PARK OHIO HOLDINGS CORP
Form 10-Q
August 09, 2013
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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, 2013
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, 2013, 12,376,307 shares of the registrant’s common stock, $1 par value, were outstanding.

The Exhibit Index is located on page 29.

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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, 2013	December 31, 2012
	(In millions, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$56.2	$44.4
Accounts receivable, less allowances for doubtful accounts of $4.7 million at June 30, 2013 and $3.6 million at December 31, 2012	172.4	161.3
Inventories, net	217.4	215.6
Deferred tax assets	19.8	19.8
Unbilled contract revenue	3.4	1.4
Other current assets	22.0	21.5
Total current assets	491.2	464.0
Property, plant and equipment:		
Land and land improvements	6.5	5.7
Buildings	57.5	56.0
Machinery and equipment	261.0	247.4
Total property, plant and equipment	325.0	309.1
Less accumulated depreciation	214.8	208.7
Net property, plant and equipment	110.2	100.4
Goodwill and other intangible assets, net	107.6	99.3
Other long-term assets	63.3	62.9
Total assets	$772.3	$726.6
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$118.3	$102.1
Accrued expenses	77.5	83.3
Current portion of long-term debt	4.3	4.4
Current portion of other postretirement benefits	1.9	1.9
Total current liabilities	202.0	191.7
Long-term liabilities, less current portion:		
Senior Notes	250.0	250.0
Credit facility	134.7	120.6
Other long-term debt	3.5	3.6
Deferred tax liability	32.1	31.5
Other postretirement benefits and other long-term liabilities	27.5	27.4
Total long-term liabilities	447.8	433.1
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 -- 14,296,989 shares in 2013 and 14,109,255 in 2012	14.3	14.1
Additional paid-in capital	79.1	76.9

Retained earnings	64.5	42.2
Treasury stock, at cost, 1,915,593 shares in 2013 and 1,872,265 shares in 2012	(26.1)	(24.6)
Accumulated other comprehensive loss	(9.3)	(6.8)
Total shareholders' equity	122.5	101.8
Total liabilities and shareholders' equity	$772.3	$726.6

Note: The balance sheet at December 31, 2012 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.

See accompanying notes to these unaudited condensed consolidated financial statements. The accompanying notes are an integral part of 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,	
	2013	2012	2013	2012
	(In millions, except earnings per share data)			
Net sales	$309.4	$308.8	$594.5	$571.9
Cost of sales	251.3	252.9	484.5	467.1
Gross profit	58.1	55.9	110.0	104.8
Selling, general and administrative expenses	33.3	29.5	62.6	58.3
Settlement of litigation	—	13.0	—	13.0
Operating income	24.8	13.4	47.4	33.5
Interest expense	6.6	6.6	13.1	13.3
Income before income taxes	18.2	6.8	34.3	20.2
Income tax expense	6.2	2.4	12.0	6.8
Net income	$12.0	$4.4	$22.3	$13.4
Earnings per common share:				
Basic	$1.01	$0.37	$1.88	$1.13
Diluted	$0.98	$0.37	$1.85	$1.11
Common shares used in the computation:				
Basic	11.9	11.9	11.8	11.9
Diluted	12.2	12.1	12.1	12.1

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

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PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In millions)			
Net income	$12.0	$4.4	$22.3	$13.4
Other comprehensive income (loss):				
Foreign currency translation loss	(0.7)	(2.9)	(2.9)	(1.6)
Pension and postretirement benefit adjustments, net of tax	—	0.6	0.4	0.7
Total other comprehensive loss	(0.7)	(2.3)	(2.5)	(0.9)
Comprehensive income, net of tax	$11.3	$2.1	$19.8	$12.5

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

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PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
	(In millions)					
Balance at January 1, 2012	$14.1	$76.9	$42.2	$(24.6)	$ (6.8)	$101.8
Other comprehensive income (loss)			22.3		(2.5)	19.8
Share-based compensation		2.4				2.4
Restricted stock awards	0.2	(0.2)				—
Purchase of treasury stock				(1.5)		(1.5)
Balance at Balance at June 30, 2013	$14.3	$79.1	$64.5	$(26.1)	$ (9.3)	$122.5

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

PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30,	
	2013	2012
	(In millions)	
OPERATING ACTIVITIES		
Net income	$22.3	$13.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9.5	8.3
Debt extinguishment costs	—	0.3
Share-based compensation	2.4	1.2
Changes in operating assets and liabilities, excluding business acquisitions:		
Accounts receivable	(5.8)	(12.6)
Inventories and other current assets	(3.3)	(10.0)
Accounts payable and accrued expenses	6.6	20.8
Other	2.1	(2.3)
Net cash provided by operating activities	33.8	19.1
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(16.0)	(6.9)
Proceeds from sale and leaseback transactions	3.1	—
Business acquisitions, net of cash acquired	(20.8)	(96.7)
Net cash used by investing activities	(33.7)	(103.6)
FINANCING ACTIVITIES		
Proceeds from term loans and other debt	—	25.0
Payments on term loans and other debt	(2.0)	(1.6)
Proceeds from (payments on) revolving credit facility, net	15.9	27.3
Bank debt issue costs	—	(0.9)
Issuance of common stock under stock option plan	0.2	1.1
Purchase of treasury stock	(1.5)	(1.0)
Net cash provided by financing activities	12.6	49.9
Effect of exchange rate changes on cash	(0.9)	—
Increase (decrease) in cash and cash equivalents	11.8	(34.6)
Cash and cash equivalents at beginning of period	44.4	78.0
Cash and cash equivalents at end of period	$56.2	$43.4
Income taxes paid	$14.2	$3.6
Interest paid	$12.3	$11.7

See accompanying notes to these condensed consolidated financial statements. The accompanying notes are an integral part
of 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, 2013
(Dollars in millions)

NOTE A — Basis of Presentation

The condensed consolidated financial statements include the accounts of Park-Ohio Holdings Corp. and its subsidiaries (collectively, "we" or the "Company"). All significant intercompany 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, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. 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, 2012.

NOTE B — New Accounting Pronouncements

Accounting Pronouncements Adopted

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," which requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail on these amounts. This ASU is effective prospectively for reporting periods beginning after December 15, 2012. The updated standard affects the Company's disclosures but has no impact on its results of operations, financial condition or liquidity.

Recent Accounting Pronouncements Not Yet Adopted

In February 2013, the FASB issued ASU 2013-04, "Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date," which requires entities to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors plus additional amounts the reporting entity expects to pay on behalf of its co-obligors. Entities are also required to disclose the nature and amount of the obligation as well as other information about those obligations. This ASU is effective prospectively for reporting periods beginning after December 15, 2013. The Company is currently evaluating the impact of adopting this guidance.

In February 2013, the FASB issued ASU 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity," requiring reporting entities that no longer have a controlling financial interest in a subsidiary or group of assets that is considered a business within a foreign entity, to release the cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. For equity method investments that are foreign entities, the partial sale requires a pro rata portion of the cumulative translation adjustment to be released into net income upon a partial sale of such an equity investment. However, for an equity method investment that is not a foreign entity, the release of the cumulative translation adjustment into net income is required only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the

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equity method investment. Additionally, the amendments in this update clarify that the sale of an investment in a foreign entity requiring release into net income the cumulative translation adjustment upon the occurrence of events that includes (1) events that result in the loss of a controlling financial interest in a foreign entity and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date. This ASU is effective prospectively for reporting periods beginning after December 15, 2013. The Company is currently evaluating the impact of adopting this guidance.

NOTE C — 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, fuel filler and hydraulic assemblies for automotive, agricultural equipment, construction 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.

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 and other income or expense items that are not attributed to the segments and net interest expense.

Results by business segment were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net sales:				
Supply Technologies	$123.6	$131.5	$237.5	$264.2
Assembly Components	105.6	91.4	197.8	136.0
Engineered Products	80.2	85.9	159.2	171.7
	$309.4	$308.8	$594.5	$571.9
Segment operating income:				
Supply Technologies	$9.1	$9.7	$17.9	$19.6
Assembly Components	10.8	7.2	17.6	8.3
Engineered Products	10.4	14.3	22.7	28.5
Total segment operating income	30.3	31.2	58.2	56.4
Corporate costs	(5.5)	(4.8)	(10.8)	(9.9)
Settlement of litigation	—	(13.0)	—	(13.0)
Interest expense	(6.6)	(6.6)	(13.1)	(13.3)
Income before income taxes	$18.2	$6.8	$34.3	$20.2

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	June 30, 2013	December 31, 2012
Identifiable assets:		
Supply Technologies	$208.0	$207.0
Assembly Components	275.4	230.0
Engineered Products	193.7	199.4
General corporate	95.2	90.2
	$772.3	$726.6

NOTE D — Inventories

The components of inventory consist of the following:

	June 30, 2013	December 31, 2012
Finished goods	$108.4	$113.0
Work in process	31.6	27.9
Raw materials and supplies	77.4	74.7
Inventories, net	$217.4	$215.6

NOTE E — 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,	
	2013	2012	2013	2012
	(In whole shares)			
Weighted average basic shares outstanding	11,873,645	11,928,806	11,803,529	11,858,029
Plus dilutive impact of employee stock options	329,527	183,452	308,931	218,656
Weighted average diluted shares outstanding	12,203,172	12,112,258	12,112,460	12,076,685

Basic earnings per common share is computed as net income available to common shareholders divided by the weighted average basic shares outstanding. Diluted earnings per common share is computed as net income available to common shareholders divided by the weighted average diluted shares outstanding.

Outstanding stock options with exercise prices greater than the average price of the common shares are anti-dilutive and are not included in the computation of diluted earnings per share. For the three and six months ended June 30, 2013 and 2012, the anti-dilutive shares were insignificant.

NOTE F — Stock-Based Compensation

Total stock-based compensation expense recorded in the first six months of 2013 and 2012 was $2.4 million and $1.2 million, respectively. Total stock compensation expense recorded in the second quarter of 2013 and 2012 was $1.0 million and $0.6 million, respectively. There were no stock options awards granted during the first six months of 2013 and 2012. There were insignificant shares of restricted stock awarded during the three months ended June 30, 2013 at prices ranging from $33.72 to $35.70 per share. There were 0.1 million shares of restricted stock awarded during the six months ended June 30, 2013 at prices ranging from $20.34 to $35.70 per share. There were 0.2 million shares of restricted stock awarded during the three and six months ended June 30, 2012 at prices ranging from of $18.82 to $21.59 per share. There were no performance-based stock awards during the three and six months ended June 30, 2013. There were no performance-based stock awards granted during the three months ended June 30, 2012, and 0.1 million shares of performance-based stock awards during the six months ended June 30, 2012. As of June 30, 2013, there was $7.3 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 2.0 years.

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NOTE G — Pension Plans and Other Postretirement Benefits

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

	Pension Benefits				Postretirement Benefits			
	Ended Three Months Ended June 30,		Ended Six Months Ended June 30,		Ended Three Months Ended June 30,		Ended Six Months Ended June 30,	
	2013	2012	2013	2012	2013	2012	2013	2012
Service costs	$0.6	$0.5	$1.3	$1.1	$—	$—	$—	$—
Interest costs	0.5	0.6	1.0	1.1	0.2	0.2	0.3	0.4
Expected return on plan assets	(2.2)	(2.0)	(4.4)	(4.1)	—	—	—	—
Recognized net actuarial loss	0.2	0.2	0.3	0.5	0.2	0.2	0.4	0.4
Net periodic benefit (gains) costs	$(0.9)	$(0.7)	$(1.8)	$(1.4)	$0.4	$0.4	$0.7	$0.8

NOTE H — Comprehensive Income (Loss)

The components of and changes in accumulated comprehensive income (loss) for the three and six months ended June 30, 2013 and 2012 were as follows: