PARK OHIO HOLDINGS CORP
Form 10-Q
November 10, 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 September 30, 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 October 31, 2014, 12,511,039 shares of the registrant’s common stock, $1 par value, were outstanding.

The Exhibit Index is located on page 41.

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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) September 30, 2014 | December 31, 2013 |
|---|---|---|
| | (In millions, except share and per share data) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $62.5 | $55.2 |
| Accounts receivable, less allowances for doubtful accounts of $3.2 million at September 30, 2014 and $3.7 million at December 31, 2013 | 202.0 | 165.7 |
| Inventories, net | 230.3 | 221.4 |
| Deferred tax assets | 26.3 | 25.2 |
| Unbilled contract revenue | 10.7 | 8.7 |
| Other current assets | 13.9 | 20.1 |
| Total current assets | 545.7 | 496.3 |
| Property, plant and equipment, net | 116.6 | 115.4 |
| Goodwill | 61.7 | 60.4 |
| Intangible assets, net | 64.1 | 66.2 |
| Other long-term assets | 85.7 | 80.4 |
| Total assets | $873.8 | $818.7 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Trade accounts payable | $132.7 | $112.0 |
| Accrued expenses and other | 90.3 | 86.0 |
| Total current liabilities | 223.0 | 198.0 |
| Long-term liabilities, less current portion: | | |
| Debt | 376.7 | 379.2 |
| Deferred tax liabilities | 47.0 | 45.3 |
| Other postretirement benefits and other long-term liabilities | 33.2 | 32.2 |
| Total long-term liabilities | 456.9 | 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 -- 14,507,321 shares in 2014 and 14,364,239 in 2013 | 14.5 | 14.4 |
| Additional paid-in capital | 87.1 | 82.4 |
| Retained earnings | 117.4 | 85.6 |
| Treasury stock, at cost, 2,003,782 shares in 2014 and 1,934,959 shares in 2013 | (30.5) | (26.8) |
| Accumulated other comprehensive (loss) income | (0.4) | 3.4 |
| Total Park-Ohio Holdings Corp. and Subsidiaries shareholders' equity | 188.1 | 159.0 |
| Noncontrolling interest | 5.8 | 5.0 |
| Total equity | 193.9 | 164.0 |
| Total liabilities and shareholders' equity | $873.8 | $818.7 |

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (In millions, except earnings per share data) | | | |
| Net sales | $344.6 | $303.5 | $1,005.7 | $893.8 |
| Cost of sales | 284.0 | 248.9 | 828.1 | 730.1 |
| Gross profit | 60.6 | 54.6 | 177.6 | 163.7 |
| Selling, general and administrative expenses | 34.2 | 31.1 | 102.9 | 92.2 |
| Litigation judgment costs | — | 5.2 | — | 5.2 |
| Operating income | 26.4 | 18.3 | 74.7 | 66.3 |
| Gain on acquisition of business | — | (0.6) | — | (0.6) |
| Interest expense | 6.5 | 6.5 | 19.4 | 19.4 |
| Income from continuing operations before income taxes | 19.9 | 12.4 | 55.3 | 47.5 |
| Income tax expense | 7.4 | 3.7 | 19.6 | 16.0 |
| Net income from continuing operations | 12.5 | 8.7 | 35.7 | 31.5 |
| Income from discontinued operations, net of taxes | — | 3.7 | — | 3.2 |
| Net income | 12.5 | 12.4 | 35.7 | 34.7 |
| Net income attributable to noncontrolling interest | (0.1) | (0.2) | (0.8) | (0.2) |
| Net income attributable to ParkOhio common shareholders | $12.4 | $12.2 | $34.9 | $34.5 |
| | | | | |
| Earnings per common share attributable to ParkOhio common shareholders - Basic: | | | | |
| Continuing operations | $1.02 | $0.71 | $2.88 | $2.63 |
| Discontinued operations | — | 0.31 | — | 0.27 |
| Total | $1.02 | $1.02 | $2.88 | $2.90 |
| Earnings per common share attributable to ParkOhio common shareholders - Diluted: | | | | |
| Continuing operations | $1.00 | $0.69 | $2.82 | $2.57 |
| Discontinued operations | — | 0.30 | — | 0.26 |
| Total | $1.00 | $0.99 | $2.82 | $2.83 |
| Weighted-average shares used to compute earnings per share: | | | | |
| Basic | 12.1 | 12.0 | 12.1 | 11.9 |
| Diluted | 12.4 | 12.3 | 12.4 | 12.2 |
| | | | | |
| Dividend per common share | $0.125 | $— | $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 (Loss) (Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (In millions) | | | |
| Net income | $12.5 | $12.4 | $35.7 | $34.7 |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation (loss) gain | (4.9) | 1.2 | (3.9) | (1.7) |
| Pension and postretirement benefit adjustments, net of tax | 0.1 | 0.3 | 0.1 | 0.7 |
| Total other comprehensive (loss) income | (4.8) | 1.5 | (3.8) | (1.0) |
| Total comprehensive income, net of tax | 7.7 | 13.9 | 31.9 | 33.7 |
| Comprehensive income attributable to noncontrolling interest | (0.1) | (0.2) | (0.8) | (0.2) |
| Comprehensive income attributable to ParkOhio common shareholders | $7.6 | $13.7 | $31.1 | $33.5 |

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 Shareholders' Equity (Unaudited)

| | Shares | Common Stock | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive (Loss) Income | 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) | | | | 34.9 | | (3.8) | 0.8 | 31.9 |
| Share-based compensation expense | | | 4.2 | | | | | 4.2 |
| Restricted stock awards and options exercised | 132,750 | 0.1 | (0.1) | | | | | — |
| Restricted stock canceled | (3,668) | | (0.1) | | | | | (0.1) |
| Performance-based stock awards | 14,000 | | 0.7 | | | | | 0.7 |
| Dividends | | | | (3.1) | | | | (3.1) |
| Purchase of treasury stock (68,823 shares) | | | | | (3.7) | | | (3.7) |
| Balance at September 30, 2014 | 14,507,321 | $14.5 | $87.1 | $117.4 | $(30.5) | $(0.4) | $5.8 | $193.9 |

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)

| | Nine Months Ended September 30, 2014 | 2013 |
|---|---|---|
| | (In millions) | |
| OPERATING ACTIVITIES | | |
| Net income | $35.7 | $34.7 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 16.3 | 13.5 |
| Share-based compensation | 4.2 | 3.6 |
| Gain on sale of assets | (1.6) | (6.0) |
| Gain on acquisition | — | (0.6) |
| Other | 0.9 | — |
| Changes in operating assets and liabilities, excluding business acquisitions: | | |
| Accounts receivable | (33.9) | (13.7) |
| Inventories and other current assets | (4.5) | (1.3) |
| Accounts payable and accrued expenses | 24.9 | 5.2 |
| Other | (8.5) | 1.5 |
| Net cash provided by operating activities | 33.5 | 36.9 |
| INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment | (13.9) | (24.4) |
| Proceeds from sale and leaseback transactions | — | 7.1 |
| Proceeds from sale of assets | 2.0 | 14.2 |
| Business acquisitions, net of cash acquired | (5.4) | (21.6) |
| Net cash used by investing activities | (17.3) | (24.7) |
| FINANCING ACTIVITIES | | |
| Payments on term loans and other debt | (4.1) | (3.1) |
| (Payments on) proceeds from revolving credit facility, net | (0.5) | 12.6 |
| Issuance of common stock under the incentive compensation plan | 0.7 | 0.2 |
| Dividends | (3.1) | — |
| Purchase of treasury stock | (3.7) | (2.0) |
| Other | (1.3) | — |
| Net cash (used) provided by financing activities | (12.0) | 7.7 |
| Effect of exchange rate changes on cash | 3.1 | — |
| Increase in cash and cash equivalents | 7.3 | 19.9 |
| Cash and cash equivalents at beginning of period | 55.2 | 44.4 |
| Cash and cash equivalents at end of period | $62.5 | $64.3 |
| Income taxes paid | $19.5 | $21.6 |
| Interest paid | $13.1 | $13.4 |

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
September 30, 2014

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 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 nine-month periods ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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. 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. 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 Financial Accounting Standard Board (“FASB”) issued Accounting Standard Update (“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 an insignificant 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 of 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 an insignificant 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. Early adoption is permitted for disposals that have not been previously reported in the financial statements. We believe the adoption of this ASU will have an insignificant effect on our consolidated financial statement as it only applies to future disposals. The Company is currently evaluating early adoption of this ASU.

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, 2016, and 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.

NOTE 3 — Segments

The Company operates through three 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 that are not attributable to the segments and net interest expense.

Results by business segment were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (In millions) | | | |
| Net sales: | | | | |
| Supply Technologies | $143.4 | $115.9 | $420.2 | $349.2 |
| Assembly Components | 121.6 | 106.1 | 351.7 | 303.9 |
| Engineered Products | 79.6 | 81.5 | 233.8 | 240.7 |
| | $344.6 | $303.5 | $1,005.7 | $893.8 |
| Income from continuing operations before income taxes: | | | | |
| Supply Technologies | $12.2 | $9.5 | $32.7 | $28.0 |
| Assembly Components | 11.0 | 7.6 | 31.3 | 25.2 |
| Engineered Products | 11.5 | 12.7 | 32.8 | 35.4 |
| Total segment operating income | 34.7 | 29.8 | 96.8 | 88.6 |
| Corporate costs | (8.3) | (6.3) | (22.1) | (17.1) |
| Litigation judgment costs | — | (5.2) | — | (5.2) |
| Gain on acquisition of business | — | 0.6 | — | 0.6 |
| Interest expense | (6.5) | (6.5) | (19.4) | (19.4) |
| Income from continuing operations before income taxes | $19.9 | $12.4 | $55.3 | $47.5 |

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| | (In millions) | |
| Identifiable assets: | | |
| Supply Technologies | $278.8 | $241.7 |
| Assembly Components | 283.9 | 276.7 |
| Engineered Products | 191.2 | 183.1 |
| General corporate | 119.9 | 117.2 |
| | $873.8 | $818.7 |

Park-Ohio Holdings Corp. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2014

NOTE 4 — Acquisitions

The following table summarizes the Company's recent acquisitions:

| Description | Date of Transaction | Purchase Consideration (In millions) | | Acquired | Segment |
|---|---|---|---|---|---|
| Autoform Tool & Manufacturing | October 10, 2014 | $ 48.9 | | 100% of equity | Assembly Components |
| An Indiana supplier of high and pressure fuel lines used in Gasoline Direct Injection systems across a large number of engine platforms. | | | | | |
| Apollo Group Limited | June 10, 2014 | $ 6.5 | * | 100% of equity | Supply Technologies |
| A U.K. supply chain management services company providing Class C production components and supply chain solutions to aerospace customers worldwide. | | | | | |
| QEF Global Holdings Limited | November 1, 2013 | $ 4.1 | * | 100% of equity | Supply Technologies |
| An Irish provider of supply chain management solutions with four locations throughout Ireland, Scotland and England. | | | | | |
| Henry Halstead Limited | October 1, 2013 | $ 20.1 | * | 100% of equity | Supply Technologies |
| A U.K. provider of supply chain management solutions throughout the United Kingdom and Ireland. | | | | | |
| Pines Technology | August 14, 2013 | $ 0.8 | * | Assets & liabilities | Engineered Products |
| An Ohio design and manufacturing business of various tube bending machines and related tooling, spare and replacement parts and ancillary services for commercial applications. | | | | | |
| Bates Rubber | April 29, 2013 | $ 20.8 | * | Assets & liabilities | Assembly Components |
| A Tennessee manufacturer of extrusion, formed, and molded products including air/fluid transfer hoses and assemblies, emission management subsystems, thermoplastic hose and molded components and gaskets for transportation and industrial applications. | | | | | |

* Purchase consideration is net of cash acquired.

These acquisitions were accounted for under the acquisition method of accounting. The Apollo Group Limited (“Apollo”)purchase price allocation was preliminary as of September 30, 2014. The Apollo purchase agreement provides for payment of contingent consideration of approximately $2.4 million based on achievement of certain EBITDA targets over two years. The fair value of the earn-out was approximately $1.1 million at the date of the acquisition for a total purchase consideration of $6.5 million. On the acquisition date, a liability was recognized for the estimate of the acquisition date fair value of the earn-out. Any change in the fair value of the earn-out subsequent to the acquisition date will be recognized in selling, general and administrative expenses. Management’s valuation of the fair value of tangible and intangible assets acquired and liabilities assumed are based on estimates and assumptions. The purchase price allocation is subject to further adjustment until all pertinent information regarding the finalization of the appraisals for inventories, intangibles, goodwill, other liabilities and deferred income tax assets and liabilities acquired are fully evaluated by the Company.

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September 30, 2014

The following table summarizes the acquisition-related costs we incurred for the periods presented:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (In millions) | | | |
| Costs included in cost of sales: | | | | |
| Acquisition-related costs | $0.2 | $— | $0.2 | $— |
| Costs included in selling, general and administrative expenses: | | | | |
| Contingent consideration expenses | $0.2 | $— | $0.9 | $— |

The acquisition-related costs in cost of sales relate to the fair value measurements to inventory acquired from the acquisitions that were expensed during the periods presented.

NOTE 5 — 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 is a provider of high-quality machine to machine information technology solutions, products and services. As a result of the sale, we removed this business unit from the Supply Technologies segment and presented it as a discontinued operation for all of the periods presented. Select financial information included in discontinued operations was as follows:

| | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2013 |
|---|---|---|
| | (In millions) | |
| Net sales | $1.0 | $5.2 |
| | | |
| Loss from discontinued operations before tax | $(0.5) | $(1.3) |
| Income tax benefit from operations | 0.2 | 0.5 |
| Net loss from discontinued operations | (0.3) | (0.8) |
| | | |
| Gain on sale of business before tax | 5.4 | 5.4 |
| Income tax expense from gain on sale of business | (1.4) | (1.4) |
| Net gain on sale of business | 4.0 | 4.0 |
| Income from discontinued operations, net of taxes | $3.7 | $3.2 |

NOTE 6 — 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.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (In millions) | | | |
| Accounts receivable sold | $23.9 | $18.6 | $70.1 | $54.6 |

| | | | | |
|---|---|---|---|---|
| Loss on sale of accounts receivable | $(0.1) | $(0.1) | $(0.3) | $(0.3) |

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.

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Park-Ohio Holdings Corp. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2014

NOTE 7 — Inventories

The components of inventory consist of the following:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| | (In millions) | |
| Finished goods | $138.2 | $124.1 |
| Work in process | 35.3 | 36.0 |
| Raw materials and supplies | 56.8 | 61.3 |
| Inventories, net | $230.3 | $221.4 |

NOTE 8 — Goodwill

The changes in the carrying amount of goodwill by segment for the periods ended September 30, 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 | (0.3) | — | (0.2) | (0.5) |
| Acquisition adjustments | 1.8 | — | — | 1.8 |
| Balance at September 30, 2014 | $7.9 | $49.0 | $4.8 | $61.7 |

During the third quarter of 2014, we adjusted the preliminary goodwill recorded for Apollo primarily to reflect the fair value of intangibles, inventory and contingent consideration. During the second quarter of 2014, the Company adjusted the preliminary goodwill recorded for Henry Halstead Limited (“Henry Halstead”) and QEF Global Holdings Limited (“QEF”) related to the finalization of the fair value of customer relationships. The 2013 condensed consolidated financial statements have not been retroactively adjusted as these measurement period adjustments had an insignificant impact on such statements.

The increase in goodwill in 2013 was due to the acquisitions of Bates Rubber (“Bates”) in the second quarter of 2013 and Henry Halstead and QEF in the fourth quarter of 2013. Bates is included in the Assembly Components segment and Henry Halstead, QEF and Apollo are included in the Supply Technologies segment.

The goodwill from these acquisitions represents the future economic benefits arising from other assets acquired which were unable to be individually identified and separately recognized.

The goodwill associated with the Bates transaction is deductible for income tax purposes. The goodwill associated with the Henry Halstead, QEF and Apollo transactions are not deductible for income tax purposes.

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September 30, 2014

NOTE 9 — Other Intangible Assets

Information regarding other intangible assets as of September 30, 2014 and December 31, 2013 follows:

| | September 30, 2014 | | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|---|
| | Weighted Average Useful Life | Acquisition Costs | Accumulated Amortization | Net | Acquisition Costs | Accumulated Amortization | Net |
| | | (In millions) | | | | | |
| Non-contractual customer relationships | 12.7 years | $62.3 | $ 12.1 | $50.2 | $61.1 | $ 8.7 | $52.4 |
| Indefinite-lived tradenames | * | 12.1 | * | 12.1 | 11.7 | * | 11.7 |
| Other | 9.4 years | 3.9 | 2.1 | 1.8 | 3.9 | | |