PARK OHIO HOLDINGS CORP
Form 10-Q
August 09, 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 June 30, 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 July 31, 2016, 12,553,169 shares of the registrant’s common stock, $1 par value, were outstanding.
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, 2016 | December 31, 2015 |
|---|---|---|
| | (In millions, except share and per share data) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $58.0 | $ 62.0 |
| Accounts receivable, net | 200.4 | 199.3 |
| Inventories, net | 248.9 | 249.0 |
| Other current assets | 45.8 | 39.3 |
| Total current assets | 553.1 | 549.6 |
| Property, plant and equipment, net | 148.6 | 151.3 |
| Goodwill | 81.7 | 82.0 |
| Intangible assets, net | 89.1 | 92.8 |
| Other long-term assets | 68.6 | 66.4 |
| Total assets | $941.1 | $ 942.1 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Trade accounts payable | $134.9 | $ 129.7 |
| Accrued expenses and other | 96.2 | 95.5 |
| Total current liabilities | 231.1 | 225.2 |
| Long-term liabilities, less current portion: | | |
| Debt | 434.0 | 445.8 |
| Deferred tax liabilities | 20.5 | 20.4 |
| Other long-term liabilities | 34.3 | 38.5 |
| Total long-term liabilities | 488.8 | 504.7 |
| Park-Ohio Holdings Corp. and Subsidiaries shareholders' equity: | | |
| Capital stock, par value $1 per share | | |
| Serial preferred stock: Authorized -- 632,470 shares: Issued and outstanding -- none | — | — |
| Common stock: Authorized -- 40,000,000 shares; Issued -- 14,827,202 shares in 2016 and 14,653,985 in 2015 | 14.7 | 14.7 |
| Additional paid-in capital | 104.5 | 99.0 |
| Retained earnings | 176.9 | 168.3 |
| Treasury stock, at cost, 2,437,737 shares in 2016 and 2,383,903 shares in 2015 | (48.3) | (46.7) |
| Accumulated other comprehensive loss | (33.5) | (30.0) |
| Total Park-Ohio Holdings Corp. and Subsidiaries shareholders' equity | 214.3 | 205.3 |
| Noncontrolling interest | 6.9 | 6.9 |
| Total equity | 221.2 | 212.2 |
| Total liabilities and shareholders' equity | $941.1 | $ 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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (In millions, except per share data) | | | |
| Net sales | $329.4 | $377.3 | $657.4 | $752.0 |
| Cost of sales | 275.1 | 316.9 | 555.3 | 633.2 |
| Gross profit | 54.3 | 60.4 | 102.1 | 118.8 |
| Selling, general and administrative expenses | 34.0 | 34.8 | 66.5 | 68.9 |
| Asset impairment | — | — | 4.0 | — |
| Operating income | 20.3 | 25.6 | 31.6 | 49.9 |
| Interest expense | 7.0 | 6.9 | 14.1 | 13.7 |
| Income before income taxes | 13.3 | 18.7 | 17.5 | 36.2 |
| Income tax expense | 4.3 | 6.1 | 5.8 | 12.5 |
| Net income | 9.0 | 12.6 | 11.7 | 23.7 |
| Net income attributable to noncontrolling interest | — | (0.2) | — | (0.5) |
| Net income attributable to ParkOhio common shareholders | $9.0 | $12.4 | $11.7 | $23.2 |
| | | | | |
| Earnings per common share attributable to ParkOhio common shareholders: | | | | |
| Basic | $0.74 | $1.02 | $0.97 | $1.90 |
| Diluted | $0.73 | $1.00 | $0.96 | $1.87 |
| Weighted-average shares used to compute earnings per share: | | | | |
| Basic | 12.1 | 12.2 | 12.1 | 12.2 |
| Diluted | 12.3 | 12.4 | 12.2 | 12.4 |
| | | | | |
| Dividends per common share | $0.125 | $0.125 | $0.250 | $0.250 |

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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (In millions) | | | |
| Net income | $9.0 | $12.6 | $11.7 | $23.7 |
| Other comprehensive income: | | | | |
| Foreign currency translation gain (loss) | (6.5 ) | 2.7 | (3.9 ) | (2.6 ) |
| Pension and other postretirement benefit adjustments, net of tax | 0.2 | 0.1 | 0.4 | 0.3 |
| Total other comprehensive income (loss) | (6.3 ) | 2.8 | (3.5 ) | (2.3 ) |
| Total comprehensive income, net of tax | 2.7 | 15.4 | 8.2 | 21.4 |
| Comprehensive income attributable to noncontrolling interest | — | (0.2 ) | — | (0.5 ) |
| Comprehensive income attributable to ParkOhio common shareholders | $2.7 | $15.2 | $8.2 | $20.9 |

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, | |
|---|---|---|
| | 2016 | 2015 |
| | (In millions) | |
| OPERATING ACTIVITIES | | |
| Net income | $11.7 | $23.7 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 14.8 | 14.0 |
| Asset impairment | 4.0 | — |
| Share-based compensation | 5.5 | 2.9 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1.0 ) | (10.6 ) |
| Inventories | (0.4 ) | (15.7 ) |
| Prepaid and other current assets | (6.2 ) | (2.7 ) |
| Accounts payable and accrued expenses | 5.4 | (17.7 ) |
| Other noncurrent liabilities | (4.6 ) | 5.2 |
| Other | (1.7 ) | (4.1 ) |
| Net cash provided (used) by operating activities | 27.5 | (5.0 ) |
| INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment | (14.0 ) | (19.9 ) |
| Net cash used by investing activities | (14.0 ) | (19.9 ) |
| FINANCING ACTIVITIES | | |
| Proceeds from term loans and other debt | 6.2 | 3.4 |
| Payments on term loans and other debt | (2.2 ) | (1.5 ) |
| (Payments) proceeds from revolving credit facility, net | (13.5 ) | 24.9 |
| Payments on capital lease facilities, net | (1.6 ) | — |
| Dividends | (3.1 ) | (3.1 ) |
| Purchases of treasury stock | (1.6 ) | (4.4 ) |
| Payment of acquisition earn-out | (2.0 ) | — |
| Net cash (used) provided by financing activities | (17.8 ) | 19.3 |
| Effect of exchange rate changes on cash | 0.3 | (1.5 ) |
| Decrease in cash and cash equivalents | (4.0 ) | (7.1 ) |
| Cash and cash equivalents at beginning of period | 62.0 | 58.0 |
| Cash and cash equivalents at end of period | $58.0 | $50.9 |
| Income taxes paid | $2.4 | $7.6 |
| Interest paid | $13.1 | $12.7 |

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, 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- and six-month periods ended June 30, 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 ASU 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 affect the Company's results of operations or cash flows. Refer to Note 7 for the impact on our consolidated balance sheet at December 31, 2015.

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 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 2016, the FASB issued 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 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.

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 compensation and corporate office costs. Segment operating income reconciles to consolidated income before income taxes by deducting corporate costs, certain non-cash charges and net interest expense.

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Park-Ohio Holdings Corp. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
June 30, 2016

Results by business segment were as follows:

| | Three Months Ended June 30, 2016 | Three Months Ended June 30, 2015 | Six Months Ended June 30, 2016 | Six Months Ended June 30, 2015 |
|---|---|---|---|---|
| | (In millions) | | | |
| Net sales: | | | | |
| Supply Technologies | $132.9 | $150.2 | $262.8 | $301.6 |
| Assembly Components | 134.3 | 139.8 | 266.0 | 280.3 |
| Engineered Products | 62.2 | 87.3 | 128.6 | 170.1 |
| | $329.4 | $377.3 | $657.4 | $752.0 |
| Segment operating income: | | | | |
| Supply Technologies | $10.9 | $13.0 | $21.1 | $27.2 |
| Assembly Components | 14.2 | 13.6 | 24.4 | 24.2 |
| Engineered Products | 3.2 | 5.2 | 4.6 | 11.4 |
| Total segment operating income | 28.3 | 31.8 | 50.1 | 62.8 |
| Corporate costs | (8.0) | (6.2) | (14.5) | (12.9) |
| Asset impairment | — | — | (4.0) | — |
| Interest expense | (7.0) | (6.9) | (14.1) | (13.7) |
| Income before income taxes | $13.3 | $18.7 | $17.5 | $36.2 |

NOTE 4 — Inventories

The components of inventory consist of the following:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| | (In millions) | |
| Finished goods | $140.9 | $ 147.5 |
| Work in process | 40.8 | 37.4 |
| Raw materials and supplies | 67.2 | 64.1 |
| Inventories, net | $248.9 | $ 249.0 |

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Park-Ohio Holdings Corp. and Subsidiaries
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June 30, 2016

NOTE 5 — 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 six months ended June 30, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| | (In millions) | |
| Balance at January 1, | $6.1 | $6.9 |
| Claims paid | (1.0 ) | (2.2 ) |
| Warranty expense, net | 0.8 | 1.4 |
| Balance at June 30, | $5.9 | $6.1 |

NOTE 6 — 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 its estimated annual effective income tax rate, and if the estimated income tax rate changes, a cumulative adjustment is made.

The effective income tax rate for the first six months of 2016 and 2015 was 33.1% and 34.5%, respectively. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the three- and six-months ended June 30, 2016, the Company recorded an increase to unrecognized tax benefits of approximately $0.1 million and $0.1 million, respectively, 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.

NOTE 7 — Financing Arrangements

Long-term debt consists of the following:

| | Issuance Date | Maturity Date | Interest Rate at June 30, 2016 | | Carrying Value at June 30, 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 facility | — | July 31, 2019 | 2.69 | % | 155.6 | 169.0 |
| Term loan | — | July 31, 2019 | 2.51 | % | 25.6 | 27.9 |
| Other, including capital leases | Various | Various | Various | | 26.0 | 21.2 |
| Less current maturities | | | | | (19.0 ) | (17.8 ) |

| | | |
|---|---|---|
| Less unamortized debt issuance costs [1] | (4.2 ) | (4.5 ) |
| Total long-term debt, net | $434.0 | $ 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 in other long-term assets.

On April 22, 2016, the Company further amended its revolving credit facility (the “Amended Credit Agreement”) to:

- 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 $25.6 million has been borrowed and is outstanding as of June 30, 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.

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.

At the Company’s election, domestic amounts borrowed under the Amended Credit Agreement 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%. 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 sub-limit 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%.
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 agreement matures in September 2025. The Company had $5.6 million of borrowings outstanding under this agreement as of June 30, 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 $17.4 million were borrowed under the Lease Agreement to acquire machinery and equipment as of June 30, 2016.

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. At the Company's election, amounts borrowed under the Term loan may be borrowed at either: LIBOR plus 2.0% to 3.0%; or the bank’s prime lending rate minus 0.75% to plus 0.25%.

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

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| | (In millions) | |
| Carrying amount | $250.0 | $ 250.0 |
| Fair value | $251.3 | $ 263.4 |

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Park-Ohio Holdings Corp. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
June 30, 2016

NOTE 8 — Stock-Based Compensation

A summary of stock option activity as of June 30, 2016 and changes during the first six 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 | 1.4 years | $ 1.7 |
| Options exercisable | 60,000 | $ 19.41 | 1.4 years | $ 1.7 |

A summary of restricted share activity for the six months ended June 30, 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 | 58,570 | 30.72 | 165,000 | 34.78 |
| Vested | (99,998 ) | 40.16 | (40,000 ) | 48.72 |
| Performance-based to time-based [(a)] | 80,000 | 48.72 | (80,000 ) | 48.72 |
| Canceled or expired | (834 ) | 34.53 | — | — |
| Outstanding - end of period | 246,167 | $ 37.71 | 165,000 | $ 34.78 |

(a) During the second quarter of 2016, 40,000 of the performance-based restricted shares granted in 2015 fully vested based on achievement of the performance criteria. In accordance with the grant agreements, the remaining 80,000 shares became time-based, vesting over the remaining two years of the requisite service period.

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 six months of 2016 and 2015 was $5.5 million and $2.9 million, respectively. As of June 30, 2016, there was $12.6 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 1.6 years.

NOTE 9 — Commitments, Contingencies and Litigation Judgment

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.

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.

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.

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Park-Ohio Holdings Corp. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
June 30, 2016

NOTE 10 — Pension Plans and Other Postretirement Benefits

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

| | Pension Benefits | | | | Other Postretirement Benefits (OPEB) | | | |
|---|---|---|---|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | (In millions) | | | | | | | |
| Service costs | $0.6 | $0.6 | $1.2 | $1.2 | $— | $— | $— | $— |
| Interest costs | 0.4 | 0.6 | 0.9 | 1.2 | 0.1 | 0.2 | 0.2 | 0.3 |
| Expected return on plan assets | (2.4) | (2.5) | (4.8) | (5.0) | — | — | — | — |
| Recognized net actuarial loss | 0.3 | — | 0.6 | — | 0.1 | 0.1 | 0.2 | 0.3 |
| Net periodic benefit (income) costs | $(1.1) | $(1.3) | $(2.1) | $(2.6) | $0.2 | $0.3 | $0.4 | $0.6 |

NOTE 11 — Accumulated Other Comprehensive Loss

The components of and changes in accumulated other comprehensive loss for the three and six months ended June 30, 2016 and 2015 were as follows:

| | Six Months Ended June 30, 2016 | | |
|---|---|---|---|
| | Cumulative Translation Adjustment | Pension and OPEB | Total |
| | (In millions) | | |
| Beginning balance | $(16.9) | $(13.1) | $(30.0) |
| Foreign currency translation adjustments [(a)] | (3.9) | — | (3.9) |
| Pension and OPEB activity, net of tax adjustments [(b)] | — | 0.4 | 0.4 |
| Ending balance | $(20.8) | $(12.7) | $(33.5) |

| | Six Months Ended June 30, 2015 | | |
|---|---|---|---|
| | Cumulative Translation Adjustment | Pension and OPEB | Total |
| | (In millions) | | |
| Beginning balance | $(5.1) | $(8.9) | $(14.0) |
| Foreign currency translation adjustments [(a)] | (2.6) | — | (2.6) |
| Pension and OPEB activity, net of tax adjustments [(b)] | — | 0.3 | 0.3 |
| Ending balance | $(7.7) | $(8.6) | $(16.3) |

(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 12 — 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, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (In whole shares) | | | |
| Weighted average basic shares outstanding | 12,112,575 | 12,230,100 | 12,094,695 | 12,198,169 |
| Plus: Dilutive impact of employee stock awards | 164,283 | 197,295 | 151,325 | 230,321 |
| Weighted average diluted shares outstanding | 12,276,858 | 12,427,395 | 12,246,020 | 12,428,490 |

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 three- and six-months ended June 30, 2016 and 2015.

NOTE 13 - Asset Impairment

In the first quarter of 2016, due to sales volume declines in certain programs with an automotive customer, the Company evaluated its long-lived assets in accordance with ASU 360 "Property, Plant and Equipment." The Company determined whether the carrying amount of its long-lived assets with a net book value of $5.2 million was recoverable by comparing the carrying amount to the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the assets. 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 the Company's analysis, the Company recorded an asset impairment charge of $4.0 million.

NOTE 14— Subsequent Event

On July 29, 2016, the Company's Board of Directors declared a quarterly dividend of $0.125 per common share. The dividend will be paid on August 26, 2016 to shareholders of record as of the close of business on August 12, 2016 and will result in a cash outlay of approximately $1.5 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; 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.