

SCHMITT INDUSTRIES INC
Form 10-Q
October 09, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: August 31, 2012

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: 000-23996

SCHMITT INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

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Oregon
(State or other jurisdiction of
incorporation or organization)
2765 NW Nicolai Street, Portland, Oregon 97210-1818
(Address of principal executive offices) (Zip Code)
(503) 227-7908
(Registrant's telephone number, including area code)

93-1151989
(IRS Employer
Identification Number)

Indicate by check mark whether the registrant has (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 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. 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 No

The number of shares of each class of common stock outstanding as of September 30, 2012

Common stock, no par value

2,990,910

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Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****SCHMITT INDUSTRIES, INC.****CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

	August 31, 2012	May 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,068,779	\$ 2,776,817
Accounts receivable, net of allowance of \$26,985 and \$26,720 at August 31, 2012 and May 31, 2012, respectively	2,410,959	2,493,889
Inventories	3,952,438	3,975,600
Prepaid expenses	170,928	186,489
Income taxes receivable	6,521	7,780
	9,609,625	9,440,575
Property and equipment		
Land	299,000	299,000
Buildings and improvements	1,723,273	1,723,273
Furniture, fixtures and equipment	1,274,881	1,247,720
Vehicles	121,835	121,835
	3,418,989	3,391,828
Less accumulated depreciation and amortization	(2,044,654)	(2,019,692)
	1,374,335	1,372,136
Other assets		
Intangible assets, net	1,179,254	1,213,204
TOTAL ASSETS	\$ 12,163,214	\$ 12,025,915
LIABILITIES & STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 718,903	\$ 770,586
Accrued commissions	403,967	335,104
Accrued payroll liabilities	166,235	142,665
Other accrued liabilities	228,706	286,319
Total current liabilities	1,517,811	1,534,674
Long-term liabilities	7,500	7,500
Stockholders equity		
Common stock, no par value, 20,000,000 shares authorized, 2,990,910 shares issued and outstanding at both August 31, 2012 and May 31, 2012	10,302,277	10,279,636
Accumulated other comprehensive loss	(301,922)	(313,295)

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Retained earnings	637,548	517,400
Total stockholders equity	10,637,903	10,483,741
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 12,163,214	\$ 12,025,915

The accompanying notes are an integral part of these financial statements.

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SCHMITT INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED AUGUST 31, 2012 AND 2011

(UNAUDITED)

	Three Months Ended August 31,	
	2012	2011
Net sales	\$ 3,680,665	\$ 3,471,485
Cost of sales	1,806,717	1,763,581
Gross profit	1,873,948	1,707,904
Operating expenses:		
General, administration and sales	1,632,815	1,512,190
Research and development	115,309	61,551
Total operating expenses	1,748,124	1,573,741
Operating income	125,824	134,163
Other income	512	9,438
Income before income taxes	126,336	143,601
Provision for income taxes	6,188	6,573
Net income	\$ 120,148	\$ 137,028
Net earnings per common share:		
Basic	\$ 0.04	\$ 0.05
Weighted average number of common shares, basic	2,990,910	2,895,635
Diluted	\$ 0.04	\$ 0.05
Weighted average number of common shares, diluted	3,005,291	2,967,264

The accompanying notes are an integral part of these financial statements.

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SCHMITT INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED AUGUST 31, 2012 AND 2011
(UNAUDITED)

	Three Months Ended August 31,	
	2012	2011
Net income	\$ 120,148	\$ 137,028
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	11,373	(19,138)
Comprehensive income	\$ 131,521	\$ 117,890

The accompanying notes are an integral part of these financial statements.

Table of Contents**SCHMITT INDUSTRIES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE THREE MONTHS ENDED AUGUST 31, 2012 AND 2011****(UNAUDITED)**

	Three Months Ended August 31,	
	2012	2011
Cash flows relating to operating activities		
Net income	\$ 120,148	\$ 137,028
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	86,649	83,547
Gain on disposal of property and equipment		(5,214)
Stock based compensation	22,641	50,147
(Increase) decrease in:		
Accounts receivable	91,809	(145,971)
Inventories	28,424	(320,759)
Prepaid expenses	15,978	15,632
Income taxes receivable	1,259	(5,489)
Increase (decrease) in:		
Accounts payable	(53,251)	247,380
Accrued liabilities and customer deposits	33,802	5,206
Net cash provided by operating activities	347,459	61,507
Cash flows relating to investing activities		
Purchase of property and equipment	(55,189)	(168,014)
Proceeds from sale of property and equipment		34,381
Net cash used in investing activities	(55,189)	(133,633)
Effect of foreign exchange translation on cash	(308)	(14,306)
Increase (decrease) in cash and cash equivalents	291,962	(86,432)
Cash and cash equivalents, beginning of period	2,776,817	2,760,506
Cash and cash equivalents, end of period	\$ 3,068,779	\$ 2,674,074
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for income taxes	\$ 4,929	\$ 14,135

The accompanying notes are an integral part of these financial statements.

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SCHMITT INDUSTRIES, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

AND COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED AUGUST 31, 2012

(UNAUDITED)

	Shares	Amount	Accumulated other comprehensive loss	Retained earnings	Total
Balance, May 31, 2012	2,990,910	\$ 10,279,636	\$ (313,295)	\$ 517,400	\$ 10,483,741
Stock-based compensation		22,641			22,641
Net income				120,148	120,148
Other comprehensive income			11,373		11,373
Balance, August 31, 2012	2,990,910	\$ 10,302,277	\$ (301,922)	\$ 637,548	\$ 10,637,903

The accompanying notes are an integral part of these financial statements.

Table of Contents**SCHMITT INDUSTRIES, INC.****NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS****Note 1:****SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Basis of Presentation**

The consolidated financial information included herein has been prepared by Schmitt Industries, Inc. (the Company or Schmitt) and its wholly owned subsidiaries. In the opinion of management, the accompanying unaudited Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly its financial position as of August 31, 2012 and its results of operations and its cash flows for the periods presented. The consolidated balance sheet at May 31, 2012 has been derived from the Annual Report on Form 10-K for the fiscal year ended May 31, 2012. The accompanying unaudited financial statements and related notes should be read in conjunction with the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2012. Operating results for the interim periods presented are not necessarily indicative of the results that may be experienced for the fiscal year ending May 31, 2013.

Revenue Recognition

The Company recognizes revenue for sales and billing for freight charges upon delivery of the product to the customer at a fixed and determinable price with a reasonable assurance of collection, passage of title to the customer as indicated by shipping terms and fulfillment of all significant obligations, pursuant to the guidance provided by Accounting Standards Codification (ASC) Topic 605. For sales to all customers, including manufacturer representatives, distributors or their third-party customers, these criteria are met at the time product is shipped. When other significant obligations remain after products are delivered, revenue is recognized only after such obligations are fulfilled. In addition, judgments are required in evaluating the credit worthiness of our customers. Credit is not extended to customers and revenue is not recognized until we have determined that collectability is reasonably assured.

Financial Instruments

The carrying value of all other financial instruments potentially subject to valuation risk (principally consisting of cash and cash equivalents, accounts receivable and accounts payable) also approximates fair value because of their short-term maturities.

Note 2:**INVENTORY**

Inventory is valued at the lower of cost or market with cost determined on the average cost basis. Costs included in inventories consist of materials, labor and manufacturing overhead, which are related to the purchase or production of inventories. Write-downs, when required, are made to reduce excess inventories to their net realizable values. Such estimates are based on assumptions regarding future demand and market conditions. If actual conditions become less favorable than the assumptions used, an additional inventory write-down may be required. As of August 31, 2012 and May 31, 2012, inventories consisted of:

	Aug. 31, 2012	May 31, 2012
Raw materials	\$ 1,618,420	\$ 1,638,280
Work-in-process	978,762	980,092
Finished goods	1,355,256	1,357,228
	\$ 3,952,438	\$ 3,975,600

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Note 3:

LINE OF CREDIT

In February 2012, the Company extended its bank line of credit secured by U.S. accounts receivable, inventories and general intangibles through March 1, 2014 and raised the lending limit from \$1.0 million to \$2.0 million. Interest is payable at the bank's prime rate (3.25% as of August 31, 2012) or LIBOR plus 2.0% (2.23% as of August 31, 2012). There were no outstanding balances on the line of credit at August 31, 2012 and May 31, 2012.

Note 4:

STOCK OPTIONS AND STOCK-BASED COMPENSATION

Stock-based compensation includes expense charges for all stock-based awards to employees and directors granted under the Company's stock option plan. Stock-based compensation recognized during the period is based on the portion of the grant date fair value of the stock-based award that will vest during the period, adjusted for expected forfeitures. Compensation cost for all stock-based awards is recognized using the straight-line method. The Company uses the Black-Scholes option pricing model as its method of valuation for stock-based awards. The Black-Scholes option pricing model requires the input of highly subjective assumptions, and other reasonable assumptions could provide differing results. These variables include, but are not limited to:

Risk-Free Interest Rate. The Company bases the risk-free interest rate on the implied yield currently available on U.S. Treasury issues with an equivalent remaining term approximately equal to the expected life of the award.

Expected Life. The expected life of awards granted represents the period of time that they are expected to be outstanding. The Company determines the expected life based on historical experience with similar awards, giving consideration to the contractual terms, vesting schedules and pre-vesting and post-vesting forfeitures.

Expected Volatility. The Company estimates the volatility of its common stock at the date of grant based on the historical volatility of its common stock. The volatility factor the Company uses is based on its historical stock prices over the most recent period commensurate with the estimated expected life of the award. These historical periods may exclude portions of time when unusual transactions occurred.

Expected Dividend Yield. The Company does not anticipate paying any cash dividends in the foreseeable future. Consequently, the Company uses an expected dividend yield of zero.

Expected Forfeitures. The Company uses relevant historical data to estimate pre-vesting option forfeitures. The Company records stock-based compensation only for those awards that are expected to vest.

The Company has computed, to determine stock-based compensation expense recognized for those options granted during the three months ended August 31, 2012 and 2011, the value of all stock options granted using the Black-Scholes option pricing model. No stock options were issued during the three months ended August 31, 2012 and 2011.

At August 31, 2012, the Company had a total of 281,666 outstanding stock options (228,330 vested and exercisable and 53,336 non-vested) with a weighted average exercise price of \$4.16. The Company estimates that a total of approximately \$67,000 will be recorded as additional stock-based compensation expense during the remainder of the year ending May 31, 2013 for all options that were outstanding as of August 31, 2012, but which were not yet vested.

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Outstanding Options			Exercisable Options		
Weighted			Weighted		
Average			Average		
Weighted		Remaining	Weighted		Weighted
Number	Average	Contractual	Number of	Average	Average
of	Exercise Price	Life (yrs)	Shares	Exercise Price	Exercise Price
Shares					
41,666	\$	2.30	41,666	\$	2.30
160,000		3.65	106,664		3.65
5,000		5.80	5,000		5.80
75,000		6.16	75,000		6.16
281,666	\$	4.16	228,330	\$	4.28

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Options granted, exercised, and forfeited or canceled under the Company's stock option plan during the three months ended August 31, 2012 are summarized as follows:

	Three Months Ended August 31, 2012	
	Number of Shares	Weighted Average Exercise Price
Options outstanding - beginning of period	281,666	\$ 4.16
Options granted		
Options exercised		
Options forfeited/canceled		
Options outstanding - August 31, 2012	281,666	\$ 4.16

Note 5:**EPS RECONCILIATION**

	Three Months Ended August 31,	
	2012	2011
Weighted average shares (basic)	2,990,910	2,895,635
Effect of dilutive stock options	14,381	71,629
Weighted average shares (diluted)	3,005,291	2,967,264

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding. Diluted earnings (loss) per share is computed using the weighted average number of common shares outstanding, adjusted for dilutive incremental shares attributed to outstanding options to purchase common stock. Common stock equivalents for stock options are computed using the treasury stock method. In periods in which a net loss is incurred, no common stock equivalents are included since they are antidilutive and as such all stock options outstanding are excluded from the computation of diluted net loss in those periods.

Note 6:**INCOME TAXES**

The Company accounts for income taxes using the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Each year the Company files income tax returns in the various national, state and local income taxing jurisdictions in which it operates. These tax returns are subject to examination and possible challenge by the taxing authorities. Positions challenged by the taxing authorities may be settled or appealed by the Company. As a result, there is an uncertainty in income taxes recognized in the Company's financial statements in accordance with ASC Topic 740. The Company applies this guidance by defining criteria that an individual income tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements and provides guidance on measurement, de-recognition, classification, accounting for interest and penalties, accounting in interim periods, disclosure, and transition.

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On June 1, 2007, the Company adopted the provisions of ACS Topic 740. Other long-term liabilities related to tax contingencies were \$7,500 as of both August 31, 2012 and May 31, 2012. Interest and penalties associated with uncertain tax positions are recognized as components of the Provision for income taxes. The liability for payment of interest and penalties was \$0 as of August 31, 2012 and May 31, 2012.

Several tax years are subject to examination by major tax jurisdictions. In the United States, federal tax years for Fiscal 2007 and after are subject to examination. In the United Kingdom, tax years for Fiscal 2006 and after are subject to examination. In Canada, tax years for 2005 and after are subject to examination. In the United States, returns related to an acquired subsidiary for the year ended October 31, 1994 and the final return for the period ended May 19, 1995 are also subject to examination.

Effective Tax Rate

The effective tax rate on consolidated net income was 4.9% for the three months ended August 31, 2012. The effective tax rate on consolidated net income differs from the federal statutory tax rate primarily due to the amount of income from foreign jurisdictions, changes in the deferred tax valuation allowance and certain expenses not being deductible for income tax reporting purposes. Management believes the effective tax rate for Fiscal 2013 will be approximately 4.9% due to the items noted above.

Note 7:**SEGMENTS OF BUSINESS**

The Company has two reportable business segments: dynamic balancing systems for the machine tool industry (Balancer) and laser-based test and measurement systems (Measurement). The Company operates in three principal geographic markets: North America, Europe and Asia.

Segment Information

	Three Months Ended August 31,			
	2012		2011	
	Balancer	Measurement	Balancer	Measurement
Gross sales	\$ 2,433,704	\$ 1,432,366	\$ 2,810,593	\$ 972,184
Intercompany sales	(170,681)	(14,724)	(290,054)	(21,238)
Net sales	\$ 2,263,023	\$ 1,417,642	\$ 2,520,539	\$ 950,946
Operating income	\$ 92,859	\$ 32,965	\$ 46,494	\$ 87,669
Depreciation expense	\$ 34,962	\$ 18,028	\$ 33,461	\$ 16,427
Amortization expense	\$	\$ 33,659	\$ 0	\$ 33,659
Capital expenditures	\$ 39,830	\$ 15,359	\$ 51,267	\$ 116,747

Geographic Information-Net Sales by Geographic Area

	Three Months Ended August 31,	
	2012	2011
North America	\$ 2,391,221	\$ 1,739,719
Europe	290,505	323,047
Asia	927,071	1,226,083
Other markets	71,868	182,636

Total Net Sales	\$ 3,680,665	\$ 3,471,485
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	Three Months Ended August 31,			
	2012		2011	
	United States	Europe	United States	Europe
Operating income (loss)	\$ 151,110	\$ (25,286)	\$ 60,642	\$ 73,521
Depreciation expense	\$ 52,990	\$	\$ 49,888	\$
Amortization expense	\$ 33,659	\$	\$ 33,659	\$
Capital expenditures	\$ 55,189	\$	\$ 168,014	\$

Note Europe is defined as the European subsidiary, Schmitt Europe, Ltd.

Segment and Geographic Assets

	August 31, 2012	May 31, 2012
Segment assets to total assets		
Balancer	\$ 5,300,909	\$ 4,872,664
Measurement	3,787,005	4,368,654
Corporate assets	3,075,300	2,784,597
Total assets	\$ 12,163,214	\$ 12,025,915
Geographic assets to long-lived assets		
United States	\$ 1,374,335	\$ 1,372,136
Europe		
Total assets	\$ 1,374,335	\$ 1,372,136
Geographic assets to total assets		
United States	\$ 11,551,566	\$ 11,246,431
Europe	611,648	779,484
Total assets	\$ 12,163,214	\$ 12,025,915

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Forward-Looking Statements**

This Quarterly Report filed with the SEC on Form 10-Q (the Report), including Management's Discussion and Analysis of Financial Condition and Results of Operations in this Item 2, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 regarding future events and the future results of Schmitt Industries, Inc. and its consolidated subsidiaries (the Company) that are based on management's current expectations, estimates, projections and assumptions about the Company's business. Words such as expects, anticipates, intends, plans, believes, sees, estimates and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements due to numerous factors, including, but not limited to, those discussed in the Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Report as well as those discussed from time to time in the Company's other Securities and Exchange Commission filings and reports. In addition, such statements could be affected by general industry and market conditions. Such forward-looking statements speak only as of the date of this Report or, in the case of any document incorporated by reference, the date of that document, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Report. If we update or correct one or more forward-looking statements, investors and others should not conclude that we will make additional updates or corrections with respect to other forward-looking statements.

RESULTS OF OPERATIONS**Overview**

Schmitt Industries, Inc. designs, manufactures and markets computer-controlled vibration detection and balancing equipment (the Balancer segment) to the worldwide machine tool industry and through its wholly owned subsidiary, Schmitt Measurement Systems, Inc., precision laser-based surface measurement products, laser-based distance measurement products and ultrasonic measurement systems (the Measurement segment) for a variety of industrial applications worldwide. The Company sells and markets its products in Europe through its wholly owned subsidiary, Schmitt Europe Ltd. (SEL), located in the United Kingdom. The Company is organized into two operating segments: the Balancer segment and the Measurement segment. The accompanying unaudited financial information should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended May 31, 2012.

SBS, SMS, Acuity, Xact and Lasercheck are registered trademarks owned by the Company.

For the three months ended August 31, 2012, total sales increased \$209,000, or 6.0%, to \$3.7 million from \$3.5 million in the three months ended August 31, 2011. Balancer segment sales focus throughout the world on end-users, rebuilders and original equipment manufacturers of grinding machines with the target geographic markets in North America, South America, Asia and Europe. Balancer segment sales decreased \$258,000, or 10.2%, to \$2.3 million for the three months ended August 31, 2012 compared to \$2.5 million for the three months ended August 31, 2011. The decrease in worldwide balancer sales is due to lower volumes of shipments. The Measurement segment product line consists of laser-based light-scatter, distance measurement and dimensional sizing products and remote tank monitoring products. Total Measurement segment sales increased \$467,000, or 49.1%, to \$1.4 million for the three months ended August 31, 2012 compared to \$951,000 for the three months ended August 31, 2011. The increase is primarily due to higher volumes of shipments of distance measurement and dimensional sizing laser-based products and remote tank monitoring products offset by decreases in laser-based light-scatter surface measurement products.

Operating expenses have increased \$174,000, or 11.1%, to \$1.7 million for the three months ended August 31, 2012 from \$1.6 million for the three months ended August 31, 2011. General, administration and sales expenses have increased \$121,000, or 8.0%, to \$1.6 million for the three months ended August 31, 2012 from \$1.5 million for the same period in the prior year. Research and development expenses have increased \$54,000, or 87.3%, to \$115,000 for the three months ended August 31, 2012 from \$62,000 for the three months ended August 31, 2011. Net income was \$120,000, or \$0.04 per fully diluted share, for the three months ended August 31, 2012 as compared to \$137,000, or \$0.05 per fully diluted share, for the three months ended August 31, 2011.

Table of Contents**Critical Accounting Policies**

There were no material changes in our critical accounting policies as disclosed in our Annual Report on Form 10-K for the year ended May 31, 2012.

Discussion of Operating Results

	Three Months Ended August 31,			
	2012		2011	
Balancer sales	\$ 2,263,023	61.5%	\$ 2,520,539	72.6%
Measurement sales	1,417,642	38.5%	950,946	27.4%
Total sales	3,680,665	100.0%	3,471,485	100.0%
Cost of sales	1,806,717	49.1%	1,763,581	50.8%
Gross profit	1,873,948	50.9%	1,707,904	49.2%
Operating expenses:				
General, administration and sales	1,632,815	44.4%	1,512,190	43.6%
Research and development	115,309	3.1%	61,551	1.8%
Total operating expenses	1,748,124	47.5%	1,573,741	45.3%
Operating income	125,824	3.4%	134,163	3.9%
Other income	512	0.0%	9,438	0.3%
Income before income taxes	126,336	3.4%	143,601	4.1%
Provision for income taxes	6,188	0.2%	6,573	0.2%
Net income				
		Proceeds from capital lease credit facility	10.3	—
Dividends	(4.7)		(3.1)	
Purchase of treasury stock	(5.0)		(3.7)	
Other	—		(1.3)	
Net cash provided (used) by financing activities	27.0		(12.7)	
Effect of exchange rate changes on cash	(2.9)		3.1	
Increase in cash and cash equivalents	4.7		7.3	
Cash and cash equivalents at beginning of period	58.0		55.2	
Cash and cash equivalents at end of period	\$ 62.7		\$ 62.5	
Income taxes paid	\$ 13.3		\$ 19.5	
Interest paid	\$ 14.6		\$ 13.1	

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, 2015

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, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. The balance sheet at December 31, 2014 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, 2014.

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 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 adoption had no effect on our consolidated financial statement as it only applies to future disposals.

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.

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Notes to Unaudited Condensed Consolidated Financial Statements

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In April 2015, the FASB issued ASU 2015-03, "Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs." The amendment requires an entity to present debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the debt issuance costs will continue to be reported as interest expense. This ASU is effective for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. Early adoption is permitted. The new guidance will be applied retrospectively to each prior period presented. The new guidance will only impact the presentation of the Company's financial position and is not expected to materially affect the Company's results of operations or other financial statement disclosures.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." The amendment requires an entity to measure inventory within the scope of this update at the lower of cost and net realizable value. This ASU is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early adoption is permitted. The new guidance will be applied prospectively. The Company is currently evaluating the impact of adopting this guidance.

In September 2015, the FASB issued ASU 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments." The amendments in this update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this update require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. This ASU is effective for fiscal years after December 15, 2015 and interim periods within those fiscal years. The new guidance will be applied prospectively, and the impact of adoption will be dependent on the nature of measurement period adjustments that may be necessary.

NOTE 3 — Segments

The Company operates through three reportable segments: Supply Technologies, Assembly Components and Engineered Products. Supply Technologies provides our customers with Total Supply Management™ services for a broad range of high-volume, specialty production components. Total Supply Management™ manages the efficiencies of every aspect of supplying production parts and materials to our customers' manufacturing floor, from strategic planning to program implementation, and includes such services as engineering and design support, part usage and cost analysis, supplier selection, quality assurance, bar coding, product packaging and tracking, just-in-time and point-of-use delivery, electronic billing services and ongoing technical support. Assembly Components manufactures cast aluminum components, automotive and industrial rubber and thermoplastic products, gasoline direct injection systems and fuel filler and hydraulic fluid assemblies. Assembly Components also provides value-added services such as design and engineering, machining and assembly. Engineered Products operates a diverse group of niche manufacturing businesses that design and manufacture a broad range of high quality products engineered for specific customer applications, such as induction heating and melting systems, pipe threading equipment, machined locomotive crankshafts and camshafts and various forged and machined products. Engineered Products also produces and provides services and spare parts for the equipment it manufactures.

The Company primarily evaluates performance and allocates resources based on segment operating income as well as projected future performance. Segment operating income is defined as revenues less expenses identifiable to the product lines included within each segment. Segment operating income reconciles to consolidated income before

income taxes by deducting corporate costs that are not attributable to the segments and net interest expense.

Results by business segment were as follows:

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September 30, 2015

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In millions)			
Net sales:				
Supply Technologies	\$ 143.1	\$ 143.4	\$ 444.7	\$ 420.2
Assembly Components	149.3	121.6	429.6	351.7
Engineered Products	72.0	79.6	242.1	233.8
	\$ 364.4	\$ 344.6	\$ 1,116.4	\$ 1,005.7
Income before income taxes:				
Supply Technologies	\$ 13.0	\$ 12.2	\$ 40.2	\$ 32.7
Assembly Components	17.7	11.0	41.9	31.3
Engineered Products	4.3	11.5	15.7	32.8
Total segment operating income	35.0	34.7	97.8	96.8
Corporate costs	(7.6	) (8.3	) (20.5	) (22.1
Interest expense	(7.0	) (6.5	) (20.7	) (19.4
Income before income taxes	\$ 20.4	\$ 19.9	\$ 56.6	\$ 55.3

	September 30,	December 31,
	2015	2014
	(In millions)	
Identifiable assets:		
Supply Technologies	\$ 286.4	\$ 277.6
Assembly Components	360.6	340.5
Engineered Products	249.6	246.9
General corporate	118.5	109.2
	\$ 1,015.1	\$ 974.2

NOTE 4 — Acquisitions

The following table summarizes the Company's recent acquisitions:

Description	Date of Transaction	Purchase Consideration (In millions)	Acquired	Segment
Saet S.p.A	December 4, 2014	\$ 22.1	* 100% of equity	Engineered Products
A leader in the design, manufacturing and testing of induction heating equipment and heat treat solutions through its locations in Italy, China, India and Tennessee, and head quartered in Turin, Italy.				
Autoform Tool & Manufacturing	October 10, 2014	\$ 48.9	* 100% of equity	Assembly Components
A supplier of high pressure fuel lines and fuel rails used in Gasoline Direct Injection systems across a large number of engine platforms located in Angola, Indiana.				
Apollo Group Limited	June 10, 2014	\$ 6.5	* 100% of equity	Supply Technologies
A supply chain management services company providing Class C production components and supply chain solutions to aerospace customers worldwide located in West Midlands, England.				

* Purchase consideration is net of cash acquired.

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The Apollo purchase agreement provides for the payment of contingent consideration of approximately \$2.4 million based on the achievement of certain EBITDA targets over two years. The fair value of the earn-out, valued using level 3 inputs, was approximately \$1.1 million at the date of the acquisition for a total purchase consideration of \$6.5 million and at September 30, 2015, the fair value of the earn-out was approximately \$1.9 million. The contingent consideration, if earned, would be paid in the third quarter of 2016.

The acquisition of Autoform was accounted for under the acquisition method of accounting. The purchase price allocation relating to the Autoform acquisition is subject to further adjustment until all pertinent information regarding finalization of the intangible assets and deferred income tax assets and liabilities are fully evaluated by the Company and independent valuations are complete. Revisions to these estimates as fair values are finalized will be reflected in the financial statements throughout the measurement period.

The acquisition of Saet was accounted for under the acquisition method of accounting. At December 31, 2014, the entire purchase price allocation was preliminary with the fair values of the assets acquired and liabilities assumed estimated based on their carrying values with the excess consideration of \$23.2 million preliminarily recorded as goodwill. During the third quarter of 2015, the Company received preliminary third-party valuations for the inventories, intangible assets and tangible assets. The Company recorded adjustments resulting in a decrease to goodwill of approximately \$16.4 million, primarily offset by an increase in tradenames and technology intangible assets of \$4.7 million and \$8.7 million, respectively. These preliminary estimates may be further revised during the measurement period in 2015 as all pertinent information regarding finalization of the third-party valuations for inventories, intangible assets, goodwill, tangible assets, other liabilities and deferred income tax assets and liabilities acquired are fully evaluated by the Company.

NOTE 5 — 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,	
	2015	2014	2015	2014
	(In millions)			
Accounts receivable sold	\$27.7	\$23.9	\$89.8	\$70.1
Loss on sale of accounts receivable	\$(0.2)	\$(0.1)	\$(0.5)	\$(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.

NOTE 6 — Inventories

The components of inventory consist of the following:

	September 30,	December 31,
	2015	2014
	(In millions)	
Finished goods	\$143.8	\$146.0

Work in process	36.8	19.8
Raw materials and supplies	67.2	72.6
Inventories, net	\$247.8	\$238.4

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Park-Ohio Holdings Corp. and Subsidiaries
 Notes to Unaudited Condensed Consolidated Financial Statements
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NOTE 7 — Goodwill

The changes in the carrying amount of goodwill by segment for the periods ended September 30, 2015 and December 31, 2014 were as follows:

	Supply Technologies (In millions)	Assembly Components	Engineered Products	Total
Balance at January 1, 2014	\$6.4	\$49.0	\$5.0	\$60.4
Acquisitions	0.7	5.0	23.2	28.9
Foreign currency translation	0.5	—	(0.3)	) 0.2
Balance at December 31, 2014	7.6	54.0	27.9	89.5
Foreign currency translation	(0.2)	) —	(0.6)	) (0.8)
Acquisition adjustments	—	0.1	(16.4)	) (16.3)
Balance at September 30, 2015	\$7.4	\$54.1	\$10.9	\$72.4

During the second quarter of 2015, we adjusted the preliminary goodwill recorded for Saet primarily to reflect the adjustments to the determination of fair value of acquired intangible assets. During the first half of 2015, we adjusted the preliminary goodwill recorded for Autoform primarily to reflect the adjustments to the determination of fair value of acquired intangible assets. The 2014 condensed consolidated financial statements have not been retroactively adjusted as these measurement period adjustments did not have a material impact on such statements.

The increase in goodwill from January 1, 2014 is due to the acquisitions of Apollo, Autoform and Saet. The goodwill associated with the Apollo and Saet transactions is not deductible for income tax purposes.

NOTE 8 — Other Intangible Assets

Information regarding other intangible assets as of September 30, 2015 and December 31, 2014 follows:

	September 30, 2015			December 31, 2014			
	Weighted Average Useful Life	Acquisition Cost	Accumulated Amortization Net	Acquisition Cost	Accumulated Amortization Net		
		(In millions)					
Non-contractual customer relationships	12.2 years	\$76.5	\$ 17.3	\$59.2	\$77.3	\$ 13.2	\$64.1
Indefinite-lived tradenames	*	18.7	—	18.7	14.0	—	14.0
Technology	19.1 years	16.1	0.7	15.4	8.2	0.1	8.1
Other	8.7 years	4.1	2.5	1.6	4.1	2.2	1.9
Total		\$115.4	\$ 20.5	\$94.9	\$103.6	\$ 15.5	\$88.1

* Not applicable, tradenames have an indefinite life.

Information regarding amortization expense of other intangibles assets follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Amortization expense	\$1.6	\$1.0	\$4.8	\$3.4

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 Notes to Unaudited Condensed Consolidated Financial Statements
 September 30, 2015

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 nine months ended September 30,

	2015	2014
	(In millions)	
Balance at January 1,	\$6.9	\$5.4
Claims paid	(2.6	) (2.0
Warranty expense, net	1.8	1.9
Balance at September 30,	\$6.1	\$5.3

NOTE 10 — Financing Arrangements

Long-term debt consists of the following:

	Issuance Date	Maturity Date	Interest Rate at September 30, 2015	Carrying Value at	
				September 30, 2015	December 31, 2014
	(In millions)				
Senior Notes	April 1, 2011	April 1, 2021	8.125	% \$250.0	\$250.0
Revolving credit	—	July 31, 2019	1.69	% 186.5	162.0
Term loan	—	July 31, 2019	2.31	% 28.9	28.8
Other, including capital leases	Various	Various	Various	15.2	3.0
Total debt				480.6	443.8
Less current maturities				16.7	9.4
Total long-term debt, net of current portion				\$463.9	\$434.4

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 dollars for Capital Leases. As of September 30, 2015 the Company had utilized \$10.3 million of the available balance.

On July 31, 2014, the Company entered into a sixth amendment and restatement of the credit agreement (the "Amended Credit Agreement"). The Amended Credit Agreement, among other things, increased the revolving credit facility to \$230.0 million, provided a term loan for \$16.1 million and extended the maturity date of the borrowings under the Amended Credit Agreement to July 31, 2019. The revolving credit facility includes a Canadian sub-limit of \$15.0 million and a European sub-limit of \$10.0 million (which may be increased to \$25.0 million) for borrowings in those locations.

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

- increase the revolving credit facility from \$230.0 million to \$275.0 million;
- increase the inventory advance rate from 50% to 60%, reducing back to 50% on a pro-rata quarterly basis over 36 months commencing April 1, 2015;
- reload the term loan up to \$35.0 million from \$15.5 million, of which \$28.9 million has been borrowed and is outstanding as of September 30, 2015;
- increase the Canadian sub-limit up to \$25.0 million from \$15.0 million;
- increase the European sub-limit up to \$25.0 million from \$10.0 million; and
- provide minor pricing adjustments including pricing the first \$22.0 million drawn on the revolver at LIBOR + 3.50%, reducing automatically on a pro-rata quarterly basis over 36 months commencing April 1, 2015.

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

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

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

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

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

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

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

Under the Amended Credit Agreement, a detailed borrowing base formula provides borrowing availability to the Company based on percentages of eligible accounts receivable and inventory. The term loan is amortized based on a seven-year schedule with the balance due at maturity. The Amended Credit Agreement also reduced the commitment fee for the revolving credit facility. Additionally, the Company has the option, pursuant to the Amended Credit Agreement, to increase the availability under the revolving credit facility by \$25.0 million.

The following table represents fair value information of the Company's 8.125% Senior Notes due 2021, classified as Level 1, at September 30, 2015 and December 31, 2014. The fair value was estimated using quoted market prices.

	September 30, 2015	December 31, 2014
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	(In millions)	
Carrying amount	\$250.0	\$250.0
Fair value	\$261.9	\$266.3

NOTE 11 — Income Taxes

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The Company's tax provision for interim periods is determined using an estimate of its annual effective income tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter, the Company updates the estimated annual effective income tax rate, and if the estimated income tax rate changes, a cumulative adjustment is made.

The effective tax rate for the first nine months of 2015 and 2014 was 34.8% and 35.4%, respectively. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the nine-months ended September 30, 2015, the Company recorded an increase to unrecognized tax benefits of approximately \$0.3 million related to prior year tax positions and accrued interest. It is reasonably possible that within the next twelve months the amount of gross unrecognized tax benefits could be reduced by approximately \$3.0 million as a result of the revaluation of existing uncertain tax positions arising from the closure of tax statutes.

NOTE 12 — Stock-Based Compensation

A summary of stock option activity as of September 30, 2015 and changes during the first nine months of 2015 is presented below:

	2015			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(In whole shares)			(In millions)
Outstanding - beginning of year	143,500	\$ 16.76		
Granted	—	—		
Exercised	(75,000)	) 14.94		
Canceled or expired	—	—		
Outstanding - end of period	68,500	\$ 18.75	1.9 years	\$0.9
Options exercisable	68,500	\$ 18.75	1.9 years	\$0.9

A summary of restricted share activity for the nine months ended September 30, 2015 is as follows:

	2015		Performance-Based	
	Time-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	344,932	\$ 33.55	28,000	\$ 20.30
Granted	65,500	45.50	120,000	48.72
Vested	(160,586)	) 30.97	(14,000)	) 20.30

Canceled or expired	(21,501	) 40.47	—	—
Outstanding - end of period	228,345	\$38.14	134,000	\$45.75

Total stock-based compensation expense included in selling, general and administrative expenses during the first nine months of 2015 and 2014 was \$5.3 million and \$4.2 million, respectively. As of September 30, 2015, there was \$12.8 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 1.8 years.

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Park-Ohio Holdings Corp. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2015

NOTE 13 — Commitments, Contingencies and Litigation Judgment

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

Our subsidiaries are involved in a number of contractual and warranty related disputes. We believe that appropriate liabilities for these contingencies have been recorded; however, actual results may differ materially from our estimates.

IPSCO Tubulars Inc. d/b/a TMK IPSCO sued Ajax Tocco Magnethermic Corporation (“ATM”), a subsidiary of Park-Ohio Holdings Corporation, in the United States District Court for the Eastern District of Arkansas claiming that equipment supplied by ATM for heat treating certain steel pipe at IPSCO's Blytheville, Arkansas facility did not perform as required by the contract. The complaint alleged causes of action for breach of contract, gross negligence and constructive fraud. IPSCO sought approximately \$10.0 million in damages plus an unspecified amount of punitive damages. ATM denied the allegations. ATM subsequently obtained summary judgment on the constructive fraud claim, which was dismissed by the district court prior to trial. The remaining claims were the subject of a bench trial that occurred in May 2013. After IPSCO presented its case, the district court entered partial judgment in favor of ATM, dismissing the gross negligence claim, a portion of the breach of contract claim, and any claim for punitive damages. The trial proceeded with respect to the remainder of IPSCO's claim for breach of contract. In September 2013, the district court issued a judgment in favor of IPSCO in the amount of \$5.2 million, which the Company recognized and accrued for at that time. IPSCO subsequently filed a motion seeking to recover \$3.8 million in attorneys' fees and costs. The district court reserved ruling on that issue pending an appeal. In October 2013, ATM filed an appeal with the U.S. Court of Appeals for the Eighth Circuit seeking reversal of the judgment in favor of IPSCO. In November 2013, IPSCO filed a cross-appeal seeking reversal of the dismissal of its claim for gross negligence and punitive damages. The Eighth Circuit issued an opinion in March 2015 affirming in part, reversing in part, and remanding the case. It affirmed the district court's determination that ATM was liable for breach of contract. It also affirmed the district court's dismissal of IPSCO's claim for gross negligence and punitive damages. However, the Eighth Circuit reversed nearly all of the damages awarded by the district court and remanded for further findings on the issue of damages, including whether consequential damages are barred under the express language of the contract. Because IPSCO did not appeal the award of \$5.2 million in its favor, those damages may be decreased, but cannot be increased, on remand. IPSCO's motion to recover attorney's fees and costs is stayed pending the outcome of the proceedings on remand.

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

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NOTE 14 — Pension Plans and Other Postretirement Benefits

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

	Pension Benefits				Postretirement Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014	2015	2014	2015	2014
	(In millions)							
Service costs	\$0.7	\$0.6	\$1.9	\$1.7	\$—	\$—	\$—	\$—
Interest costs	0.5	0.5	1.7	1.7	0.2	0.2	0.5	0.5
Expected return on plan assets	(2.6)	(2.5)	(7.6)	(7.6)	—	—	—	—
Recognized net actuarial loss	—	—	—	—	0.2	0.1	0.5	0.4
Net periodic benefit (gains) costs	\$(1.4)	\$(1.4)	\$(4.0)	\$(4.2)	\$0.4	\$0.3	\$1.0	\$0.9

NOTE 15 — Accumulated Other Comprehensive Income (Loss)

The components of and changes in accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2015 and 2014 were as follows:

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Cumulative Translation Adjustment	Pension and Postretirement Benefits	Total	Cumulative Translation Adjustment	Pension and Postretirement Benefits	Total
	(In millions)					
Beginning balance	\$(7.7)	\$(8.6)	\$(16.3)	\$(5.1)	\$(8.9)	\$(14.0)
Foreign currency translation adjustments ^(a)	(0.9)	—	(0.9)	(3.5)	—	(3.5)
Recognition of actuarial loss ^(b)	—	0.1	0.1	—	0.4	0.4
Ending balance	\$(8.6)	\$(8.5)	\$(17.1)	\$(8.6)	\$(8.5)	\$(17.1)

	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Cumulative Translation Adjustment	Pension and Postretirement Benefits	Total	Cumulative Translation Adjustment	Pension and Postretirement Benefits	Total
	(In millions)					
Beginning balance	\$3.8	\$0.6	\$4.4	\$2.8	\$0.6	\$3.4
Foreign currency translation adjustments ^(a)	(4.9)	—	(4.9)	(3.9)	—	(3.9)
Recognition of actuarial loss ^(b)	—	0.1	0.1	—	0.1	0.1
Ending balance	\$(1.1)	\$0.7	\$(0.4)	\$(1.1)	\$0.7	\$(0.4)

- (a) No income taxes are provided on foreign currency translation adjustments as foreign earnings are considered permanently invested.
The recognition of actuarial losses are reclassified out of accumulated other comprehensive income (loss) and
- (b) included in the computation of net periodic benefit cost in selling, general and administrative expenses, net the effect of tax adjustments.

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NOTE 16 — 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 September		Nine Months Ended September	
	30, 2015	2014	30, 2015	2014
	(In whole shares)			
Weighted average basic shares outstanding	12,288,392	12,133,153	12,228,721	12,081,787
Plus dilutive impact of employee stock awards	109,976	235,242	186,352	276,021
Weighted average diluted shares outstanding	12,398,368	12,368,395	12,415,073	12,357,808

Earnings per common share is computed as net income less net income attributable to noncontrolling interests divided by the weighted average basic shares outstanding. Diluted earnings per common share is computed as net income less net income attributable to noncontrolling interests 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 excluded in the computation of diluted earnings per share. For the three and nine months ended September 30, 2015 and 2014, there were no anti-dilutive shares.

NOTE 17— Subsequent Event

On October 30, 2015, the Company's Board of Directors declared a quarterly dividend of \$0.125 per common share. The dividend will be paid on November 30, 2015 to shareholders of record as of the close of business on November 16, 2015 and will result in a cash outlay of approximately \$1.6 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.

Our Supply Technologies business 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. 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 components, gasoline direct injection systems and fuel filler and hydraulic fluid 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 equipment, 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.

Sales, segment operating income and other relevant financial data for these three segments are provided in Note 3 to the condensed consolidated financial statements, included elsewhere herein.

Primary Factors Affecting 2015 Results

The following factors most affected our consolidated results for the three and nine months ended September 30, 2015:

Our 2014 strategic bolt-on acquisitions of Apollo, Autoform and Saet added a combined \$24.7 million and \$80.8 million of incremental revenues in the three and nine months ended September 30, 2015, compared to the three and nine months ended September 30, 2014. These acquisitions have been successfully integrated into our segments and the earnings results of these combined acquisitions have been accretive to us for the three and nine months ended September 30, 2015.

Overall, we had net sales growth of 5.7% for the third quarter of 2015 when compared to the same period in the prior year. Gross margin as a percentage of sales declined from 17.6% in the third quarter of 2014 to 17.1% in the third quarter of 2015. The gross margin decline is attributable to declines in higher margin new equipment and aftermarket sales volume to the oil and gas, steel and aerospace end markets in our Engineered Products segment.

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Subsequent Events

On October 30, 2015, the Company's Board of Directors declared a quarterly dividend of \$0.125 per common share. The dividend will be paid on November 30, 2015 to shareholders of record as of the close of business on November 16, 2015 and will result in a cash outlay of approximately \$1.6 million.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2015 Compared with Three Months Ended September 30, 2014

	Three Months Ended September 30,		\$ Change	% Change	
	2015	2014			
	(Dollars in millions, except per share data)				
Net sales	\$364.4	\$344.6	\$19.8	5.7	%
Cost of sales	302.1	284.0	18.1	6.4	%
Gross profit	62.3	60.6	1.7	2.8	%
Gross profit as a percentage of net sales	17.1	% 17.6	%		
SG&A expenses	34.9	34.2	0.7	2.0	%
SG&A as a percentage of net sales	9.6	% 9.9	%		
Operating income	27.4	26.4	1.0	3.8	%
Interest expense	7.0	6.5	0.5	7.7	%
Income before income taxes	20.4	19.9	0.5	2.5	%
Income tax expense	7.2	7.4	(0.2)	(2.7))%
Net income	13.2	12.5	0.7	5.6	%
Net income attributable to noncontrolling interest	—	(0.1)	) 0.1	*	
Net income attributable to ParkOhio common shareholders	\$13.2	\$12.4	\$0.8	6.5	%
Earnings per common share attributable to ParkOhio common shareholders:					
Basic	\$1.07	\$1.02	\$0.05	4.9	%
Diluted	\$1.06	\$1.00	\$0.06	6.0	%

Net Sales:

Net sales increased \$19.8 million, or 5.7%, to \$364.4 million in the third quarter of 2015, compared to \$344.6 million in the same period in 2014, mainly due to the incremental sales from acquisitions of \$24.7 million.

The factors explaining the changes in segment revenues for the three months ended September 30, 2015 compared to the prior year comparable period are contained within the “Segment Analysis” section.

Cost of Sales & Gross Profit:

Cost of sales increased \$18.1 million to \$302.1 million in the third quarter of 2015, compared to \$284.0 million in the same period in 2014. The increase in cost of sales was primarily due to incremental cost of sales from acquisitions; which totaled \$21.9 million in the third quarter of 2015.

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The gross profit margin percentage was 17.1% in the third quarter of 2015 compared to 17.6% in the same period in 2014. The decrease in gross margin percentage is largely due to a decline in higher margin new equipment and aftermarket sales volume in the oil and gas, steel and aerospace end markets in our Engineered Products segment.

Selling, General & Administrative (“SG&A”) Expenses:

Consolidated SG&A expenses decreased \$0.7 million to \$34.9 million in the third quarter of 2015, compared to \$34.2 million in the same period in 2014. SG&A expenses as a percent of sales decreased to 9.6% in the third quarter of 2015 compared to 9.9% in the third quarter of 2014 primarily due to a reduction in professional fees.

Interest Expense:

	Three Months Ended September				
	2015	2014	\$ Change	% Change	
	(Dollars in millions)				
Interest expense	\$7.0	\$6.5	\$0.5	7.7	%
Average outstanding borrowings	\$472.3	\$388.5	\$83.8	21.6	%
Average borrowing rate	5.93	% 6.69	%		

Interest expense increased \$0.5 million in the third quarter of 2015 compared to the same period in 2014. Average borrowings in the third quarter of 2015 were higher when compared to the same period in 2014 due to additional borrowings to fund acquisitions, capital expenditures and working capital. The average borrowing rate in third quarter of 2015 decreased 76 basis points compared to the same period in 2014, reflecting lower interest rates on the revolving credit facility provided by the Credit Agreement (as defined below) in 2015 compared to 2014.

Income Tax Expense:

The provision for income taxes was \$7.2 million, at a 35.3% effective income tax rate, in the third quarter of 2015. This was comparable to income taxes of \$7.4 million, at a 37.2% effective income tax rate, in the third quarter of 2014.

Net Income:

Net income increased \$0.7 million to \$13.2 million for the third quarter of 2015, compared to \$12.5 million for the third quarter of 2014, due to the reasons described above.

Net Income Attributable to Noncontrolling Interest:

Net income attributable to noncontrolling interest was less than \$0.1 million for the third quarter of 2015 and \$0.1 million for the third quarter of 2014 and was deducted from net income to derive net income attributable to ParkOhio common shareholders.

Net Income Attributable to ParkOhio Common Shareholders:

Net income attributable to ParkOhio common shareholders was \$13.2 million in the third quarter of 2015, compared to \$12.4 million in the same period of 2014, due to the reasons described above.

RESULTS OF OPERATIONS

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Nine Months Ended September 30, 2015 Compared with Nine Months Ended September 30, 2014

	Nine Months Ended September 30,		\$ Change	% Change	
	2015	2014			
	(Dollars in millions, except per share data)				
Net sales	\$1,116.4	\$1,005.7	\$110.7	11.0	%
Cost of sales	935.3	828.1	107.2	12.9	%
Gross profit	181.1	177.6	3.5	2.0	%
Gross profit as a percentage of net sales	16.2	% 17.7	%		
SG&A expenses	103.8	102.9	0.9	0.9	%
SG&A as a percentage of net sales	9.3	% 10.2	%		
Operating income	77.3	74.7	2.6	3.5	%
Interest expense	20.7	19.4	1.3	6.7	%
Income before income taxes	56.6	55.3	1.3	2.4	%
Income tax expense	19.7	19.6	0.1	0.5	%
Net income	36.9	35.7	1.2	3.4	%
Net income attributable to noncontrolling interest	(0.5	) (0.8	) 0.3	(37.5)%
Net income attributable to ParkOhio common shareholders	\$36.4	\$34.9	\$1.5	4.3	%
Earnings per common share attributable to ParkOhio common shareholders:					
Basic	\$2.98	\$2.88	\$0.10	3.5	%
Diluted	\$2.94	\$2.82	\$0.12	4.3	%

Net Sales:

Net sales increased \$110.7 million, or 11.0%, to \$1,116.4 million in the first nine months of 2015, compared to \$1,005.7 million in the same period in 2014, mainly due to the incremental sales from acquisitions of \$80.8 million and organic volume increases from each of our segments. Organic net sales growth was \$29.9 million, or 3.0%, compared to the same period in 2014.

The factors explaining the changes in segment revenues for the nine months ended September 30, 2015 compared to the prior year comparable period are contained within the “Segment Analysis” section.

Cost of Sales & Gross Profit:

Cost of sales increased \$107.2 million to \$935.3 million in the first nine months of 2015, compared to \$828.1 million in the same period in 2014. The increase in cost of sales was primarily due to incremental cost of sales from acquisitions of \$70.1 million and cost of sales relating to the increase in organic net sales volumes.

The gross profit margin percentage was 16.2% in the first nine months of 2015 compared to 17.7% in the same period in 2014. The decrease in gross margin percentage is largely due to a decline in higher margin new equipment and aftermarket sales volume to the oil and gas, steel, and military and commercial aerospace end markets in our Engineered Products segment.

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SG&A Expenses:

Consolidated SG&A expenses increased \$0.9 million to \$103.8 million in the first nine months of 2015, compared to \$102.9 million in the same period in 2014. Even though we incurred \$6.8 million of incremental SG&A costs in the first nine months of 2015 associated with recent acquisitions, SG&A expenses as a percent of sales decreased to 9.3% in the first nine months of 2015 compared to 10.2% in the first nine months of 2014 primarily due to a reduction in professional fees.

Interest Expense:

	Nine Months Ended September			
	2015	2014	\$ Change	% Change
	(Dollars in millions)			
Interest expense	\$20.7	\$19.4	\$1.3	6.7 %
Average outstanding borrowings	\$460.0	\$385.7	\$74.3	19.3 %
Average borrowing rate	6.00	% 6.71	%	

Interest expense increased \$1.3 million in the first nine months of 2015 compared to the same period in 2014. Average borrowings in the first nine months of 2015 were higher when compared to the same period in 2014 due to additional borrowings to fund acquisitions, capital expenditures and working capital. The average borrowing rate in the first nine months of 2015 decreased 71 basis points compared to the same period in 2014, reflecting lower interest rates on the revolving credit facility provided by the Credit Agreement in 2015 compared to 2014.

Income Tax Expense:

The provision for income taxes was \$19.7 million, at a 34.8% effective income tax rate, in the first nine months of 2015. This was comparable to income taxes of \$19.6 million, at a 35.4% effective income tax rate, in the first nine months of 2014.

Net Income:

Net income increased \$1.2 million to \$36.9 million for the first nine months of 2015, compared to \$35.7 million for the first nine months of 2014, due to the reasons described above.

Net Income Attributable to Noncontrolling Interest:

Net income attributable to noncontrolling interest was \$0.5 million for the first nine months of 2015 and \$0.8 million for the first nine months of 2014 and was deducted from net income to derive net income attributable to ParkOhio common shareholders.

Net Income Attributable to ParkOhio Common Shareholders:

Net income attributable to ParkOhio common shareholders increased \$1.5 million to \$36.4 million in the first nine months of 2015, compared to \$34.9 million in the same period of 2014, due to the reasons described above.

SEGMENT ANALYSIS

We primarily evaluate performance and allocate resources based on segment operating income as well as projected future performance. Segment operating income is defined as revenues less expenses identifiable to the business units and product lines included within each segment. Segment operating income will reconcile to income before income taxes by deducting corporate costs that are not attributable to the segments and net interest expense.

The proportion of consolidated revenues and segment operating income attributed to each segment was as follows:

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	Three Months Ended September 30,			Nine Months Ended September 30,			
	2015	2014	% Change	2015	2014	% Change	
Revenues:							
Supply Technologies	39	% 42	% (3)	)% 40	% 42	% (2))%
Assembly Components	41	% 35	% 6	% 38	% 35	% 3	%
Engineered Products	20	% 23	% (3)	)% 22	% 23	% (1))%
Segment Operating Income:							
Supply Technologies	37	% 35	% 2	% 41	% 34	% 7	%
Assembly Components	51	% 32	% 19	% 43	% 32	% 11	%
Engineered Products	12	% 33	% (21)	)% 16	% 34	% (18))%

Supply Technologies Segment

Three Months Ended September 30, 2015 Compared with Three Months Ended September 30, 2014

	Three Months Ended September 30,			
	2015	2014	\$ Change	% Change
(Dollars in millions)				
Net sales	\$143.1	\$143.4	\$(0.3)	— %
Segment operating income	\$13.0	\$12.2	\$0.8	7 %
Segment operating income margin	9.1	% 8.5	%	

Net Sales: Net sales decreased by \$0.3 million when compared to the third quarter of 2014. This reduction was driven by slightly lower sales to the HVAC, electrical, agriculture and construction equipment and industrial equipment markets offset mostly by higher sales to the heavy-duty truck, powersports, semi conductor and automotive markets.

Segment Operating Income: Segment operating income increased \$0.8 million, or 7%, to \$13.0 million. Segment operating income margin was 9.1%, which was a 60 basis-point increase compared to the prior year's third quarter segment operating income margin of 8.5%. These improvements were driven largely by improved operating leverage in our fastener manufacturing division and in certain supply chain facilities servicing heavy duty truck customers.

Nine Months Ended September 30, 2015 Compared with Nine Months Ended September 30, 2014

	Nine Months Ended September 30,			
	2015	2014	\$ Change	% Change
(Dollars in millions)				
Net sales	\$444.7	\$420.2	\$24.5	6 %
Segment operating income	\$40.2	\$32.7	\$7.5	23 %
Segment operating income margin	9.0	% 7.8	%	

Net Sales: The majority of our growth in the first nine months of 2015 when compared to the first nine months of 2014 was organic growth in our diversified markets. This growth was driven by strong demand in the heavy-duty truck market, the power sports and recreational equipment market, the semiconductor market, the consumer

electronics market and the automotive market.

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Segment Operating Income: With increases in net sales, segment operating income increased \$7.5 million, or 23%, to \$40.2 million. Segment operating income margin was 9.0%, which was a 120 basis-point increase compared to the prior year's first nine months segment operating income margin of 7.8%. These improvements were driven largely by improved operating leverage in several facilities, the full integration of the late 2013 and 2014 European acquisitions and the continued focus on more highly engineered products in the portfolio.

Assembly Components Segment

Three Months Ended September 30, 2015 Compared with Three Months Ended September 30, 2014

	Three Months Ended September 30,			
	2015	2014	\$ Change	% Change
	(Dollars in millions)			
Net sales	\$ 149.3	\$ 121.6	\$ 27.7	23 %
Segment operating income	\$ 17.7	\$ 11.0	\$ 6.7	61 %
Segment operating income margin	11.9	% 9.0	%	

Net Sales: The significant increase in net sales is primarily due to incremental sales associated with the acquisition of Autoform of approximately \$15.7 million in the third quarter of 2015 and increased sales of aluminum products.

Segment Operating Income: Segment operating income increased 61% in the third quarter of 2015 compared to the same period in 2014. Our segment operating income margin was 11.9% in the third quarter of 2015 and 9.0% in 2014. This increase was primarily the result of the Autoform acquisition and operational improvements in our aluminum products business.

Nine Months Ended September 30, 2015 Compared with Nine Months Ended September 30, 2014

	Nine Months Ended September 30,			
	2015	2014	\$ Change	% Change
	(Dollars in millions)			
Net sales	\$ 429.6	\$ 351.7	\$ 77.9	22 %
Segment operating income	\$ 41.9	\$ 31.3	\$ 10.6	34 %
Segment operating income margin	9.8	% 8.9	%	

Net Sales: The increase in net sales is primarily due to incremental sales from new programs with our automotive customers in our aluminum business and the incremental revenues in 2015 associated with the acquisition of Autoform of approximately \$46.5 million in the first nine months of 2015.

Segment Operating Income: Segment operating income increased 34% in the first nine months of 2015 compared to the same period in 2014. Our segment operating income margin was 9.8% in the first nine months of 2015 compared to 8.9% during the same period of 2014. This increase was primarily the result of the Autoform acquisition and operating improvements in our aluminum products business.

Engineered Products Segment

Three Months Ended September 30, 2015 Compared with Three Months Ended September 30, 2014

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	Three Months Ended September 30,			
	2015	2014	\$ Change	% Change
	(Dollars in millions)			
Net sales	\$72.0	\$79.6	\$(7.6)	(10)%
Segment operating income	\$4.3	\$11.5	\$(7.2)	(63)%
Segment operating income margin	6.0	% 14.4	%	

Net Sales: Our Engineered Products segment net sales decreased in the third quarter of 2015 by 10% due to continued demand weaknesses in the oil and gas, military and commercial aircraft and steel end markets.

Segment Operating Income: In the third quarter of 2015, segment operating income margin decreased in the third quarter of 2015 to 6.0% of net sales compared to 14.4% in the same period of 2014. The operating margin decline was primarily due to unfavorable sales mix in our induction business and volume declines experienced in our pipe threading and forging businesses related to weak demand for products sold to the oil and gas, steel, and military and commercial aerospace customers.

Nine Months Ended September 30, 2015 Compared with Nine Months Ended September 30, 2014

	Nine Months Ended September 30,			
	2015	2014	\$ Change	% Change
	(Dollars in millions)			
Net sales	\$242.1	\$233.8	\$8.3	4%
Segment operating income	\$15.7	\$32.8	\$(17.1)	(52)%
Segment operating income margin	6.5	% 14.0	%	

Net Sales: Our Engineered Products segment net sales increased in the first nine months of 2015 by 4%. The increase was primarily due to \$27.2 million of sales related to the Saet acquisition, but was impacted by a decrease in the aftermarket business and forging business.

Segment Operating Income: Although sales increased in the first nine months 2015, segment operating income margin decreased in the first nine months of 2015 to 6.5% of net sales compared to 14.0% in the same period of 2014. The operating margin decline was primarily due to unfavorable sales mix in our induction business and volume declines experienced in our pipe threading and forging business related to weak demand for products sold to the oil and gas, steel, and military and commercial aerospace customers.

Liquidity and Sources of Capital

Our liquidity needs are primarily for working capital, capital expenditures and acquisitions. Our primary sources of liquidity have been funds provided by operations and funds available from existing bank credit arrangements and the sale of our debt securities. On April 7, 2011, we completed the sale of \$250.0 million aggregate principal amount of 8.125% Senior Notes due 2021 (the "Senior Notes"). The Senior Notes bear an interest rate of 8.125% per annum payable semi-annually in arrears on April 1 and October 1 of each year. The Senior Notes mature on April 1, 2021.

The Company is a party to a credit and security agreement, dated November 5, 2003, as amended and restated (the "Credit Agreement"), with a group of banks, under which it may borrow or issue standby letters of credit or commercial letters of credit. As of September 30, 2015, we had \$215.4 million outstanding and approximately \$67.1 million of unused borrowing availability under the revolving credit facility provided by the Credit Agreement. Also, as of

September 30, 2015, we had cash and cash equivalents of \$62.7 million. On July 31, 2014, the Company entered into a sixth amendment and restatement of the credit agreement (the “Amended Credit Agreement”), which was further amended on October 24, 2014, January 20, 2015 and March 12, 2015. Please refer to Note 10 - Financing Arrangements for further discussion.

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On April 13, 2015, the Company entered into a Capital Lease Agreement (the “Lease Agreement”). The Lease Agreement provides the Company up to \$50.0 million dollars for Capital Leases. As of September 30, 2015 the Company had utilized \$10.3 million of the available balance.

Current financial resources (working capital and available bank borrowing arrangements) and anticipated funds from operations are expected to be adequate to meet current cash requirements for at least the next twelve months, including but not limited to, our ability to maintain current operations and capital expenditure requirements, service our debt, pay dividends, pursue acquisitions, and repurchase shares. The future availability of bank borrowings under the revolving credit facility provided by the Credit Agreement are based on our ability to meet a debt service ratio covenant, which could be materially impacted by negative economic trends. Failure to meet the debt service ratio could materially impact the availability and interest rate of future borrowings.

The Company had cash and cash equivalents held by foreign subsidiaries of \$42.9 million at September 30, 2015 and \$44.5 million at December 31, 2014. For each of our foreign subsidiaries, we make a determination regarding the amount of earnings intended for permanent reinvestment, with the balance, if any, available to be repatriated to the United States. The cash held by foreign subsidiaries for permanent reinvestment is generally used to finance the foreign subsidiaries’ operational activities and/or future foreign investments. At September 30, 2015, management believed that sufficient liquidity was available in the United States, and it is our current intention to permanently reinvest undistributed earnings of our foreign subsidiaries outside of the United States. Although we have no intention to repatriate the approximately \$100.5 million of undistributed earnings of our foreign subsidiaries, as of September 30, 2015, if we were to repatriate these earnings, there would potentially be an adverse tax impact.

At September 30, 2015, our debt service coverage ratio was 3.1, and, therefore, we were in compliance with the debt service coverage ratio covenant contained in the revolving credit facility provided by the Amended Credit Agreement. We were also in compliance with the other covenants contained in the revolving credit facility as of September 30, 2015. The debt service coverage ratio is calculated at the end of each fiscal quarter and is based on the most recently ended four fiscal quarters of consolidated EBITDA minus cash taxes paid, minus unfunded capital expenditures, plus cash tax refunds to consolidated debt charges that are consolidated cash interest expense plus scheduled principal payments on indebtedness plus scheduled reductions in our term debt as defined in the Amended Credit Agreement. The debt service coverage ratio must be greater than 1.0 and not less than 1.1 for any two consecutive fiscal quarters. While we expect to remain in compliance throughout 2015, declines in sales volumes in 2015 could adversely impact our ability to remain in compliance with certain of these financial covenants. Additionally, to the extent our customers are adversely affected by declines in the economy in general, they may be unable to pay their accounts payable to us on a timely basis or at all, which would make the accounts receivable ineligible for purposes of the revolving credit facility and could reduce our borrowing base and our ability to borrow under such facility.

The ratio of current assets to current liabilities was 2.54 at September 30, 2015, compared to 2.21 at December 31, 2014. Working capital increased by \$54.5 million to \$372.8 million at September 30, 2015, from \$318.3 million at December 31, 2014. Accounts receivable increased \$10.7 million to \$218.7 million at September 30, 2015, from \$208.0 million at December 31, 2014, primarily resulting from sales volume increases at the end of the respective quarter. Inventory increased by \$9.4 million at September 30, 2015, to \$247.8 million from \$238.4 million at December 31, 2014, primarily resulting from increases in customer demand. Accounts payable decreased \$24.2 million to \$136.1 million at September 30, 2015, from \$160.3 million at December 31, 2014, primarily as a result of the timing of payments. Accrued expenses increased by \$2.5 million to \$106.1 million at September 30, 2015, from \$103.6 million at December 31, 2014 primarily resulting from an increase in accrued interest.

The Company paid dividends of \$4.7 million during the nine months ended September 30, 2015. On October 30, 2015, our Board of Directors declared a dividend of \$0.125 per common share payable on November 30, 2015 to our

common shareholders of record as of November 16, 2015, which will result in a cash outlay of approximately \$1.6 million in the fourth quarter of 2015. Although we currently intend to pay a quarterly dividend on an ongoing basis, all future dividend declarations will be at the discretion of our Board of Directors and dependent upon the then-existing conditions, including our operating results and financial condition, capital requirements, contractual restrictions, business prospects and other factors that our Board of Directors may deem relevant.

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The following table summarizes the major components of cash flow:

	Nine Months Ended September 30,		
	2015	2014	\$ Change
Net cash provided (used) by:	(In millions)		
Operating activities	\$11.7	\$34.2	\$(22.5)
Investing activities	(31.1)	(17.3)	(13.8)
Financing activities	27.0	(12.7)	39.7
Effect of exchange rate changes on cash	(2.9)	3.1	(6.0)
(Decrease) increase in cash and cash equivalents	\$4.7	\$7.3	\$(2.6)

Operating Activities

Cash provided by operating activities decreased \$22.5 million to \$11.7 million in the first nine months of 2015 compared to \$34.2 million in the first nine months of 2014. The decrease in operating cash flows was primarily the result of increases in working capital used to support sales growth.

Investing Activities

Our purchases of property, plant and equipment were \$31.1 million in the first nine months of 2015 compared to \$17.3 million in the first nine months of 2014. The increases in capital expenditure spending for the first nine months of 2015 compared to the same period in 2014 were primarily associated with capital spending to grow each of our business segments.

Financing Activities

Cash provided by financing activities of \$27.0 million and cash used by financing activities of \$12.7 million in the first nine months of 2015 and 2014, respectively, primarily consisted of net borrowings on debt instruments and proceeds from the capital lease credit facility, offset by dividends and purchase of treasury shares.

We do not have off-balance sheet arrangements, financing or other relationships with unconsolidated entities or other persons. There are occasions whereupon we enter into forward contracts on foreign currencies, purely for the purpose of hedging exposure to changes in the value of accounts receivable in those currencies against the U.S. dollar. At September 30, 2015, none were outstanding. We currently have no other derivative instruments.

Seasonality; Variability of Operating Results

The timing of orders placed by our customers has varied with, among other factors, orders for customers' finished goods, customer production schedules, competitive conditions and general economic conditions. The variability of the level and timing of orders has, from time to time, resulted in significant periodic and quarterly fluctuations in the operations of our business units. Such variability is particularly evident at the capital equipment business unit, included in the Engineered Products segment, which typically ships a few large systems per year.

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Critical Accounting Policies

Our critical accounting policies are described in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, and in the notes to our Consolidated Financial Statements for the year ended December 31, 2014 contained in our Annual Report on Form 10-K for the year ended December 31, 2014. There were no new accounting policies or updates to existing accounting policies as a result of new accounting pronouncements discussed in the notes to our condensed consolidated financial statements in this Quarterly Report on Form 10-Q. The application of our critical accounting policies may require management to make judgments and estimates about the amounts reflected in the Condensed Consolidated Financial Statements. Management uses historical experience and all available information to make these estimates and judgments, and different amounts could be reported using different assumptions and estimates.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain statements that are “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The words “believes”, “anticipates”, “plans”, “expects”, “intends”, “estimates” and similar expressions are intended to identify forward-looking statements.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance and achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors that could cause actual results to differ materially from expectations include, but are not limited to the following: our ability to successfully integrate acquired companies and achieve the expected results of such acquisitions; our substantial indebtedness; the uncertainty of the global economic environment; general business conditions and competitive factors, including pricing pressures and product innovation; demand for our products and services; raw material availability and pricing; fluctuations in energy costs; component part availability and pricing; changes in our relationships with customers and suppliers; the financial condition of our customers, including the impact of any bankruptcies; the amounts and timing, if any, of purchases of our common stock; changes in general domestic economic conditions such as inflation rates, interest rates, tax rates, unemployment rates, higher labor and healthcare costs, recessions and changing government policies, laws and regulations, adverse impacts to us, our suppliers and customers from acts of terrorism or hostilities; our ability to meet various covenants, including financial covenants, contained in the agreements governing our indebtedness; disruptions, uncertainties or volatility in the credit markets that may limit our access to capital; potential disruption due to a partial or complete reconfiguration of the European Union; increasingly stringent domestic and foreign governmental regulations, including those affecting the environment; inherent uncertainties involved in assessing our potential liability for environmental remediation-related activities; the outcome of pending and future litigation and other claims and disputes with customers; the outcome of the review conducted by the special committee of our Board of Directors; our dependence on the automotive and heavy-duty truck industries, which are highly cyclical; the dependence of the automotive industry on consumer spending, our ability to negotiate contracts with labor unions; our dependence on key management; our dependence on information systems; our ability to continue to pay cash dividends; and the other factors we describe under the “Item 1A. Risk Factors” included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law. In light of these and other uncertainties, the inclusion of a forward-looking statement herein should not be regarded as a representation by us that our plans and objectives will be achieved.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

We are exposed to market risk, including changes in interest rates. We are subject to interest rate risk on borrowings under the floating rate revolving credit facility and term loan provided by our Amended Credit Agreement, which consisted of borrowings of \$215.4 million at September 30, 2015. A 100-basis-point increase in the interest rate would have resulted in an increase in interest expense of approximately \$1.6 million during the nine-month period ended September 30, 2015.

Our foreign subsidiaries generally conduct business in local currencies. During the first nine months of 2015, we recorded an unfavorable foreign currency translation adjustment of \$3.5 million related to net assets located outside the United States.

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This foreign currency translation adjustment resulted primarily from the strengthening of the U.S. dollar. Our foreign operations are also subject to other customary risks of operating in a global environment, such as unstable political situations, the effect of local laws and taxes, tariff increases and regulations and requirements for export licenses, the potential imposition of trade or foreign exchange restrictions and transportation delays.

The Company periodically enters into forward contracts on foreign currencies, primarily the Euro and the British pound sterling, purely for the purpose of hedging exposure to changes in the value of accounts receivable in those currencies against the U.S. dollar. We currently use no other derivative instruments. At September 30, 2015, there were no such currency hedge contracts outstanding.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures.

Under the supervision of and with the participation of our management, including our chief executive officer and chief financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report. Based on that evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were effective.

Changes in internal control over financial reporting.

There have been no changes in our internal control over financial reporting that occurred during the third quarter of 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings

We are subject to various pending and threatened lawsuits in which claims for monetary damages are asserted in the ordinary course of business. While any litigation involves an element of uncertainty, in the opinion of management, liabilities, if any, arising from currently pending or threatened litigation are not expected to have a material adverse effect on our financial condition, liquidity or results of operations.

In addition to the routine lawsuits and asserted claims noted above, we were a party to the lawsuits and legal proceedings described below as of September 30, 2015:

We were a co-defendant in approximately 90 cases asserting claims on behalf of approximately 230 plaintiffs alleging personal injury as a result of exposure to asbestos. These asbestos cases generally relate to production and sale of asbestos-containing products and allege various theories of liability, including negligence, gross negligence and strict liability, and seek compensatory and, in some cases, punitive damages.

In every asbestos case in which we are named as a party, the complaints are filed against multiple named defendants. In substantially all of the asbestos cases, the plaintiffs either claim damages in excess of a specified amount, typically a minimum amount sufficient to establish jurisdiction of the court in which the case was filed (jurisdictional minimums generally range from \$25,000 to \$75,000), or do not specify the monetary damages sought. To the extent that any specific amount of damages is sought, the amount applies to claims against all named defendants.

There are only six asbestos cases, involving 24 plaintiffs, that plead specified damages. In each of the six cases, the plaintiff is seeking compensatory and punitive damages based on a variety of potentially alternative causes of action. In three cases, the plaintiff has alleged compensatory damages in the amount of \$3.0 million for four separate causes of action and \$1.0 million for another cause of action and punitive damages in the amount of \$10.0 million. In the fourth case, the plaintiff has alleged against each named defendant, compensatory and punitive damages, each in the amount of \$10.0 million, for seven separate causes of action. In the fifth case, the plaintiff has alleged compensatory damages in the amount of \$20.0 million for eight separate causes of action and punitive damages in the amount of \$20.0 million. In the sixth case, the plaintiff has alleged compensatory damages in the amount of \$10.0 million for five separate causes of action and \$5.0 million for another cause of action and punitive damages in the amount of \$10.0 million for each cause of action.

Historically, we have been dismissed from asbestos cases on the basis that the plaintiff incorrectly sued one of our subsidiaries or because the plaintiff failed to identify any asbestos-containing product manufactured or sold by us or our subsidiaries. We intend to vigorously defend these asbestos cases, and believe we will continue to be successful in being dismissed from such cases. However, it is not possible to predict the ultimate outcome of asbestos-related lawsuits, claims and proceedings due to the unpredictable nature of personal injury litigation. Despite this uncertainty, and although our results of operations and cash flows for a particular period could be adversely affected by asbestos-related lawsuits, claims and proceedings, management believes that the ultimate resolution of these matters will not have a material adverse effect on our financial condition, liquidity or results of operations. Among the factors management considered in reaching this conclusion were: (a) our historical success in being dismissed from these types of lawsuits on the bases mentioned above; (b) many cases have been improperly filed against one of our subsidiaries; (c) in many cases the plaintiffs have been unable to establish any causal relationship to us or our products or premises; (d) in many cases, the plaintiffs have been unable to demonstrate that they have suffered any identifiable injury or compensable loss at all or that any injuries that they have incurred did in fact result from alleged exposure to asbestos; and (e) the complaints assert claims against multiple defendants and, in most cases, the damages alleged are not attributed to individual defendants. Additionally, we do not believe that the amounts claimed in any of the

asbestos cases are meaningful indicators of our potential exposure because the amounts claimed typically bear no relation to the extent of the plaintiff's injury, if any.

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Our cost of defending these lawsuits has not been material to date and, based upon available information, our management does not expect its future costs for asbestos-related lawsuits to have a material adverse effect on our results of operations, liquidity or financial position.

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 may be decreased, but cannot be increased, on remand. IPSCO's motion to recover attorney's fees and costs is stayed pending the outcome of the proceedings on remand.

In August 2013, the Company received a subpoena from the staff of the SEC in connection with the staff's investigation of a third party. At that time, the Company also learned that the 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.

Item 1A. Risk Factors

There have been no material changes in the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below summarizes the information regarding our repurchases of the Company's common stock during the quarter ended September 30, 2015.

Period	Total Number of Shares Purchased		Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (1)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Program (1)
July 1 — July 31, 2015	5,883	(2)	\$48.67	—	988,334
August 1 — August 31, 2015	9,322	(3)	33.99	—	988,334
September 1 — September 30, 2015	257	(2)	34.55	—	988,334
Total	15,462		\$39.58	—	988,334

(1) On March 4, 2013, we announced a share repurchase program whereby we may repurchase up to 1.0 million shares of our outstanding common stock.

(2) We acquired 5,883 and 257 shares of common stock in July and September, respectively, from recipients of restricted stock awards at the time the awards vest to settle the recipient's minimum withholding tax liabilities.

(3) We acquired 9,322 shares of common stock upon exercise of stock options as payment of the exercise price.

Item 6. Exhibits

The following exhibits are included herein:

- 10.1 Separation Agreement and General Release entered into June 4, 2015 between Park-Ohio Industries, Inc. and W. Scott Emerick, former Vice President and Chief Financial Officer
- 31.1 Principal Executive Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Principal Financial Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification requirement under Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PARK-OHIO HOLDINGS CORP.

(Registrant)

By: /s/ Patrick W. Fogarty
Name: Patrick W. Fogarty
Title: Vice President and Chief Financial Officer
Date: November 9, 2015

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Exhibit Index

Quarterly Report on Form 10-Q
Park-Ohio Holdings Corp. and Subsidiaries
For the Quarter Ended September 30, 2015

Exhibit

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101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
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