income	\$	13.3		\$	11.7	
Adjustments to reconcile net income to net cash provided (used) by operating activities:						
Depreciation and amortization		15.8			14.8	
Loss on extinguishment of debt		11.0			—	
Litigation settlement gain		(3.3	)		—	
Asset impairment charge		—			4.0	
Share-based compensation expense		4.1			5.5	
Changes in operating assets and liabilities:						
Accounts receivable		(24.0	)		(1.0	)
Inventories		(5.4	)		(0.4	)
Other current assets		(8.3	)		(6.2	)
Accounts payable and accrued expenses		14.9			5.4	
Litigation settlement payment		(4.0	)		—	
Other		(5.1	)		(6.3	)
Net cash provided by operating activities		9.0			27.5	
INVESTING ACTIVITIES						
Purchases of property, plant and equipment		(12.4	)		(14.0	)
Business acquisition		(10.5	)		—	
Net cash used by investing activities		(22.9	)		(14.0	)
FINANCING ACTIVITIES						
Payments on revolving credit facility, net		(28.8	)		(13.5	)
Payments on term loans and other debt		(28.9	)		(2.2	)
Proceeds from term loans and other debt		—			6.2	
		1.2			(1.6	)



Proceeds from (payments on) capital lease facilities, net				
Issuance of 6.625% Senior Notes due 2027	350.0		—	
Debt financing costs	(7.2)	)	—	
Repurchase of 8.125% Senior Notes due 2021	(250.0)	)	—	
Premium on early extinguishment of debt	(8.0)	)	—	
Dividends	(3.1)	)	(3.1)	)
Purchase of treasury shares	(3.6)	)	—	
Payments of withholding taxes on share awards	(2.3)	)	(1.6)	)
Payment of acquisition earn-out	—		(2.0)	)
Net cash provided (used) by financing activities	19.3		(17.8)	)
Effect of exchange rate changes on cash	3.0		0.3	
Increase (decrease) in cash and cash equivalents	8.4		(4.0)	)
Cash and cash equivalents at beginning of period	64.3		62.0	
Cash and cash equivalents at end of period	\$ 72.7		\$ 58.0	

Refer to the accompanying notes to these unaudited condensed consolidated financial statements.

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Park-Ohio Holdings Corp. and Subsidiaries  
Notes to Unaudited Condensed Consolidated Financial Statements  
June 30, 2017

NOTE 1 — Basis of Presentation

The condensed consolidated financial statements include the accounts of Park-Ohio Holdings Corp. and its subsidiaries (collectively, “we”, “our” or the “Company”). All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three- and six-month periods ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. The balance sheet at December 31, 2016 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 — New Accounting Pronouncements

Accounting Pronouncements Adopted

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” The ASU simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification of related amounts within the statement of cash flows. The Company adopted this ASU effective January 1, 2017.

ASU 2016-09 requires prospective recognition of excess tax benefits and deficiencies resulting from share-based compensation awards vesting and exercises be recognized as a discrete income tax adjustment in the income statement. Previously, these amounts were recognized in Additional paid-in capital. In the six months ended June 30, 2017, the Company recognized income tax expense of \$0.3 million for excess tax deficiencies upon vesting of awards. In addition, ASU 2016-09 requires excess tax benefits and shortfalls to be prospectively excluded from the assumed future proceeds in the calculation of diluted shares, resulting in an insignificant increase in diluted weighted average shares outstanding for the six months ended June 30, 2017 and an immaterial impact on earnings per share. ASU 2016-09 also requires that excess tax benefits from share-based compensation awards be reported as operating activities in the Condensed Consolidated Statements of Cash Flows. Previously, this activity was included in financing activities on the Condensed Consolidated Statements of Cash Flows. The Company has elected to apply this change on a prospective basis. This change has an immaterial impact on our Condensed Consolidated Statements of Cash

Flows. Also, we elected to continue to estimate forfeitures rather than account for them as they occur.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill impairment." The amendments in the ASU simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company early adopted this guidance for any impairment test performed after January 1, 2017.

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Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which was the result of a joint project by the FASB and International Accounting Standards Board to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. generally accepted accounting principles and International Financial Reporting Standards. The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The ASU will require either retrospective application to each prior reporting period presented or modified retrospective application with the cumulative effect of initially applying the standard recognized at the date of adoption. The Company is in the process of analyzing the impact of ASU 2014-09, and the related ASUs, across all its businesses. This includes performing contract reviews and reviewing current accounting policies and practices to identify potential differences that would result from applying the requirements under the new standard. The Company expects to adopt the new standard using the modified retrospective approach, under which the cumulative effect of initially applying the new guidance is recognized as an adjustment to the opening balance of retained earnings upon adoption effective January 1, 2018. We are still evaluating the impact and an estimation of the impact cannot be made at this time. In addition, the standard requires new substantial disclosures and we continue to evaluate these requirements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments in the ASU address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The FASB also is addressing measurement of credit losses on financial assets in a separate project. The ASU is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is not permitted. The new guidance will be applied prospectively. The Company is currently evaluating the impact of adopting this guidance.

In February 2016, the FASB issued ASU 2016-02 "Leases (Topic 842)." The ASU establishes a comprehensive new lease accounting model. The new standard: (a) clarifies the definition of a lease; (b) requires a dual approach to lease classification similar to current lease classifications; and (c) causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease term of more than twelve months. The ASU is effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The new standard requires a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial application. The Company is currently evaluating the impact of adopting this guidance.

In March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The ASU requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The Company is planning to adopt this standard in the first quarter of 2018. The Company is currently evaluating the impact of adopting this guidance.

No other recently issued ASUs are expected to have a material impact on our results of operations, financial condition or liquidity.

NOTE 3 — Segments

Our operating segments are defined as components of the enterprise for which separate financial information is available and evaluated on a regular basis by our chief operating decision maker to allocate resources and assess performance.

For purposes of measuring business segment performance, the Company utilizes segment operating income, which is defined as revenues less expenses identifiable to the product lines within each segment. The Company does not allocate items that are non-operating; unusual in nature; or are corporate costs, which include but are not limited to executive and share-based compensation and corporate office costs. Segment operating income reconciles to consolidated income before income taxes by deducting corporate costs, certain non-cash items and interest expense.

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Park-Ohio Holdings Corp. and Subsidiaries  
Notes to Unaudited Condensed Consolidated Financial Statements  
June 30, 2017

Results by business segment were as follows:

	Three Months		Six Months	
	Ended June 30, 2017	2016	Ended June 30, 2017	2016
	(In millions)			
Net sales:				
Supply Technologies	\$142.4	\$132.9	\$275.6	\$262.8
Assembly Components	126.0	134.3	265.3	266.0
Engineered Products	82.5	62.2	153.8	128.6
	\$350.9	\$329.4	\$694.7	\$657.4
Segment operating income:				
Supply Technologies	\$12.4	\$10.9	\$23.7	\$21.1
Assembly Components	13.1	14.2	25.6	24.4
Engineered Products	5.8	3.2	7.5	4.6
Total segment operating income	31.3	28.3	56.8	50.1
Corporate costs	(7.2 )	(8.0 )	(13.8 )	(14.5 )
Litigation settlement gain	—	—	3.3	—
Asset impairment charge	—	—	—	(4.0 )
Operating income	24.1	20.3	46.3	31.6
Interest expense	(7.9 )	(7.0 )	(15.3 )	(14.1 )
Loss on extinguishment of debt	(11.0 )	—	(11.0 )	—
Income before income taxes	\$5.2	\$13.3	\$20.0	\$17.5

## NOTE 4 — Acquisitions

In April 2017, the Company, through its wholly-owned subsidiary Apollo Aerospace Components, completed the acquisition of Aero-Missile Components Inc. (“AMC”) for \$10.5 million in cash. AMC is a supply chain management business providing high-quality specialty fasteners and other components to the defense and aerospace markets. The results of AMC are included in the Supply Technologies segment from the date of acquisition. The allocation of the purchase price is subject to finalization of the Company's determination of the fair value of assets acquired and liabilities assumed as of the acquisition date. The Company has not yet finalized its analysis of the fair value of inventory and certain other assets and liabilities. The final allocation is expected to be completed as soon as practicable but no later than twelve months after the acquisition date. As of June 30, 2017, the Company recorded goodwill of \$2.2 million related to this transaction.

In December 2016, the Company acquired all the outstanding capital stock of GH Electrotermia S.A. (“GH”), headquartered in Valencia, Spain, for \$23.4 million in cash (net of \$6.3 million cash acquired), plus the assumption of \$13.9 million in debt. The allocation of the purchase price at June 30, 2017, which is materially unchanged from December 31, 2016, is subject to finalization of the Company's determination of the fair value of assets acquired and liabilities assumed as of the acquisition date. The Company has not yet finalized its analysis of the fair value of property, plant and equipment; intangible assets; noncontrolling interests; deferred taxes and certain other assets and liabilities. The final allocation is expected to be completed as soon as practicable but no later than twelve months after the acquisition date. In addition, the purchase agreement stipulates potential contingent consideration of up to \$2.1

million based on achievement of certain EBITDA targets for 2016 and 2017. The EBITDA target for 2016 was not achieved. The estimated fair value of the contingent consideration, valued using level 3 inputs, was approximately \$1.1 million as of June 30, 2017 and December 31, 2016.

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 June 30, 2017

## NOTE 5 — Inventories

The components of inventory consist of the following:

	June 30, December 31,	
	2017	2016
	(In millions)	
Finished goods	\$143.5	\$ 131.4
Work in process	44.3	43.4
Raw materials and supplies	68.7	65.8
Inventories, net	\$256.5	\$ 240.6

## NOTE 6 — Accrued Warranty Costs

The Company estimates warranty claims on products sold that may be incurred based on current and historical data. Actual warranty expense could differ from the estimates made by the Company based on product performance. The following table presents changes in the Company's product warranty liability for the six months ended June 30, 2017 and 2016:

	2017	2016
	(In millions)	
January 1	\$7.1	\$6.1
Claims paid	(1.6)	(1.0)
Warranty expense, net	2.1	0.8
June 30	\$7.6	\$5.9

## NOTE 7 — Income Taxes

The Company's tax provision for interim periods is determined using an estimate of its annual effective income tax rate, adjusted for discrete items, if any, in each period. Each quarter, the Company updates its estimated annual effective income tax rate, and if the estimated income tax rate changes, a cumulative adjustment is made. The effective income tax rates for the first six months of 2017 and 2016 were 33.5% and 33.1%, respectively.

The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax expense. It is reasonably possible that, within the next twelve months, the amount of gross unrecognized tax benefits could be reduced by approximately \$1.4 million as a result of the closure of tax statutes related to existing uncertain tax positions.

## NOTE 8 — Financing Arrangements

Long-term debt consists of the following:



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Park-Ohio Holdings Corp. and Subsidiaries  
Notes to Unaudited Condensed Consolidated Financial Statements  
June 30, 2017

	Maturity Date	Interest Rate at June 30, 2017	Carrying Value at June 30, December 31, 2017 2016	
(In millions)				
Senior Notes due 2027	April 15, 2027	6.625 %	\$ 350.0	\$ —
Senior Notes due 2021	April 1, 2021	8.125 %	—	250.0
Revolving credit facility	April 17, 2022	3.11 %	104.0	132.8
Term Loan			—	23.4
Industrial Equipment Group European Facilities	December 21, 2021	3.25 %	27.1	26.4
Capital Leases	Various	Various	20.0	18.8
Other	Various	Various	20.4	23.6
Gross debt			521.5	475.0
Less current portion of long-term debt			(13.1 )	(25.8 )
Less short-term debt			(3.5 )	(5.0 )
Less unamortized debt issuance costs			(8.8 )	(5.2 )
Total long-term debt, net			\$ 496.1	\$ 439.0

On April 17, 2017, Park-Ohio Industries, Inc. (“Park-Ohio”), the operating subsidiary of Park-Ohio Holdings Corp., completed the issuance, in a private placement, of \$350.0 million aggregate principal amount of 6.625% Senior Notes due 2027 (the “Notes”). Interest on the Notes is payable semi-annually in arrears on April 15 and October 15 of each year, commencing on October 15, 2017, and the Notes mature on April 15, 2027. The Notes are unsecured senior obligations of Park-Ohio and are guaranteed on an unsecured senior basis by the material domestic subsidiaries of Park-Ohio. Proceeds from the Notes issuance were used to repay in full the previously-outstanding 8.125% Senior Notes due 2021 in the aggregate principal amount of \$250.0 million, the term loan and a portion of the borrowings outstanding under the revolving credit facility.

On April 17, 2017, Park-Ohio also entered into a seventh amended and restated credit agreement (the “Amended Credit Agreement”) with a group of banks to increase the revolving credit facility to \$350.0 million and extend the maturity date of borrowings under the facility to April 17, 2022. Furthermore, Park-Ohio has the option, pursuant to the Amended Credit Agreement, to increase the availability under the revolving credit facility by an aggregate incremental amount up to \$100.0 million.

In connection with the April 2017 repurchase of Senior Notes due 2021 and amendment of our credit agreement, we recorded an \$11.0 million loss on extinguishment of debt, representing premiums paid on early extinguishment of \$8.0 million, the write-off of unamortized prior debt issuance costs of \$2.5 million, and related fees and expenses of \$0.5 million.

On December 21, 2016, the Company, through its subsidiary, IEGE Industrial Equipment Holding Company Limited, entered into a financing agreement with Banco Bilbao Vizcaya Argentaria, S.A. The financing agreement provides the Company the ability to borrow up to \$38.6 million, including a loan for \$27.1 million for the acquisition of GH as well as a revolving credit facility for up to \$11.5 million to fund working capital and general corporate needs. The full amount of the loan is outstanding as of June 30, 2017; no amounts have been drawn on the revolving credit facility as

of June 30, 2017.

On August 13, 2015, the Company entered into a Capital Lease Agreement (the "Lease Agreement"). The Lease Agreement provides the Company up to \$50.0 million for capital leases. Capital lease obligations of \$20.0 million were borrowed under the Lease Agreement to acquire machinery and equipment as of June 30, 2017.

On October 21, 2015, the Company, through its Southwest Steel Processing LLC subsidiary, entered into a financing agreement with the Arkansas Development Finance Authority. The financing agreement provides the Company the ability to borrow up to \$11.0 million for expansion of its manufacturing facility in Arkansas. The financing agreement matures in

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Park-Ohio Holdings Corp. and Subsidiaries  
 Notes to Unaudited Condensed Consolidated Financial Statements  
 June 30, 2017

September 2025. The Company had \$5.8 million of borrowings outstanding under this agreement as of June 30, 2017, which is included in Other above.

The following table represents fair value information of the Notes, classified as Level 1 using estimated quoted market prices.

	June 30, 2017 (In millions)
Carrying amount	\$ 350.0
Fair value	\$ 367.5

## NOTE 9 — Stock-Based Compensation

There was no stock option activity for the six months ended June 30, 2017.

A summary of restricted share activity for the six months ended June 30, 2017 is as follows:

	2017		2017	
	Time-Based		Performance-Based	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
	(In whole shares)		(In whole shares)	
Outstanding - beginning of year	216,916	\$ 36.94	165,000	\$ 34.78
Granted	101,670	38.42	165,000	38.10
Vested	(82,571 )	44.76	(55,000 )	34.78
Performance-based to time-based <sup>(a)</sup>	110,000	34.78	(110,000 )	34.78
Canceled or expired	(2,000 )	37.97	—	—
Outstanding - end of period	344,015	\$ 34.80	165,000	\$ 38.10

(a) During the first quarter of 2017, 55,000 of the performance-based restricted shares granted in 2016 fully vested based on the achievement of the performance criteria. In accordance with the grant agreements, the remaining 110,000 shares became time-based, vesting over the remaining two years of the requisite service period.

Total stock-based compensation expense included in selling, general and administrative expenses during the first six months of 2017 and 2016 was \$4.1 million and \$5.5 million, respectively. As of June 30, 2017, there was \$13.5 million of unrecognized compensation cost related to non-vested stock-based compensation, which cost is expected to be recognized over a weighted-average period of 1.9 years.

NOTE 10 — Commitments, Contingencies and Litigation Settlement

The Company is subject to various pending and threatened legal proceedings arising in the ordinary course of business. The Company records a liability for loss contingencies in the consolidated financial statements when a loss is known or considered probable and the amount can be reasonably estimated. Our provisions are based on historical experience, current information and legal advice, and they may be adjusted in the future based on new developments. Estimating probable losses requires the analysis of multiple forecasted factors that often depend on judgments and potential actions by third parties. Although it is not possible to predict with certainty the ultimate outcome or cost of these matters, the Company believes they will not have a material adverse effect on our consolidated financial statements.

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Park-Ohio Holdings Corp. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2017

IPSCO Tubulars Inc. d/b/a TMK IPSCO sued Ajax Tocco Magnethermic Corporation (“ATM”), a subsidiary of Park-Ohio Holdings Corporation, in the United States District Court for the Eastern District of Arkansas claiming that equipment supplied by ATM for heat treating certain steel pipe at IPSCO's Blytheville, Arkansas facility did not perform as required by the contract. The complaint alleged causes of action for breach of contract, gross negligence and constructive fraud. IPSCO sought approximately \$10.0 million in damages plus an unspecified amount of punitive damages. In September 2013, the district court issued a judgment in favor of IPSCO in the amount of \$5.2 million, which the Company recognized and accrued for at that time. In March 2016, the district court issued an order granting, in part, IPSCO's motion for fees and costs and awarding \$2.2 million to IPSCO, which the Company accrued for as of December 31, 2015. ATM filed a third appeal of that decision. On March 28, 2017, the Company and IPSCO agreed to a settlement and release of all claims for the payment by the Company of \$4.0 million to IPSCO, which was made in March 2017. As of the settlement date, the Company had \$7.3 million accrued for this matter. The Company reversed the excess liability and recognized \$3.3 million in income in the first quarter of 2017.

Our subsidiaries are involved in a number of contractual and warranty-related disputes. We believe that appropriate liabilities for these contingencies have been recorded; however, actual results may differ materially from our estimates.

In August 2013, the Company received a subpoena from the staff of the Securities and Exchange Commission (“SEC”) in connection with the staff’s investigation of a third party. At that time, the Company also learned that the U.S. Department of Justice (“DOJ”) is conducting a criminal investigation of the third party. In connection with its initial response to the staff’s subpoena, the Company disclosed to the staff of the SEC that, in November 2007, the third party participated in a payment on behalf of the Company to a foreign tax official that implicates the Foreign Corrupt Practices Act. The Board of Directors of the Company formed a special committee to review the Company’s transactions with the third party and to make any recommendations to the Board of Directors with respect thereto. The Company intends to cooperate fully with the SEC and the DOJ in connection with their investigations of the third party and with the SEC in light of the Company’s disclosure. The Company is unable to predict the outcome or impact of the special committee’s investigation or the length, scope or results of the SEC’s review or the impact on its results of operations.

## NOTE 11 — Pension and Postretirement Benefits

The components of net periodic benefit (income) costs recognized during interim periods were as follows:

	Pension Benefits				Postretirement Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016	2017	2016	2017	2016
	(In millions)							
Service costs	\$0.7	\$0.6	\$1.3	\$1.2	\$—	\$—	\$—	\$—
Interest costs	0.4	0.4	0.9	0.9	—	0.1	0.1	0.2
Expected return on plan assets	(2.4 )	(2.4 )	(4.8 )	(4.8 )	—	—	—	—
Recognized net actuarial loss	0.3	0.3	0.6	0.6	0.1	0.1	0.1	0.2
Net periodic benefit (income) costs	\$(1.0)	\$(1.1)	\$(2.0)	\$(2.1)	\$0.1	\$0.2	\$0.2	\$0.4

Weighted average:

Discount rate	3.91 %	4.13 %	3.63 %	3.80 %
Expected return on plan assets	8.25 %	8.25 %		

NOTE 12 — Accumulated Other Comprehensive Loss

The components of and changes in accumulated other comprehensive loss for the six months ended June 30, 2017 and 2016 were as follows:

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Park-Ohio Holdings Corp. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2017

	Cumulative Translation Adjustments (In millions)	Pension and Postretirement Benefits	Total
January 1, 2017	\$(30.8)	\$ (11.9 )	\$(42.7)
Foreign currency translation adjustments <sup>(a)</sup>	11.5	—	11.5
Pension and OPEB activity, net of tax adjustments <sup>(b)</sup>	—	0.4	0.4
June 30, 2017	\$(19.3)	\$ (11.5 )	\$(30.8)
January 1, 2016	\$(16.9)	\$ (13.1 )	\$(30.0)
Foreign currency translation adjustments <sup>(a)</sup>	(3.9 )	—	(3.9 )
Pension and OPEB activity, net of tax adjustments <sup>(b)</sup>	—	0.4	0.4
June 30, 2016	\$(20.8)	\$ (12.7 )	\$(33.5)

(a) No income taxes are provided on foreign currency translation adjustments as foreign earnings are considered permanently re-invested.

(b) The tax adjustments are reclassified out of accumulated other comprehensive income and included in income tax expense.

## NOTE 13 — Weighted-Average Number of Shares Used in Computing Earnings Per Share

The following table sets forth the weighted-average number of shares used in the computation of earnings per share:

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2016	Three Months Ended June 30, 2017	Six Months Ended June 30, 2016
	(In millions)			
Weighted average basic shares outstanding	12.2	12.1	12.2	12.1
Plus: Dilutive impact of employee stock awards	0.2	0.2	0.3	0.2
Weighted average diluted shares outstanding	12.4	12.3	12.5	12.2

Outstanding stock options with exercise prices greater than the average price of the common shares are anti-dilutive and are excluded in the computation of diluted earnings per share. There were no anti-dilutive shares for the six months ended June 30, 2017 and 2016.

## NOTE 14 - Asset Impairment

In the first quarter of 2016, due to the accelerated end of production in certain programs with an automotive customer, the Company evaluated its long-lived assets in accordance with ASU 360, "Property, Plant and Equipment." As the carrying value of the assets exceeded the expected undiscounted cash flows, the Company estimated the fair value of these assets to determine whether impairment existed. The fair value of the assets was estimated, using Level 2 inputs, based on the expected sale proceeds of similar machinery and equipment as determined using third party quotes and appraisals. As a result of its analysis, the Company recorded an asset impairment charge of \$4.0 million.



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Park-Ohio Holdings Corp. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2017

NOTE 15— Subsequent Event

On July 28, 2017, the Company's Board of Directors declared a quarterly dividend of \$0.125 per common share. The dividend will be paid on August 25, 2017 to shareholders of record as of the close of business on August 11, 2017 and will result in a cash outlay of approximately \$1.6 million.

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

Our condensed consolidated financial statements include the accounts of Park-Ohio Holdings Corp. and its subsidiaries (collectively, "we," "our," or the "Company"). All significant intercompany transactions have been eliminated in consolidation.

EXECUTIVE OVERVIEW

We are an industrial Total Supply Management™ and diversified manufacturing business, operating in three segments: Supply Technologies, Assembly Components and Engineered Products.

Supply Technologies provides our customers with Total Supply Management™, a proactive solutions approach that manages the efficiencies of every aspect of supplying production parts and materials to our customers' manufacturing floor, from strategic planning to program implementation. Total Supply Management™ includes such services as engineering and design support, part usage and cost analysis, supplier selection, quality assurance, bar coding, product packaging and tracking, just-in-time and point-of-use delivery, electronic billing services and ongoing technical support. Our Supply Technologies business services customers in the following principal industries: heavy-duty truck; automotive, truck and vehicle parts; power sports and recreational equipment; bus and coaches; electrical distribution and controls; agricultural and construction equipment; consumer electronics; HVAC; lawn and garden; semiconductor equipment; aerospace and defense; and plumbing.

Assembly Components manufactures parts and assemblies and provides value-added design, engineering and assembly services that are incorporated into our customer's end products and oriented toward improving fuel efficiency and reducing weight in the customer's end products. Our product offerings include cast and machined aluminum engine, transmission, brake, suspension and other components, such as pump housings, clutch retainers/pistons, control arms, knuckles, master cylinders, pinion housings, brake calipers, oil pans and flywheel spacers, industrial hose and injected molded rubber and plastic components, gasoline direct injection systems and fuel filler assemblies. Our products are primarily used in the following industries: automotive, including SUV/minivan/light-truck; agricultural; construction; heavy-duty truck; and marine original equipment manufacturers ("OEMs"), on a sole-source basis.

Engineered Products operates a diverse group of niche manufacturing businesses that design and manufacture a broad range of highly-engineered products including induction heating and melting systems, pipe threading systems, industrial oven systems, and forged and machined products. Engineered Products also produces and provides services and spare parts for the equipment it manufactures. The principal customers of Engineered Products are OEMs, sub-assemblers and end users in the ferrous and non-ferrous metals; silicon; coatings; forging; foundry; heavy-duty truck; construction equipment; automotive; oil and gas; locomotive and rail manufacturing; and aerospace and defense industries.

Sales and segment operating income for these three segments are provided in Note 3 to the condensed consolidated financial statements, included elsewhere herein.

Subsequent Event

On July 28, 2017, the Company's Board of Directors declared a quarterly dividend of \$0.125 per common share. The dividend will be paid on August 25, 2017 to shareholders of record as of the close of business on August 11, 2017 and will result in a cash outlay of approximately \$1.6 million.



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## RESULTS OF OPERATIONS

Three Months Ended June 30, 2017 Compared with Three Months Ended June 30, 2016

	Three Months Ended June 30,		\$ Change	% Change	
	2017	2016			
	(Dollars in millions, except per share data)				
Net sales	\$350.9	\$329.4	\$21.5	6.5	%
Cost of sales	290.6	275.1	15.5	5.6	%
Gross profit	60.3	54.3	6.0	11.0	%
Gross margin	17.2	% 16.5	%		
SG&A expenses	36.2	34.0	2.2	6.5	%
SG&A as a percentage of net sales	10.3	% 10.3	%		
Operating income	24.1	20.3	3.8	18.7	%
Interest expense	7.9	7.0	0.9	12.9	%
Loss on extinguishment of debt	11.0	—	11.0	*	
Income before income taxes	5.2	13.3	(8.1 )	(60.9)%	
Income tax expense	2.0	4.3	(2.3 )	(53.5)%	
Net income	3.2	9.0	(5.8 )	(64.4)%	
Net income attributable to noncontrolling interest	(0.2 )	—	(0.2 )	*	
Net income attributable to Park-Ohio Holdings Corp. common shareholders	\$3.0	\$9.0	\$(6.0 )	(66.7)%	
Earnings per common share attributable to Park-Ohio Holdings Corp. common shareholders:					
Basic	\$0.25	\$0.74	\$(0.49 )	(66.2)%	
Diluted	\$0.24	\$0.73	\$(0.49 )	(67.1)%	

\* Calculation not meaningful

## Net Sales

Net sales increased 6.5%, to \$350.9 million in the second quarter of 2017, compared to \$329.4 million in the same period in 2016, due primarily to higher end market demand for our products in our Supply Technologies and Engineered Products segments, and sales from GH Electrotermia S.A. (“GH”), which was acquired in December 2016. In our Assembly Components segment, higher sales from our filler pipe and fuel rail product lines were more than offset by lower sales volumes in our aluminum business, which was down due to the end of production in certain programs.

The factors explaining the changes in segment net sales for the three months ended June 30, 2017 compared to the corresponding 2016 period are contained within the “Segment Results” section below.

## Cost of Sales &amp; Gross Profit

Cost of sales increased to \$290.6 million in the second quarter of 2017, compared to \$275.1 million in the same period in 2016. The increase in cost of sales was primarily due to the increase in net sales for the Supply Technologies and Engineered Products segments.

Gross margin was 17.2% in the second quarter of 2017 compared to 16.5% in the same period in 2016. The improvement was largely due to the higher profit flow-through from higher sales.

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### Selling, General & Administrative ("SG&A") Expenses

SG&A expenses increased to \$36.2 million in the second quarter of 2017 compared to \$34.0 million in the same period in 2016. The increase is primarily due to SG&A expenses associated with GH. SG&A expenses as a percent of sales was 10.3% in the second quarter of both years.

### Interest Expense

Interest expense was higher in the 2017 quarter due primarily to higher outstanding borrowings in the second quarter of 2017 compared to the second quarter a year ago. Interest expense on the outstanding senior notes was higher in the second quarter due to the higher principal amount, which more than offset the lower interest rate due to the April 2017 refinancing. In addition, the second quarter of 2017 included interest expense on the GH-related debt, which the Company incurred in December 2016. With respect to the revolving credit facility and term loan, higher interest rates offset the benefit of lower outstanding borrowings as a result of debt repayments in connection with the debt refinancing in April 2017.

### Loss on Extinguishment of Debt

During the second quarter of 2017, we incurred \$11.0 million of expenses related to our debt refinancing activities. Such expenses included tender premiums, bank and other fees and accelerated amortization of certain debt issuance costs previously capitalized related to our former borrowings.

### Income Tax Expense

The effective income tax rates were 38.5% in the 2017 period and 32.3% in the 2016 period. The rate in the 2017 period includes a discrete item of \$0.4 million, which increased the rate by approximately 7%. The rates in both periods, excluding the 2017 discrete item, are lower than the U.S. statutory income tax rate due earnings in foreign jurisdictions in which the income tax rates are lower than the U.S. rate.

### Net Income

Net income decreased to \$3.2 million in the second quarter of 2017, compared to \$9.0 million in the second quarter of 2016, due primarily to the loss on extinguishment of debt in the second quarter of 2017 noted above.

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## RESULTS OF OPERATIONS

Six Months Ended June 30, 2017 Compared with Six Months Ended June 30, 2016

	Six Months Ended June 30,		\$	%	
	2017	2016	Change	Change	
	(Dollars in millions, except per share data)				
Net sales	\$694.7	\$657.4	\$ 37.3	5.7	%
Cost of sales	578.9	555.3	23.6	4.2	%
Gross profit	115.8	102.1	13.7	13.4	%
Gross margin	16.7	% 15.5	%		
SG&A expenses	72.8	66.5	6.3	9.5	%
SG&A as a percentage of net sales	10.5	% 10.1	%		
Litigation settlement gain	(3.3 )	—	(3.3 )	*	
Asset impairment charge	—	4.0	(4.0 )	*	
Operating income	46.3	31.6	14.7	46.5	%
Interest expense	15.3	14.1	1.2	8.5	%
Loss on extinguishment of debt	11.0	—	11.0	*	
Income before income taxes	20.0	17.5	2.5	14.3	%
Income tax expense	6.7	5.8	0.9	15.5	%
Net income	13.3	11.7	1.6	13.7	%
Net income attributable to noncontrolling interests	(0.5 )	—	(0.5 )	*	
Net income attributable to Park-Ohio Holdings Corp. common shareholders	\$12.8	\$11.7	\$ 1.1	9.4	%
Earnings per common share attributable to Park-Ohio Holdings Corp. common shareholders:					
Basic	\$1.05	\$0.97	\$ 0.08	8.2	%
Diluted	\$1.03	\$0.96	\$ 0.07	7.3	%

\* Calculation not meaningful

## Net Sales

Net sales increased 5.7%, to \$694.7 million in the first six months of 2017, compared to \$657.4 million in the same period in 2016, mainly due to higher end market demand for our products in our Supply Technologies and Engineered Products segments, and sales from GH, which was acquired in December 2016. In our Assembly Components segment, higher sales from our filler pipe and fuel rail product lines were more than offset by lower sales volumes in our aluminum business, which was down due to the end of production in certain programs.

The factors explaining the changes in segment net sales for the six months ended June 30, 2017 compared to the corresponding 2016 period are contained in the “Segment Results” section below.

## Cost of Sales &amp; Gross Profit

Cost of sales increased to \$578.9 million in the first six months of 2017, compared to \$555.3 million in the same period in 2016. The increase in cost of sales was primarily due to the increase in net sales during the 2017 period compared to the same period a year ago.





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Gross margin was 16.7% in the first six months of 2017 compared to 15.5% in the same period in 2016. The increase in gross margin was largely due to the higher profit flow-through from higher sales in the 2017 period, especially in Supply Technologies and Engineered Products.

### SG&A Expenses

SG&A expenses increased to \$72.8 million in the first six months of 2017, compared to \$66.5 million in the same period in 2016. SG&A expenses as a percent of sales increased to 10.5% in the first six months of 2017 compared to 10.1% in the first six months of 2016. These increases were primarily due to the SG&A associated with GH.

### Litigation Settlement Gain

During the first six months of 2017, the Company paid \$4.0 million to settle the IPSCO litigation. In connection with the settlement, the Company recognized \$3.3 million of income related to the reversal of its excess litigation liability.

### Asset Impairment Charge

An asset impairment charge of \$4.0 million was recognized in the first six months of 2016 due to the accelerated end of production in certain programs with an automotive customer in our aluminum products business.

### Interest Expense

Interest expense was higher in the first six months of 2017 due primarily to higher outstanding borrowings in the first six months of 2017 compared to the first six months a year ago. Interest expense on the outstanding senior notes was higher due to the higher principal amount, which more than offset the lower interest rate due to the April 2017 refinancing. In addition, the first six months of 2017 included interest expense on the GH-related debt, which the Company incurred in December 2016. With respect to the revolving credit facility and term loan, higher interest rates offset the benefit of lower outstanding borrowings as a result of debt repayments in connection with the debt refinancing in April 2017.

### Loss on Extinguishment of Debt

During the first six months of 2017, we incurred \$11.0 million of expenses related to our debt refinancing activities. Such expenses included tender premiums, bank and other fees and accelerated amortization of certain debt issuance costs previously capitalized related to our former borrowings.

### Income Tax Expense

The effective income tax rate was 33.5% in the six months ended June 30, 2017 compared to 33.1% in the corresponding period of 2016. The rates in both periods are lower than the U.S. statutory income tax rate due earnings in foreign jurisdictions in which the income tax rates are lower than the U.S. rate.

### Net Income

Net income increased to \$13.3 million in the first six months of 2017, compared to \$11.7 million in the first six months of 2016, due to the reasons described above.

## SEGMENT RESULTS

For purposes of business segment performance measurement, the Company utilizes segment operating income, which is defined as revenues less expenses identifiable to the product lines within each segment. The Company does not allocate items that are non-operating or unusual in nature or are corporate costs, which include but are not limited to executive and share-based compensation and corporate office costs. Segment operating income reconciles to consolidated income before income

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taxes by deducting corporate costs, certain non-cash items and interest expense.

## Supply Technologies Segment

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
Net sales	\$142.4	\$132.9	\$275.6	\$262.8
Segment operating income	\$12.4	\$10.9	\$23.7	\$21.1
Segment operating income margin	8.7	% 8.2	% 8.6	% 8.0

## Three months ended June 30:

Net sales increased in the three months ended June 30, 2017 compared to the 2016 period due primarily to higher customer demand in the power sports and recreational equipment market, which was up 15% year-over-year; the semiconductor market, which was up 54% year-over-year; and the aerospace market, which was up 49% year-over-year. These increases were partially offset by a decrease in sales in the truck and truck-related market, which was down 4% compared to a year ago. In addition, sales were higher in our fastener business in the 2017 period due to increasing customer demand of our proprietary products.

Segment operating income increased by \$1.5 million, and segment operating income margin increased to 8.7% compared to 8.2% in the corresponding period of 2016. These increases were driven by the volume increases noted above.

## Six months ended June 30:

Net sales increased in the first six months of 2017 compared to the 2016 period due primarily to higher customer demand in the power sports and recreational equipment market, which was up 16% year-over-year; the semiconductor market, which was up 57% year-over-year; and the aerospace market, which was up 28% year-over-year. These increases were partially offset by a decrease in sales in the truck and truck-related market, which was down 10% compared to the same period a year ago. In addition, sales were higher in our fastener business in the 2017 period due to increasing customer demand of our proprietary products.

Segment operating income increased by \$2.6 million, and segment operating income margin increased to 8.6% compared to 8.0% in the corresponding period of 2016. These increases were driven by the volume increases noted above.

## Assembly Components Segment

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
Net sales	\$126.0	\$134.3	\$265.3	\$266.0
Segment operating income	\$13.1	\$14.2	\$25.6	\$24.4
Segment operating income margin	10.4	% 10.6	% 9.6	% 9.2

Three months ended June 30:

Net sales were lower in the 2017 period compared to the 2016 period due primarily to lower sales volumes in our aluminum business, which more than offset higher sales volumes in our fuel filler pipe and fuel rail product lines. The sales

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volume decreases in the aluminum business were due to the accelerated end of production in certain programs in 2016. The higher sales volumes in our fuel products businesses were driven by new product launches and higher foreign sales.

Segment operating income in the 2017 period decreased by \$1.1 million, driven by the lower sales levels in aluminum noted above. The segment operating income margins for the quarter were down slightly, as higher margins in fuel filler and fuel rail products businesses substantially offset the lower margins in our aluminum business.

Six months ended June 30:

Net sales were slightly lower in the 2017 period compared to the 2016 period due primarily to lower sales volumes in our aluminum business, which more than offset higher sales volumes in our fuel filler pipe and fuel rail product lines.

Segment operating income in the first six months of 2017 increased by \$1.2 million, and segment operating income margin increased to 9.6% compared to 9.2% in the corresponding period of 2016. These increases were driven by higher margins in fuel filler and fuel rail products businesses, which more than offset the lower margins in aluminum.

## Engineered Products Segment

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
Net sales	\$82.5	\$62.2	\$153.8	\$128.6
Segment operating income	\$5.8	\$3.2	\$7.5	\$4.6
Segment operating income margin	7.0	% 5.1	% 4.9	% 3.6

Three months ended June 30:

Net sales were 33% higher in the 2017 period compared to the 2016 period due primarily to sales from GH of \$13.3 million, which was acquired in December 2016, and increased customer demand for our induction heating and pipe threading products.

Segment operating income in the 2017 period increased by \$2.6 million and segment operating income margin improved to 7.0% compared to 5.1% in the corresponding 2016 period. These increases were driven by the significantly higher sales in the 2017 quarter compared to the same quarter a year ago.

Six months ended June 30:

Net sales were 20% higher in the 2017 period compared to the 2016 period due primarily to sales from GH of \$24 million, which was acquired in December 2016, and increased customer demand for our induction heating and pipe threading products.

Segment operating income in the 2017 period increased by \$2.9 million, and segment operating income margin improved to 4.9% compared to 3.6% in the corresponding 2016 period. These increases were driven by the higher sales in 2017 compared to a year ago.

## Liquidity and Capital Resources



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The following table summarizes the major components of cash flow:

	Six Months Ended June 30,		
	2017	2016	\$ Change
Net cash (used) provided by:	(In millions)		
Operating activities	\$9.0	\$27.5	\$(18.5)
Investing activities	(22.9)	(14.0)	(8.9)
Financing activities	19.3	(17.8)	37.1
Effect of exchange rate changes on cash	3.0	0.3	2.7
Increase (decrease) in cash and cash equivalents	\$8.4	\$(4.0)	\$12.4

### Operating Activities

Cash provided by operating activities decreased from the prior-year period due to higher working capital needs driven by higher sales levels in 2017, as well as the \$4.0 million litigation settlement payment in the first quarter of 2017. Higher sales levels drove an increase in accounts receivable of \$24.0 million compared to the same period a year ago.

### Investing Activities

Capital expenditures decreased by \$1.6 million compared to the prior-year period due to timing of expenditures. In 2017, we completed the acquisition of AMC for \$10.5 million. See Note 4 to the condensed consolidated financial statements for details.

### Financing Activities

Cash provided by financing activities in 2017 reflected net borrowings under our amended and restated revolving credit facility and the proceeds from our issuance of senior notes to fund higher working capital needs, the litigation settlement payment, our quarterly cash dividend payments, share repurchases, and debt refinancing costs. In the 2016 period, net cash used by financing activities reflected debt pay-downs and our quarterly cash dividends, which were both funded by our operating cash flows in the 2016 period.

We do not have off-balance sheet arrangements, financing or other relationships with unconsolidated entities or other persons.

### Liquidity

Our liquidity needs are primarily for working capital, capital expenditures and acquisitions. Our primary sources of liquidity have been funds provided by operations, funds available from existing bank credit arrangements and the sale of our debt securities. Our existing financial resources (working capital and available bank borrowing arrangements) and anticipated funds from operations are expected to be adequate to meet anticipated cash requirements for at least the next twelve months, including but not limited to our ability to maintain current operations and fund capital expenditure requirements, service our debt, pay dividends, pursue acquisitions, and repurchase shares.

The Company had cash and cash equivalents held by foreign subsidiaries of \$63.6 million at June 30, 2017 and \$54.4 million at December 31, 2016. For each of our foreign subsidiaries, we make a determination regarding the amount of earnings intended for permanent reinvestment, with the balance, if any, available to be repatriated to the United States. The cash held by foreign subsidiaries for permanent reinvestment is generally used to finance the foreign subsidiaries'

operational activities and/or future foreign investments. At June 30, 2017, management believed that sufficient liquidity was available in the United States, and it is our current intention to permanently reinvest undistributed earnings of our foreign subsidiaries outside of the United States. Although we have no intention to repatriate the approximately \$141.5 million of undistributed earnings of our



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foreign subsidiaries as of June 30, 2017, if we were to repatriate these earnings, there could potentially be an adverse tax impact.

### Senior Notes

On April 17, 2017, we completed the sale, in a private placement, of \$350.0 million aggregate principal amount of 6.625% Senior Notes due 2027 (the “Notes”). The net proceeds from the issuance were used to repay in full our previously outstanding 8.125% Senior Notes due 2021 and our outstanding term loan, and to repay a portion of the borrowings outstanding under our revolving credit facility.

### Credit Agreement

On April 17, 2017, the Company entered into Seventh Amended and Restated Credit Agreement (the “Credit Agreement”). The Credit Agreement, among other things, provides an increased revolving credit facility of up to \$350.0 million and extends the maturity date of borrowings under the facility to April 17, 2022. Furthermore, the Company has the option, pursuant to the Credit Agreement, to increase the availability under the revolving credit facility by an aggregate incremental amount up to \$100.0 million.

As of June 30, 2017, we had \$104.0 million outstanding and \$176.8 million million of unused borrowing availability under the revolving credit facility provided by the Credit Agreement, which includes the effect of Amendment 6 to the Amended Credit Agreement. Also, as of June 30, 2017, we had cash and cash equivalents of \$72.7 million.

### Capital Leases

On August 13, 2015, the Company entered into a Capital Lease Agreement (the “Lease Agreement”). The Lease Agreement provides the Company up to \$50.0 million for capital leases. Capital lease obligations of \$20.0 million were borrowed under the Lease Agreement to acquire machinery and equipment as of June 30, 2017.

### Covenants

The future availability of bank borrowings under the revolving credit facility provided by the Credit Agreement is based on our ability to meet a debt service ratio covenant, which could be materially impacted by negative economic trends. Failure to meet the debt service ratio covenant could materially impact the availability and interest rate of future borrowings.

At June 30, 2017, our debt service coverage ratio was 2.2, and, therefore, we were in compliance with the debt service coverage ratio covenant in the revolving credit facility provided by the Credit Agreement. The debt service coverage ratio is calculated at the end of each fiscal quarter based on the following ratio: (1) the most recently ended four fiscal quarters of consolidated EBITDA, as defined in the Credit Agreement, minus cash taxes paid, minus unfunded capital expenditures, plus cash tax refunds; to (2) consolidated debt charges, which are consolidated cash interest expense, plus scheduled principal payments on indebtedness, plus scheduled reductions in our term debt as defined in the Credit Agreement. The debt service coverage ratio must be greater than 1.0 and not less than 1.15 for any two consecutive fiscal quarters. We were also in compliance with the other covenants contained in the revolving credit facility as of June 30, 2017. While we expect to remain in compliance throughout 2017, declines in sales volumes in 2017 could adversely impact our ability to remain in compliance with certain of these financial covenants. Additionally, to the extent our customers are adversely affected by declines in the economy in general, they may be unable to pay their accounts payable to us on a timely basis or at all, which could make our accounts receivable ineligible for purposes of the revolving credit facility and could reduce our borrowing base and our ability to borrow under such facility.

## Dividends

The Company paid dividends of \$3.1 million during the six months ended June 30, 2017. In July 2017, our Board of Directors declared a quarterly dividend of \$0.125 per common share. The dividend will be paid on August 25, 2017 to shareholders of record as of the close of business on August 11, 2017 and will result in a cash outlay of approximately \$1.6

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million. Although we currently intend to pay a quarterly dividend on an ongoing basis, all future dividend declarations will be at the discretion of our Board of Directors and dependent upon then-existing conditions, including our operating results and financial condition, capital requirements, contractual restrictions, business prospects and other factors that our Board of Directors may deem relevant.

### Seasonality; Variability of Operating Results

The timing of orders placed by our customers has varied with, among other factors, orders for customers' finished goods, customer production schedules, competitive conditions and general economic conditions. The variability of the level and timing of orders has, from time to time, resulted in significant periodic and quarterly fluctuations in the operations of our businesses. Such variability is particularly evident in our capital equipment business, included in the Engineered Products segment, which typically ships large systems at a relatively lower pace than our other businesses.

### Critical Accounting Policies

Our critical accounting policies are described in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, and in the notes to our consolidated financial statements for the year ended December 31, 2016, both contained in our Annual Report on Form 10-K for the year ended December 31, 2016. There were no new critical accounting policies or updates to existing critical accounting policies as a result of new accounting pronouncements in this Quarterly Report on Form 10-Q. The application of our critical accounting policies may require management to make judgments and estimates about the amounts reflected in the condensed consolidated financial statements. Management uses historical experience and all available information to make these estimates and judgments, and different amounts could be reported using different assumptions and estimates.

### Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain statements that are "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The words "believes", "anticipates", "plans", "expects", "intends", "estimates" and similar expressions are intended to identify forward-looking statements.

These forward-looking statements, including statements regarding future performance of the Company, that are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance and achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors that could cause actual results to differ materially from expectations include, but are not limited to, the following: our substantial indebtedness; the uncertainty of the global economic environment; general business conditions and competitive factors, including pricing pressures and product innovation; demand for our products and services; raw material availability and pricing; fluctuations in energy costs; component part availability and pricing; changes in our relationships with customers and suppliers; the financial condition of our customers, including the impact of any bankruptcies; our ability to successfully integrate recent and future acquisitions into existing operations; the amounts and timing, if any, of purchases of our common stock; changes in general domestic economic conditions such as inflation rates, interest rates, tax rates, unemployment rates, higher labor and healthcare costs, recessions and changing government policies, laws and regulations, including those related to the current global uncertainties and crises; adverse impacts to us, our suppliers and customers from acts of terrorism or hostilities; our ability to meet various covenants, including financial covenants, contained in the agreements governing our indebtedness; disruptions, uncertainties or volatility in the credit markets that may limit our access to capital; potential disruption due to a partial or complete reconfiguration of the European Union; increasingly stringent domestic and foreign governmental regulations, including those affecting the environment or import and export controls and other trade barriers; inherent uncertainties involved in assessing our potential liability for environmental remediation-related activities; the outcome of pending and future litigation and other claims and disputes with customers; the outcome of the review conducted by the special committee of our

board of directors; our dependence on the automotive and heavy-duty truck industries, which are highly cyclical; the dependence of the automotive industry on consumer spending; our ability to negotiate contracts with labor unions; our dependence on key management; our dependence on information systems; our ability to continue to pay cash dividends, and the other factors we describe under “Item 1A. Risk Factors” included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. Any forward-looking statement speaks only

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as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law. In light of these and other uncertainties, the inclusion of a forward-looking statement herein should not be regarded as a representation by us that our plans and objectives will be achieved.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

We are exposed to market risk, including changes in interest rates. As of June 30, 2017, we are subject to interest rate risk on borrowings under the floating rate revolving credit facility provided by our Credit Agreement, which consisted of borrowings of \$104.0 million at June 30, 2017. A 100-basis-point increase in the interest rate would have resulted in an increase in interest expense on these borrowings of approximately \$0.5 million during the six-month period ended June 30, 2017.

Our foreign subsidiaries generally conduct business in local currencies. During the first six months of 2017, we recorded a favorable foreign currency translation adjustment in accumulated other comprehensive loss in the condensed consolidated balance sheets related to net assets located outside the United States. This foreign currency translation adjustment of \$11.5 million resulted primarily from the weakening of the U.S. Dollar against the Euro, the Canadian Dollar and the British Pound. Our foreign operations are also subject to other customary risks of operating in a global environment, such as unstable political situations, the effect of local laws and taxes, tariff increases and regulations and requirements for export licenses, the potential imposition of trade or foreign exchange restrictions and transportation delays.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures.

Under the supervision of and with the participation of our management, including our chief executive officer and chief financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report. Based on that evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were effective.

Changes in internal control over financial reporting.

There have been no changes in our internal control over financial reporting that occurred during the second quarter of 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings

We are subject to various pending and threatened lawsuits in which claims for monetary damages are asserted in the ordinary course of business. While any litigation involves an element of uncertainty, in the opinion of management, liabilities, if any, arising from currently pending or threatened litigation are not expected to have a material adverse effect on our financial condition, liquidity or results of operations.

In addition to the routine lawsuits and asserted claims noted above, we were a party to the lawsuits and legal proceedings described below as of June 30, 2017:

We were a co-defendant in approximately 93 cases asserting claims on behalf of approximately 187 plaintiffs alleging personal injury as a result of exposure to asbestos. These asbestos cases generally relate to production and sale of asbestos-containing products and allege various theories of liability, including negligence, gross negligence and strict liability, and seek compensatory and, in some cases, punitive damages.

In every asbestos case in which we are named as a party, the complaints are filed against multiple named defendants. In substantially all of the asbestos cases, the plaintiffs either claim damages in excess of a specified amount, typically a minimum amount sufficient to establish jurisdiction of the court in which the case was filed (jurisdictional minimums generally range from \$25,000 to \$75,000), or do not specify the monetary damages sought. To the extent that any specific amount of damages is sought, the amount applies to claims against all named defendants.

There are four asbestos cases, involving 11 plaintiffs, that plead specified damages against named defendants. In each of the four cases, the plaintiff is seeking compensatory and punitive damages based on a variety of potentially alternative causes of action. In three cases, the plaintiff has alleged compensatory and punitive damages in the amount of \$3.0 million and \$10.0 million, respectively, for four separate causes of action, \$1.0 million for a fifth cause of action and \$3.0 million for a sixth cause of action. In the fourth case, the plaintiff has alleged compensatory and punitive damages, each in the amount of \$20.0 million, for three separate causes of action, and \$5.0 compensatory damages for the fourth cause of action.

Historically, we have been dismissed from asbestos cases on the basis that the plaintiff incorrectly sued one of our subsidiaries or because the plaintiff failed to identify any asbestos-containing product manufactured or sold by us or our subsidiaries. We intend to vigorously defend these asbestos cases, and believe we will continue to be successful in being dismissed from such cases. However, it is not possible to predict the ultimate outcome of asbestos-related lawsuits, claims and proceedings due to the unpredictable nature of personal injury litigation. Despite this uncertainty, and although our results of operations and cash flows for a particular period could be adversely affected by asbestos-related lawsuits, claims and proceedings, management believes that the ultimate resolution of these matters will not have a material adverse effect on our financial condition, liquidity or results of operations. Among the factors management considered in reaching this conclusion were: (a) our historical success in being dismissed from these types of lawsuits on the bases mentioned above; (b) many cases have been improperly filed against one of our subsidiaries; (c) in many cases the plaintiffs have been unable to establish any causal relationship to us or our products or premises; (d) in many cases, the plaintiffs have been unable to demonstrate that they have suffered any identifiable injury or compensable loss at all or that any injuries that they have incurred did in fact result from alleged exposure to asbestos; and (e) the complaints assert claims against multiple defendants and, in most cases, the damages alleged are not attributed to individual defendants. Additionally, we do not believe that the amounts claimed in any of the asbestos cases are meaningful indicators of our potential exposure because the amounts claimed typically bear no relation to the extent of the plaintiff's injury, if any.

Our cost of defending these lawsuits has not been material to date and, based upon available information, our management does not expect its future costs for asbestos-related lawsuits to have a material adverse effect on our

results of operations, liquidity or financial position.

IPSCO Tubulars Inc. d/b/a TMK IPSCO sued Ajax Tocco Magnethermic Corporation (“ATM”), a subsidiary of Park-Ohio Holdings Corporation, in the United States District Court for the Eastern District of Arkansas claiming that equipment

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supplied by ATM for heat treating certain steel pipe at IPSCO's Blytheville, Arkansas facility did not perform as required by the contract. The complaint alleged causes of action for breach of contract, gross negligence and constructive fraud. IPSCO sought approximately \$10.0 million in damages plus an unspecified amount of punitive damages. In September 2013, the district court issued a judgment in favor of IPSCO in the amount of \$5.2 million, which the Company recognized and accrued for at that time. In March 2016, the district court issued an order granting, in part, IPSCO's motion for fees and costs and awarding \$2.2 million to IPSCO, which the Company accrued for as of December 31, 2015. ATM filed a third appeal of that decision. On March 28, 2017, the Company and IPSCO agreed to a settlement and release of all claims for the payment by the Company of \$4.0 million to IPSCO, which was made in March 2017. As of the settlement date, the Company had \$7.3 million accrued for this matter. The Company reversed the excess liability and recognized \$3.3 million in income in the first quarter of 2017.

In August 2013, we received a subpoena from the staff of the SEC in connection with the staff's investigation of a third party. At that time, we also learned that the Department of Justice ("DOJ") is conducting a criminal investigation of the third party. In connection with its initial response to the staff's subpoena, we disclosed to the staff of the SEC that, in November 2007, the third party participated in a payment on behalf of us to a foreign tax official that implicates the Foreign Corrupt Practices Act. The Board of Directors formed a special committee to review our transactions with the third party and to make any recommendations to the Board of Directors with respect thereto. The Company intends to cooperate fully with the SEC and the DOJ in connection with their investigations of the third party and with the SEC in light of the Company's disclosure. The Company is unable to predict the outcome or impact of the special committee's investigation or the length, scope or results of the SEC's review or the impact on its results of operations.

## Item 1A. Risk Factors

There have been no material changes in the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

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

The table below summarizes the information regarding our repurchases of the Company's common stock during the quarter ended June 30, 2017.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (1)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Program (1)
April 1 — April 30, 2017—	(2)\$ —	—	724,120	
May 1 — May 31, 2017 —	(2)—	97,150	626,970	
June 1 — June 30, 2017	20,106	(2)38.40	2,850	624,120
Total	20,106	\$ 38.40	100,000	624,120

(1) On March 4, 2013, we announced a share repurchase program whereby we may repurchase up to 1.0 million shares of our outstanding common stock.

(2) Consists of an aggregate total of 20,106 shares of common stock we acquired from recipients of restricted stock awards at the time of vesting of such awards in order to settle recipient withholding tax liabilities.

## Item 6. Exhibits

The following exhibits are included herein:





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4.1	Indenture, dated April 17, 2017, among Park-Ohio Industries, Inc., the Guarantors (as defined therein) and Wells Fargo Bank, National Association, as trustee (including Form of Note) (filed as Exhibit 4.1 to the Form 8-K of Park-Ohio Holdings Corp. filed on April 17, 2017, SEC File No. 000-03134 and incorporated herein by reference and made a part hereof).
4.2	Sixth Supplemental Indenture, dated April 17, 2017, among Park-Ohio Industries, Inc., the Guarantors (as defined therein) and Wells Fargo Bank, National Association, as trustee (filed as Exhibit 4.2 to the Form 8-K of Park-Ohio Holdings Corp. filed on April 17, 2017, SEC File No. 000-03134 and incorporated herein by reference and made a part hereof).
4.3	Seventh Amended and Restated Credit Agreement, dated April 17, 2017, among Park-Ohio Industries, Inc., RB&W Corporation of Canada, the European Borrowers (as defined therein) party thereto, the other Loan Parties (as defined therein), the Lenders (as defined therein), JPMorgan Chase Bank, N.A., as administrative agent, JPMorgan Chase Bank, N.A., Toronto Branch, as Canadian agent, J.P. Morgan Europe Limited, as European agent and J.P. Morgan Securities Inc., as sole lead arranger and bookrunning manager (filed as Exhibit 4.3 to the Form 8-K of Park-Ohio Holdings Corp. filed on April 17, 2017, SEC File No. 000-03134 and incorporated herein by reference and made a part hereof).
10.1	Registration Rights Agreement, dated April 17, 2017, among Park-Ohio Industries, Inc., the Guarantors (as defined therein) and the initial purchasers that are party thereto (filed as Exhibit 10.1 to the Form 8-K of Park-Ohio Holdings Corp. filed on April 17, 2017, SEC File No. 000-03134 and incorporated herein by reference and made a part hereof).
31.1	Principal Executive Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Principal Financial Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification requirement under 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

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PARK-OHIO HOLDINGS CORP.

(Registrant)

By: /s/ Patrick W. Fogarty

Name: Patrick W. Fogarty

Title: Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

Date: August 8, 2017

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Exhibit Index

Quarterly Report on Form 10-Q  
Park-Ohio Holdings Corp. and Subsidiaries  
For the Quarter Ended June 30, 2017

Exhibit

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- 4.3 Seventh Amended and Restated Credit Agreement, dated April 17, 2017, among Park-Ohio Industries, Inc., RB&W Corporation of Canada, the European Borrowers (as defined therein) party thereto, the other Loan Parties (as defined therein), the Lenders (as defined therein), JPMorgan Chase Bank, N.A., as administrative agent, JPMorgan Chase Bank, N.A., Toronto Branch, as Canadian agent, J.P. Morgan Europe Limited, as European agent and J.P. Morgan Securities Inc., as sole lead arranger and bookrunning manager (filed as Exhibit 4.3 to the Form 8-K of Park-Ohio Holdings Corp. filed on April 17, 2017, SEC File No. 000-03134 and incorporated herein by reference and made a part hereof).
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