PARK OHIO HOLDINGS CORP
Form 10-Q
May 05, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2016
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. þ Yes ¨ No

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

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

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

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

Number of shares outstanding of registrant's Common Stock, par value $1.00 per share, as of April 30, 2016, 12,283,824 shares of the registrant's common stock, $1 par value, were outstanding.

The Exhibit Index is located on page 32.

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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) March 31, 2016	December 31, 2015
	(In millions, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$60.4	$ 62.0
Accounts receivable, less allowances for doubtful accounts of $2.8 in 2016 and $3.3 in 2015	212.1	199.3
Inventories, net	253.4	249.0
Unbilled contract revenue	26.7	26.5
Other current assets	15.8	12.8
Total current assets	568.4	549.6
Property, plant and equipment, net	149.8	151.3
Goodwill	82.5	82.0
Intangible assets, net	91.6	92.8
Other long-term assets	68.0	66.4
Total assets	$960.3	$ 942.1
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$135.4	$ 129.7
Accrued expenses and other	109.2	95.5
Total current liabilities	244.6	225.2
Long-term liabilities, less current portion:		
Debt	439.6	445.8
Deferred tax liabilities	20.6	20.4
Other postretirement benefits and other long-term liabilities	37.2	38.5
Total long-term liabilities	497.4	504.7
Park-Ohio Holdings Corp. and Subsidiaries shareholders' equity:		
Capital stock, par value $1 a share		
Serial preferred stock: Authorized -- 632,470 shares: Issued and outstanding -- none	—	—
Common stock: Authorized -- 40,000,000 shares; Issued -- 14,682,151 shares in 2016 and 14,653,985 in 2015	14.7	14.7
Additional paid-in capital	101.5	99.0
Retained earnings	169.5	168.3
Treasury stock, at cost, 2,398,328 shares in 2016 and 2,383,903 shares in 2015	(47.1)	(46.7)
Accumulated other comprehensive loss	(27.2)	(30.0)
Total Park-Ohio Holdings Corp. and Subsidiaries shareholders' equity	211.4	205.3
Noncontrolling interest	6.9	6.9
Total equity	218.3	212.2
Total liabilities and shareholders' equity	$960.3	$ 942.1

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 Income (Unaudited)

	Three Months Ended March 31,	
	2016	2015
	(In millions, except per share data)	
Net sales	$328.0	$374.7
Cost of sales	280.2	316.3
Gross profit	47.8	58.4
Selling, general and administrative expenses	32.5	34.1
Asset impairment	4.0	—
Operating income	11.3	24.3
Interest expense	7.1	6.8
Income before income taxes	4.2	17.5
Income tax expense	1.5	6.4
Net income	2.7	11.1
Net income attributable to noncontrolling interest	—	(0.3)
Net income attributable to ParkOhio common shareholders	$2.7	$10.8
Earnings per common share attributable to ParkOhio common shareholders:		
Basic	$0.22	$0.89
Diluted	$0.22	$0.87
Weighted-average shares used to compute earnings per share:		
Basic	12.1	12.2
Diluted	12.2	12.4
Dividend per common share	$0.125	$0.125

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 Comprehensive Income (Unaudited)

	Three Months Ended March 31,	
	2016	2015
	(In millions)	
Net income	$2.7	$11.1
Other comprehensive income:		
Foreign currency translation gain (loss)	2.6	(5.3)
Pension and postretirement benefit adjustments, net of tax	0.2	0.2
Total other comprehensive income (loss)	2.8	(5.1)
Total comprehensive income, net of tax	5.5	6.0
Comprehensive income attributable to noncontrolling interest	—	(0.3)
Comprehensive income attributable to ParkOhio common shareholders	$5.5	$5.7

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

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Park-Ohio Holdings Corp. and Subsidiaries
Condensed Consolidated Statement of Shareholders' Equity (Unaudited)

	Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
	(In whole shares)	(In millions)						
Balance at January 1, 2016	14,653,985	$14.7	$ 99.0	$168.3	$(46.7)	$ (30.0)	$ 6.9	$212.2
Other comprehensive income	—	—	—	2.7	—	2.8	—	5.5
Share-based compensation expense and award activity	28,166	—	2.5	—	—	—	—	2.5
Dividends	—	—	—	(1.5)	—	—	—	(1.5)
Purchase of treasury stock (14,425 shares)	—	—	—	—	(0.4)	—	—	(0.4)
Balance at March 31, 2016	14,682,151	$14.7	$ 101.5	$169.5	$(47.1)	$ (27.2)	$ 6.9	$218.3

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)

	Three Months Ended March 31,	
	2016	2015
	(In millions)	
OPERATING ACTIVITIES		
Net income	$2.7	$11.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7.4	7.0
Asset impairment	4.0	—
Share-based compensation	2.5	1.6
Changes in operating assets and liabilities:		
Accounts receivable	(11.6)	(12.8)
Inventories and other current assets	(6.1)	(15.8)
Accounts payable and accrued expenses	16.9	11.1
Other	(5.7)	(1.2)
Net cash provided by operating activities	10.1	1.0
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(8.9)	(11.5)
Net cash used by investing activities	(8.9)	(11.5)
FINANCING ACTIVITIES		
Proceeds from term loans and other debt	4.7	2.4
Payments on term loans and other debt	(1.1)	(0.1)
(Payments on) proceeds from revolving credit facility, net	(4.5)	1.7
Payments on capital lease facilities, net	(0.7)	—
Dividends	(1.5)	(1.6)
Purchase of treasury stock	(0.4)	(1.1)
Other	(0.1)	—
Net cash (used) provided by financing activities	(3.6)	1.3
Effect of exchange rate changes on cash	0.8	(2.1)
Decrease in cash and cash equivalents	(1.6)	(11.3)
Cash and cash equivalents at beginning of period	62.0	58.0
Cash and cash equivalents at end of period	$60.4	$46.7
Income taxes paid	$0.8	$1.3
Interest paid	$1.5	$1.3

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
March 31, 2016

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. Certain amounts in the prior years’ financial statements have been reclassified to conform to the current year presentation.

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-month period ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The balance sheet at December 31, 2015 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, 2015.

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 and 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 April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-03, “Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs.” The amendment requires an entity to present debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the debt issuance costs will continue to be reported as interest expense. In August 2015, the FASB issued an amendment to this standard to address line of credit arrangements, which would allow an entity to present debt issuance costs as an asset and subsequently amortize the debt issuance costs ratably over the term of the line of credit arrangement. The Company adopted this ASU during the first quarter of 2016 and applied this standard retrospectively to 2015. The new guidance only impacted the presentation of the Company's financial position and did not materially affect the Company's results of operations or other financial statement disclosures. Refer to Note 9 for the impact on our consolidated balance sheets.

In September 2015, the FASB issued ASU 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments.” The amendments in this update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this update require that the acquirer record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The Company adopted this ASU during the first quarter of 2016. There was no impact to our consolidated financial statements.

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 issuance of a comprehensive and converged standard on revenue recognition is expected to enable financial statement users to better understand and consistently analyze an entity's revenue across industries, transactions, and geographies. The ASU will require additional disclosures to help financial statement users better understand the nature, amount, timing, and potential uncertainty of the revenue that is recognized. 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 retrospective application with the cumulative effect of initially applying the standard recognized at the date of adoption. The Company is currently evaluating the impact of adopting this guidance.
In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." The amendment requires an entity to measure inventory within the scope of this update at the lower of cost and net realizable value. This ASU is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early adoption is permitted. The new guidance will be applied prospectively. The Company is currently evaluating the impact of adopting this guidance.

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 this update 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. This 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 amendment 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. This 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 2016, the FASB issued ASU 2016-09 “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” The amendment 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 ASU is effective for fiscal years beginning with the first quarter of 2017, with early adoption permitted. The Company is currently evaluating the impact of adopting this guidance.

NOTE 3 — Segments

The Company operates through three reportable segments: Supply Technologies, Assembly Components and Engineered Products. Supply Technologies provides our customers with Total Supply Management™ services for a broad range of high-volume, specialty production components. Total Supply Management™ manages the efficiencies of every aspect of supplying production parts and materials to our customers' manufacturing floor, from strategic planning to program implementation, and 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. Assembly Components manufactures cast aluminum components, automotive and industrial rubber and thermoplastic products, gasoline direct injection systems, fuel filler and hydraulic fluid assemblies for automotive, agricultural equipment, constructions equipment, heavy-duty truck and marine equipment industries. Assembly Components also provides value-added services such as design and engineering, machining and assembly. Engineered Products operates a diverse group of niche manufacturing businesses that design and manufacture a broad range of high quality products engineered for specific customer applications, such as induction heating and melting systems, pipe threading equipment, machined locomotive crankshafts and camshafts and various forged and machined products. Engineered Products also produces and provides services and spare parts for the equipment it manufactures.

The Company primarily evaluates performance and allocates resources based on segment operating income as well as projected future performance. Segment operating income is defined as revenues less expenses identifiable to the product lines included within each segment. Segment operating income reconciles to consolidated income before income taxes by deducting corporate costs, which includes, but is not limited to executive compensation, corporate office costs and other income or expense items, as well as non-cash charges and net interest expense.

Results by business segment were as follows:

	Three Months Ended March 31,	
	2016	2015
	(In millions)	
Net sales:		
Supply Technologies	$129.9	$151.4
Assembly Components	131.7	140.5
Engineered Products	66.4	82.8
	$328.0	$374.7
Income before income taxes:		
Supply Technologies	$10.2	$14.2
Assembly Components	10.2	10.6
Engineered Products	1.4	6.2
Total segment operating income	21.8	31.0
Corporate costs	(6.5)	(6.7)
Asset impairment	(4.0)	—
Interest expense	(7.1)	(6.8)
Income before income taxes	$4.2	$17.5

	March 31, 2016	December 31, 2015
	(In millions)	
Identifiable assets:		
Supply Technologies	$275.7	$ 276.3
Assembly Components	346.1	344.8
Engineered Products	271.3	243.1
General corporate	67.2	77.9
	$960.3	$ 942.1

NOTE 4 — Accounts Receivable

We sell accounts receivable to reduce accounts receivable concentration risk and to provide additional financing capacity. The following table summarizes accounts receivable sold and the losses recorded on the sales of accounts receivable.

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Park-Ohio Holdings Corp. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
March 31, 2016

	Three Months Ended March 31,	
	2016	2015
	(In millions)	
Accounts receivable sold	$21.2	$26.1
Loss on sale of accounts receivable	$(0.1)	$(0.1)

The loss on the sale of accounts receivable is recorded in selling, general and administrative expenses. These losses represent the implicit interest on the transaction.

NOTE 5 — Inventories

The components of inventory consist of the following:

	March 31, 2016	December 31, 2015
	(In millions)	
Finished goods	$147.0	$ 147.5
Work in process	39.4	37.4
Raw materials and supplies	67.0	64.1
Inventories, net	$253.4	$ 249.0

NOTE 6 — Goodwill

The changes in the carrying amount of goodwill by segment for the periods ended March 31, 2016 and December 31, 2015 were as follows:

	Supply Technologies	Assembly Components	Engineered Products	Total
	(In millions)			
Balance at January 1, 2015	$7.6	$ 54.0	$ 27.9	$89.5
Acquisition adjustments	—	0.1	(6.3)	(6.2)
Foreign currency translation	(0.4)	—	(0.9)	(1.3)
Balance at December 31, 2015	7.2	54.1	20.7	82.0
Foreign currency translation	(0.1)	—	0.6	0.5
Balance at March 31, 2016	$7.1	$ 54.1	$ 21.3	$82.5

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Park-Ohio Holdings Corp. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
March 31, 2016

NOTE 7 — Other Intangible Assets

Information regarding other intangible assets as of March 31, 2016 and December 31, 2015 follows:

	March 31, 2016				December 31, 2015		
	Weighted Average Useful Life	Acquisition Cost	Accumulated Amortization	Net	Acquisition Cost	Accumulated Amortization	Net
		(In millions)					
Non-contractual customer relationships	11.8 years	$76.4	$ 19.8	$56.6	$76.0	$ 18.5	$57.5
Indefinite-lived tradenames	*	18.7	*	18.7	18.7	*	18.7
Technology	18.6 years	16.1	1.2	14.9	15.9	0.9	15.0
Other	8.7 years	4.1	2.7	1.4	4.1	2.5	1.6
Total		$115.3	$ 23.7	$91.6	$114.7	$ 21.9	$92.8

* Not applicable, tradenames have an indefinite life.

Information regarding amortization expense of other intangible assets follows:

	Three Months Ended March 31,	
	2016	2015
	(In millions)	
Amortization expense	$1.6	$1.7

NOTE 8 — Accrued Warranty Costs

The Company estimates the amount of warranty claims on sold products that may be incurred based on current and historical data. The actual warranty expense could differ from the estimates made by the Company based on product performance. The following table presents the changes in the Company's product warranty liability for the three months ended March 31, 2016 and 2015:

	2016	2015
	(In millions)	
Balance at January 1,	$6.1	$6.9
Claims paid	(0.6)	(1.2)
Warranty expense, net	0.7	0.3
Balance at March 31,	$6.2	$6.0

NOTE 9 — Financing Arrangements

Long-term debt consists of the following:

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	Issuance Date	Maturity Date	Interest Rate at March 31, 2016	Carrying Value at March 31, 2016	Carrying Value at December 31, 2015
				(In millions)	
Senior Notes	April 1, 2011	April 1, 2021	8.125 %	$250.0	$ 250.0
Revolving credit	—	July 31, 2019	2.15 %	164.6	169.0
Term loan	—	July 31, 2019	2.63 %	26.7	27.9
Other, including capital leases	Various	Various	Various	24.1	21.2
Less current maturities				(21.5)	(17.8)
Less unamortized debt issuance costs (1)				$(4.3)	$ (4.5)
Total long-term debt, net				$439.6	$ 445.8

(1) Prior to the adoption of ASU 2015-03, debt issuance costs of $4.5 million were previously reflected in the December 31, 2015 consolidated balance sheet as other assets.

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 agreement provides the Company the ability to borrow up to $11.0 million for expansion of its manufacturing facility in Arkansas. The loan matures in September 2025. The Company had no borrowings under this agreement as of March 31, 2016.

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 $17.8 million were borrowed under the Lease Agreement to acquire machinery and equipment as of March 31, 2016.

On July 31, 2014, the Company entered into a sixth amendment and restatement of the credit agreement (the “Amended Credit Agreement”). The Amended Credit Agreement, among other things, increased the revolving credit facility to $230.0 million, provided a term loan and extended the maturity date of the borrowings under the Amended Credit Agreement to July 31, 2019. The revolving credit facility includes a Canadian sub-limit of $35.0 million and a European sub-limit of $25.0 million for borrowings in those locations.

The Amended Credit Agreement was further amended in accordance with Amendments No. 1, 2, 3 and 4 to the Amended Credit Agreement, dated October 24, 2014, January 20, 2015, March 12, 2015 and April 22, 2016, respectively (collectively, the “Amendments”). The Amendments:

- increase the revolving credit facility to $300.0 million;
- increase the inventory advance rate from 50% to 65%, reducing back to 50% on a pro-rata quarterly basis over 36 months commencing July 1, 2016;
- reload the term loan up to $35.0 million, of which $26.7 million has been borrowed and is outstanding as of March 31, 2016;
- increase the Canadian sub-limit up to $35.0 million;
- increase the European sub-limit up to $25.0 million; and
- provide minor pricing adjustments including pricing the first $35.0 million drawn on the revolving credit facility at LIBOR plus 3.50%, reducing automatically on a pro-rata quarterly basis over 36 months commencing July 1, 2016.

At the Company’s election, domestic amounts borrowed under the revolving credit facility may be borrowed at either:

•LIBOR plus 1.5% to 2.5%; or
•the bank’s prime lending rate minus 0.25% to 1.25%.

At the Company's election, amounts borrowed under the term loan may be borrowed at either:

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•LIBOR plus 2.0% to 3.0%; or
•the bank’s prime lending rate minus 0.75% to plus 0.25%.

The LIBOR-based interest rate is dependent on the Company’s debt service coverage ratio, as defined in the Amended Credit Agreement.

Amounts borrowed under the Canadian revolving credit facility provided by the Amended Credit Agreement may be borrowed at either:

•the Canadian deposit offered rate plus 1.5% to 2.5%;
•the Canadian prime lending rate plus 0.0% to 1.0%; or
•the U.S. base rate plus 0.0% to 1.0%.

Under the Amended Credit Agreement, a detailed borrowing base formula provides borrowing availability to the Company based on percentages of eligible accounts receivable and inventory. The term loan is amortized based on a seven-year schedule with the balance due at maturity (July 31, 2019). The Amended Credit Agreement also reduced the commitment fee for the revolving credit facility.

The following table represents fair value information of the Company's Senior Notes, classified as Level 1, at March 31, 2016 and December 31, 2015. The fair value was estimated using quoted market prices.

	March 31, 2016	December 31, 2015
	(In millions)	
Carrying amount	$250.0	$ 250.0
Fair value	$255.3	$ 263.4

NOTE 10 — 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, that are taken into account in the relevant period. Each quarter, the Company updates the estimated annual effective income tax rate, and if the estimated income tax rate changes, a cumulative adjustment is made.

The effective tax rate for the first three months of 2016 and 2015 was 35.7% and 36.6%, respectively. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the three-months ended March 31, 2016, the Company recorded an increase to unrecognized tax benefits of approximately $0.1 million related to prior year tax positions and accrued interest. It is reasonably possible that within the next twelve months the amount of gross unrecognized tax benefits could be reduced by approximately $3.0 million as a result of the closure of tax statutes related to existing uncertain tax positions.

Park-Ohio Holdings Corp. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
March 31, 2016

NOTE 11 — Stock-Based Compensation

A summary of stock option activity as of March 31, 2016 and changes during the first three months of 2016 is presented below:

	2016			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(In whole shares)			(In millions)
Outstanding - beginning of year	60,000	$ 19.41		
Granted	—	—		
Exercised	—	—		
Canceled or expired	—	—		
Outstanding - end of period	60,000	$ 19.41	1.6 years	$ 1.4
Options exercisable	60,000	$ 19.41	1.6 years	$ 1.4

A summary of restricted share activity for the three months ended March 31, 2016 is as follows:

	2016			
	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	208,429	$ 36.61	120,000	$ 48.72
Granted	27,500	34.27	165,000	34.78
Vested	(42,001)	20.64	—	—
Canceled or expired	(834)	34.53	—	—
Outstanding - end of period	193,094	$ 39.76	285,000	$ 40.65

During the first quarter of 2016, 1,500 shares were awarded, vested and expensed at the time of the award. The value of the award was immaterial.

Total stock-based compensation expense included in selling, general and administrative expenses during the first three months of 2016 and 2015 was $2.5 million and $1.6 million, respectively. As of March 31, 2016, there was $14.7

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 1.7 years.

NOTE 12 — Commitments, Contingencies and Litigation Judgment

The Company is subject to various pending and threatened legal proceedings arising in the ordinary course of business. Although the Company cannot precisely predict the amount of any liability that may ultimately arise with respect to any of these matters, the Company records provisions when it considers the liability probable and reasonably estimable. Our provisions are based on historical experience and legal advice, reviewed quarterly and adjusted according to developments. Estimating probable losses requires the analysis of multiple forecasted factors that often depend on judgments about potential actions by third parties, such as regulators, courts, and state and federal legislatures. Changes in the amounts of our loss provisions, which can be material, affect our financial condition. Due to the inherent uncertainties in the process undertaken to estimate potential losses, we are unable to estimate an additional range of loss in excess of our accruals. While it is reasonably possible that such excess liabilities, if they were to occur, could be material to operating results in any given quarter or year of their recognition, we do not believe that it is reasonably possible that such excess liabilities would have a material adverse effect on our long-term results of operations, liquidity or consolidated financial position.

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.

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. ATM denied the allegations. ATM subsequently obtained summary judgment on the constructive fraud claim, which was dismissed by the district court prior to trial. The remaining claims were the subject of a bench trial that occurred in May 2013. After IPSCO presented its case, the district court entered partial judgment in favor of ATM, dismissing the gross negligence claim, a portion of the breach of contract claim, and any claim for punitive damages. The trial proceeded with respect to the remainder of IPSCO's claim for breach of contract. 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. IPSCO subsequently filed a motion seeking to recover $3.8 million in attorneys' fees and costs. The district court reserved ruling on that issue pending an appeal. In October 2013, ATM filed an appeal with the U.S. Court of Appeals for the Eighth Circuit seeking reversal of the judgment in favor of IPSCO. In November 2013, IPSCO filed a cross-appeal seeking reversal of the dismissal of its claim for gross negligence and punitive damages. The Eighth Circuit issued an opinion in March 2015 affirming in part, reversing in part, and remanding the case. It affirmed the district court's determination that ATM was liable for breach of contract. It also affirmed the district court's dismissal of IPSCO's claim for gross negligence and punitive damages. However, the Eighth Circuit reversed nearly all of the damages awarded by the district court and remanded for further findings on the issue of damages, including whether consequential damages are barred under the express language of the contract. Because IPSCO did not appeal the award of $5.2 million in its favor, those damages could be decreased, but could not be increased, on remand. On remand, the district court entered an order once again awarding IPSCO $5.2 million in damages. In December 2015, ATM filed a second appeal with the Eighth Circuit seeking reversal of the damages award. 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 has appealed that decision.

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 13 — Pension Plans and Other Postretirement Benefits

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

	Pension Benefits Three Months Ended March 31,		Postretirement Benefits Three Months Ended March 31,	
	2016	2015	2016	2015
	(In millions)			
Service costs	$0.6	$0.6	$ —	$ —
Interest costs	0.5	0.6	0.1	0.1
Expected return on plan assets	(2.4)	(2.5)	—	—
Recognized net actuarial loss	0.3	—	0.1	0.2
Net periodic benefit (gains) costs	$(1.0)	$(1.3)	$ 0.2	$ 0.3

NOTE 14 — Accumulated Other Comprehensive Loss

The components of and changes in accumulated other comprehensive loss for the three months ended March 31, 2016 and 2015 were as follows:

	Three Months Ended March 31, 2016		
	Cumulative Translation Adjustment	Pension and Postretirement Benefits	Total
	(In millions)		
Beginning balance	$(16.9)	$ (13.1)	$(30.0)
Foreign currency translation adjustments [(a)]	2.6	—	2.6
Pension and OPEB activity, net of tax adjustments [(b)]	—	0.2	0.2
Ending balance	$(14.3)	$ (12.9)	$