PARK OHIO HOLDINGS CORP
Form 10-Q
May 09, 2014
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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, 2014
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, 2014, 12,429,788 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) March 31, 2014	December 31, 2013
	(In millions, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$59.0	$55.2
Accounts receivable, less allowances for doubtful accounts of $3.5 million at March 31, 2014 and $3.7 million at December 31, 2013	184.5	165.7
Inventories, net	227.5	221.4
Deferred tax assets	26.3	25.2
Unbilled contract revenue	9.4	8.7
Other current assets	18.1	20.1
Total current assets	524.8	496.3
Property, plant and equipment, net	114.6	115.4
Goodwill	60.4	60.4
Intangible assets, net	65.2	66.2
Other long-term assets	82.2	80.4
Total assets	$847.2	$818.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$121.5	$112.0
Accrued expenses and other	84.7	79.9
Current portion of long-term debt	4.5	4.4
Current portion of other postretirement benefits	1.7	1.7
Total current liabilities	212.4	198.0
Long-term liabilities, less current portion:		
Senior Notes	250.0	250.0
Credit facility	128.7	126.2
Other long-term debt	2.9	3.0
Deferred tax liabilities	46.3	45.3
Other postretirement benefits and other long-term liabilities	31.5	32.2
Total long-term liabilities	459.4	456.7
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 -- 14,379,405 shares in 2014 and 14,364,239 in 2013	14.4	14.4
Additional paid-in capital	84.8	82.4
Retained earnings	95.7	85.6
Treasury stock, at cost, 1,949,617 shares in 2014 and 1,934,959 shares in 2013	(27.6)	(26.8)
Accumulated other comprehensive income	2.9	3.4
Total Park-Ohio Holdings Corp. and Subsidiaries shareholders' equity	170.2	159.0

Noncontrolling interest	5.2	5.0
Total equity	175.4	164.0
Total liabilities and shareholders' equity	$847.2	$818.7

Note: The balance sheet at December 31, 2013 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 March 31,	
	2014	Adjusted [1] 2013
	(In millions, except earnings per share data)	
Net sales	$317.8	$283.0
Cost of sales	261.8	231.4
Gross profit	56.0	51.6
Selling, general and administrative expenses	33.1	28.4
Operating income	22.9	23.2
Interest expense	7.0	6.5
Income from continuing operations before income taxes	15.9	16.7
Income tax expense	5.6	6.0
Net income from continuing operations	10.3	10.7
Loss from discontinued operations, net of taxes	—	(0.4)
Net income	10.3	10.3
Net income attributable to noncontrolling interest	(0.2)	—
Net income attributable to ParkOhio common shareholders	$10.1	$10.3
Earnings (loss) per common share attributable to ParkOhio common shareholders - Basic:		
Continuing operations	$0.84	$0.90
Discontinued operations	—	(0.03)
Total	$0.84	$0.87
Earnings (loss) per common share attributable to ParkOhio common shareholders - Diluted:		
Continuing operations	$0.82	$0.88
Discontinued operations	—	(0.03)
Total	$0.82	$0.85
Weighted-average shares used to compute earnings per share:		
Basic	12.0	11.9
Diluted	12.3	12.1

(1) Adjusted to reflect the discontinued operations.

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 March 31,	
	2014	2013
	(In millions)	
Net income	$10.3	$10.3
Other comprehensive income (loss):		
Foreign currency translation loss	(0.4)	(2.2)
Pension and postretirement benefit adjustments, net of tax	(0.1)	0.4
Total other comprehensive loss	(0.5)	(1.8)
Total comprehensive income, net of tax	9.8	8.5
Comprehensive income attributable to noncontrolling interest	(0.2)	—
Comprehensive income attributable to ParkOhio common shareholders	$9.6	$8.5

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 Statements of Shareholders' Equity (Unaudited)

	Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
	(In whole shares)	(In millions)						
Balance at January 1, 2014	14,364,239	$14.4	$ 82.4	$85.6	$(26.8)	$ 3.4	$ 5.0	$164.0
Other comprehensive income (loss)				10.1		(0.5)	0.2	9.8
Share-based compensation			1.6					1.6
Restricted stock awards	15,166		0.8					0.8
Purchase of treasury stock					(0.8)			(0.8)
Balance at March 31, 2014	14,379,405	$14.4	$ 84.8	$95.7	$(27.6)	$ 2.9	$ 5.2	$175.4

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 Cash Flows (Unaudited)

	Three Months Ended March 31, 2014	2013
	(In millions)	
OPERATING ACTIVITIES		
Net income	$10.3	$10.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5.3	4.6
Share-based compensation	1.3	1.4
Changes in operating assets and liabilities:		
Accounts receivable	(17.2)	(10.1)
Inventories and other current assets	(6.2)	(9.2)
Accounts payable and accrued expenses	11.7	18.1
Other	(1.2)	1.3
Net cash provided by operating activities	4.0	16.4
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(3.1)	(6.0)
Proceeds from sale and leaseback transactions	—	1.9
Net cash used by investing activities	(3.1)	(4.1)
FINANCING ACTIVITIES		
Payments on term loans and other debt	(1.1)	(0.9)
Proceeds from (payments on) revolving credit facility, net	3.5	(3.7)
Issuance of common stock under stock option plan	0.8	—
Purchase of treasury stock	(0.8)	(0.1)
Net cash provided (used) by financing activities	2.4	(4.7)
Effect of exchange rate changes on cash	0.5	(1.1)
Increase in cash and cash equivalents	3.8	6.5
Cash and cash equivalents at beginning of period	55.2	44.4
Cash and cash equivalents at end of period	$59.0	$50.9
Income taxes paid	$1.4	$4.7
Interest paid	$1.1	$0.8

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
March 31, 2014

NOTE 1 — 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-month periods ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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, 2013.

On September 3, 2013, we sold all of the outstanding equity interests of a non-core business unit in the Supply Technologies segment during the third quarter of 2013. This business unit is a provider of high-quality machine to machine information technology solutions, products and services. As of September 30, 2013, the results of the business unit have been reported as discontinued operations in the financial statements.

NOTE 2 — New Accounting Pronouncements

Accounting Pronouncements 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 adoption of this ASU has not had a material effect on our consolidated financial statements as it aligns with our current presentation.
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 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 adoption of this ASU has not had a material effect on our consolidated financial statements as it aligns with our current presentation.

Recent Accounting Pronouncements Not Yet Adopted

In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which raises the threshold for disposals to qualify as discontinued operations and requires new disclosures for discontinued operations and for individually material disposal transactions that do not meet the definition of a discontinued operation. The ASU is effective prospectively for reporting periods beginning with the first quarter of 2015. 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, 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 from continuing operations 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 March 31,	
		Adjusted (1)
	2014	2013
	(In millions)	
Net sales:		
Supply Technologies	$134.4	$111.8
Assembly Components	108.1	92.2
Engineered Products	75.3	79.0
	$317.8	$283.0
Income from continuing operations before income taxes:		
Supply Technologies	$10.8	$9.4
Assembly Components	8.1	6.8

Engineered Products	10.6	12.3
Total segment operating income	29.5	28.5
Corporate costs	(6.6)	(5.3)
Interest expense	(7.0)	(6.5)
Income from continuing operations before income taxes	$15.9	$16.7

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(1) Adjusted to reflect the discontinued operations.

	March 31, 2014	December 31, 2013
	(In millions)	
Identifiable assets:		
Supply Technologies	$257.3	$241.7
Assembly Components	283.6	276.7
Engineered Products	186.0	183.1
General corporate	120.3	117.2
	$847.2	$818.7

NOTE 4 — Discontinued Operations

On September 3, 2013, the Company sold all of the outstanding equity interests of a non-core business unit in the Supply Technologies segment, for $8.5 million in cash. This business unit is a provider of high-quality machine to machine information technology solutions, products and services. As a result of the sale, this business unit has been removed from the Supply Technologies segment and presented as a discontinued operation for all of the periods presented. Select financial information included in discontinued operations were as follows:

	Three Months Ended March 31, 2013
	(In millions)
Net sales	$2.1
Loss from discontinued operations before tax	(0.6)
Income tax benefit from operations	0.2
Income (loss) from discontinued operations, net of taxes	$(0.4)

NOTE 5 — Accounts Receivable

During the first three months of 2014 and 2013, the Company sold approximately $23.0 million and $14.4 million, respectively, of accounts receivable to mitigate accounts receivable concentration risk and to provide additional financing capacity and recorded a loss in the amount of $0.1 million and $0.1 million, respectively, in the condensed consolidated statements of income. These losses represented implicit interest on the transactions.

NOTE 6 — Inventories

The components of inventory consist of the following:

	March 31, 2014	December 31, 2013
	(In millions)	
Finished goods	$119.2	$115.5
Work in process	39.7	37.3

Raw materials and supplies	68.6	68.6
Inventories, net	$227.5	$221.4

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Park-Ohio Holdings Corp. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
March 31, 2014

NOTE 7 — Goodwill

The changes in the carrying amount of goodwill by reportable segment for the periods ended March 31, 2014 and December 31, 2013 were as follows:

	Supply Technologies	Assembly Components	Engineered Products	Total
	(In millions)			
Balance at January 1, 2013	$—	$44.8	$4.9	$49.7
Acquisitions	6.2	4.2	—	10.4
Foreign currency translation	0.2	—	0.1	0.3
Balance at December 31, 2013	6.4	49.0	5.0	60.4
Foreign currency translation	—	—	—	—
Balance at March 31, 2014	$6.4	$49.0	$5.0	$60.4

The increase in goodwill in 2013 was due to the acquisitions of Bates Rubber ("Bates") in the second quarter of 2013 and Henry Halstead Ltd. ("Henry Halstead") and QEF Global Limited ("QEF") in the fourth quarter of 2013. Bates is included in the Assembly Components reportable segment and Henry Halstead and QEF are included in the Supply Technologies reportable segment. The goodwill associated with the Bates transaction is deductible for income tax purposes. The goodwill associated with the Henry Halstead and QEF transactions are not deductible for income tax purposes.

NOTE 8 — Other Intangible Assets

Information regarding other intangible assets as of March 31, 2014 and December 31, 2013 follows:

		March 31, 2014			December 31, 2013		
	Weighted Average Useful Life	Acquisition Costs	Accumulated Amortization	Net	Acquisition Costs	Accumulated Amortization	Net
		(In millions)					
Non-contractual customer relationships	13.0 years	$61.2	$9.8	$51.4	$61.1	$8.7	$52.4
Other	9.4 years	3.9	1.8	2.1	3.9	1.8	2.1
		$65.1	$11.6	$53.5	$65.0	$10.5	$54.5
Indefinite-lived tradenames				11.7			11.7
Total				$65.2			$66.2

Amortization expense for the three months ended March 31, 2014 and 2013 was $1.1 million and $0.8 million, respectively.

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Notes to Unaudited Condensed Consolidated Financial Statements
March 31, 2014

NOTE 9 — 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, 2014 and 2013:

	2014	2013
	(In millions)	
Balance at January 1,	$5.4	$6.9
Claims paid during the period	(0.8)	(1.1)
Warranty expense	0.5	1.4
Balance at March 31,	$5.1	$7.2

NOTE 10 — Financing Arrangements

The Company is a party to a credit and security agreement, dated November 5, 2003, as amended (the “Credit Agreement”), with a group of banks, under which it may borrow or issue standby letters of credit or commercial letters of credit. On March 23, 2012, the Credit Agreement was amended and restated to, among other things, increase the revolving loan commitment from $200.0 million to $220.0 million, and provide a term loan for $25.0 million that is secured by certain real estate and machinery and equipment. Amounts borrowed under the revolving credit facility may be borrowed at either (i) LIBOR plus 1.75% to 2.75% or (ii) the bank’s prime lending rate minus 0.25% to 1.00%, at the Company’s election. The LIBOR-based interest rate is dependent on the Company’s debt service coverage ratio, as defined in the Credit Agreement. Under the Credit Agreement, a detailed borrowing base formula provides borrowing availability to the Company based on percentages of eligible accounts receivable and inventory. On April 3, 2013, the Credit Agreement was amended to increase the advance rate on eligible accounts receivable and inventory. The interest rate on the revolving credit facility was 1.94% at March 31, 2014. Interest on the term loan is at either (i) LIBOR plus 2.75% or (ii) the bank’s prime lending rate plus 0.25%, at the Company’s election. The term loan is amortized based on a seven-year schedule with the balance due at maturity (April 7, 2016). The interest rate on the term loan was 3.00% at March 31, 2014.

Long-term debt consists of the following:

	March 31, 2014	December 31, 2013
	(In millions)	
8.125% Senior Notes due 2021	$250.0	$250.0
Revolving credit	114.4	111.0
Term loan	17.9	18.7
Other	3.8	3.9
Total debt	386.1	383.6
Less current maturities	4.5	4.4
Total long-term debt, net of current portion	$381.6	$379.2

The following table represents fair value information of the Company's 8.125% Senior Notes due 2021, classified as Level 1, at Marc