**Filed Pursuant to Rule 424(b)(3) and Rule 424(c)**

**Registration No. 333-196287**

**Prospectus Supplement No. 1**

**TimkenSteel Corporation**



**TimkenSteel Corporation**

**2014 Equity and Incentive Compensation Plan**

**Common Shares**

**(without par value)**

This prospectus supplement no. 1 amends our prospectus dated March 29, 2016. The common shares that are the subject of the prospectus have been registered so that they may be acquired by participants in the TimkenSteel Corporation 2014 Equity and Incentive Compensation Plan, which we refer to as the 2014 Plan, upon the exercise of certain options to purchase our common shares and upon vesting of certain restricted shares, performance shares, restricted stock units and deferred share awards issued pursuant to the 2014 Plan. Any proceeds received by us from the exercise of stock options covered by the 2014 Plan will be used for general corporate purposes.

This prospectus supplement no. 1 is being filed to include the information set forth in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016, which was filed with the Securities and Exchange Commission on May 4, 2016 and which is set forth below. This prospectus supplement no. 1 should be read in conjunction with the prospectus dated March 29, 2016.

Our common shares are listed on the New York Stock Exchange under the symbol “TMST.” On May 4, 2016, the last reported sale price per share of our common shares was $12.21 per share.

**In reviewing this prospectus supplement, you should carefully consider the matters described under the caption “Risk Factors” beginning on page 3 of the prospectus.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

Prospectus Supplement No. 1 is May 5, 2016.

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**



* **QUARTERLY1934 REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF**

**For the quarterly period ended March 31, 2016**

**OR**

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

**For the transition period from** **to**



**Commission file number: 1-36313**

**TIMKENSTEEL CORPORATION**



**(Exact name of registrant as specified in its charter)**



|  |  |
| --- | --- |
| **Ohio** | **46-4024951** |
| (State or other jurisdiction of | (I.R.S. Employer |
| incorporation or organization) | Identification No.) |
| **1835 Dueber Avenue SW, Canton, OH** | **44706** |
| (Address of principal executive offices) | (Zip Code) |
|  | **330.471.7000** |

**(Registrant’s telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 Web site, 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 the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act

|  |  |  |  |
| --- | --- | --- | --- |
| Large accelerated filer | ☒ | Accelerated filer | o |
| Non-accelerated filer | o (Do not check if smaller reporting company) | Smaller reporting company | o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

|  |  |
| --- | --- |
| Class | Outstanding at April 29, 2016 |
|  |  |  |
| Common Shares, without par value | 44,220,054 |

**TimkenSteel Corporation**

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**PART I. FINANCIAL INFORMATION**

**ITEM I. FINANCIAL STATEMENTS**

**TimkenSteel Corporation**

**Consolidated Statements of Operations (Unaudited)**

**Three Months Ended**

**March 31,**



|  |  |  |
| --- | --- | --- |
| **2016** |  | **2015** |
|  |  |  |
| (Dollars in millions, except per share data) |  |  |
| Net sales | **$217.9** | $388.7 |
|  |  |  |
| Cost of products sold | **214.5** | 347.1 |
| **Gross Profit** | **3.4** | 41.6 |
|  |  |  |
|  |  |  |
| Selling, general and administrative expenses | **22.9** | 29.1 |
|  |  |  |
| Impairment charges | **—** | 0.4 |
| **Operating (Loss) Income** | **(19.5)** | 12.1 |
|  |  |  |
|  |  |  |
| Interest expense | **2.0** | 0.1 |
|  |  |  |
| Other expense, net | **0.8** | 0.9 |
| **(Loss) Income Before Income Taxes** | **(22.3)** | 11.1 |
|  |  |  |
| (Benefit) provision for income taxes | **(8.7)** | 4.2 |
| **Net (Loss) Income** | **($13.6)** | $6.9 |
|  |  |  |
|  |  |  |
| **Per Share Data:** |  |  |
|  |  |  |
| **Basic (loss) earnings per share** | **($0.31)** | $0.15 |
| **Diluted (loss) earnings per share** | **($0.31)** | $0.15 |
|  |  |  |
|  |  |  |
| **Dividends per share** | **$—** | $0.14 |



See accompanying Notes to the Unaudited Consolidated Financial Statements.

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**TimkenSteel Corporation**

**Consolidated Statements of Comprehensive (Loss) Income (Unaudited)**

**Three Months Ended**

**March 31,**



|  |  |  |
| --- | --- | --- |
| **2016** |  | **2015** |
|  |  |  |
| (Dollars in millions) |  |  |
| Net (loss) income | **($13.6)** | $6.9 |
|  |  |  |
| Other comprehensive income (loss), net of tax: |  |  |
| Foreign currency translation adjustments | **(0.5)** | (0.9) |
|  |  |  |
| Pension and postretirement liability adjustment | **4.2** | 6.5 |
| Other comprehensive income, net of tax | **3.7** | 5.6 |
|  |  |  |
| **Comprehensive (Loss) Income, net of tax** | **($9.9)** | $12.5 |
| See accompanying Notes to the Unaudited Consolidated Financial Statements. |  |  |
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**TimkenSteel Corporation**

**Consolidated Balance Sheets (Unaudited)**

|  |  |  |
| --- | --- | --- |
|  | **March 31,** | **December 31,** |
|  | **2016** | **2015** |
| (Dollars in millions) |  |  |
| **ASSETS** |  |  |
| **Current Assets** |  |  |
| Cash and cash equivalents | **$37.5** | $42.4 |
| Accounts receivable, net of allowances | **95.0** | 80.9 |
| 2016 - $1.4 million; 2015 - $1.5 million |  |  |
| Inventories, net | **160.9** | 173.9 |
| Deferred charges and prepaid expenses | **4.4** | 11.4 |
| Other current assets | **7.9** | 9.2 |
| **Total Current Assets** | **305.7** | 317.8 |
|  |  |  |
| **Property, Plant and Equipment, Net** | **760.5** | 769.3 |
|  |  |  |
| **Other Assets** |  |  |
| Pension assets | **23.4** | 20.0 |
| Intangible assets, net | **29.1** | 30.6 |
| Other non-current assets | **5.4** | 4.1 |
| **Total Other Assets** | **57.9** | 54.7 |
| **Total Assets** | **$1,124.1** | $1,141.8 |
|  |  |  |
| **LIABILITIES AND SHAREHOLDERS’ EQUITY** |  |  |
| **Current Liabilities** |  |  |
| Accounts payable, trade | **$56.1** | $49.5 |
| Salaries, wages and benefits | **19.6** | 21.4 |
| Accrued pension and postretirement | **3.2** | 3.2 |
| Other current liabilities | **19.4** | 30.1 |
| **Total Current Liabilities** | **98.3** | 104.2 |
|  |  |  |
| **Non-Current Liabilities** |  |  |
| Long-term debt | **185.2** | 200.2 |
| Accrued pension and postretirement costs | **129.5** | 114.1 |
| Deferred income taxes | **21.5** | 26.9 |
| Other non-current liabilities | **11.6** | 10.0 |
| **Total Non-Current Liabilities** | **347.8** | 351.2 |
|  |  |  |
| Commitments and contingencies | **—** | — |
|  |  |  |
| **Shareholders’ Equity** |  |  |
| Preferred shares, without par value; authorized 10.0 million shares, none issued | **—** | — |
| Common shares, without par value; authorized 200.0 million shares; issued 2016 and 2015 - 45.7 million shares | **—** | — |
| Additional paid-in capital | **1,058.5** | 1,058.2 |
| Retained deficit | **(75.3)** | (61.7) |
| Treasury shares - 2016 and 2015 - 1.5 million, respectively | **(45.1)** | (46.3) |
| Accumulated other comprehensive loss | **(260.1)** | (263.8) |
| **Total Shareholders’ Equity** | **678.0** | 686.4 |
| **Total Liabilities and Shareholders’ Equity** | **$1,124.1** | $1,141.8 |

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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**TimkenSteel Corporation**

**Consolidated Statements of Cash Flows (Unaudited)**

**Three Months Ended**

**March 31,**



|  |  |  |
| --- | --- | --- |
| **2016** |  | **2015** |
|  |  |  |
| (Dollars in millions) |  |  |
| **CASH PROVIDED (USED)** |  |  |
|  |  |  |
| **Operating Activities** |  |  |
| Net (loss) income | **($13.6)** | $6.9 |
|  |  |  |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |  |
| Depreciation and amortization | **18.7** | 17.6 |
|  |  |  |
| Impairment charges | **—** | 0.4 |
| Loss on sale or disposal of assets | **0.8** | 0.2 |
|  |  |  |
| Deferred income taxes | **(8.7)** | 3.6 |
| Stock-based compensation expense | **1.5** | 2.0 |
|  |  |  |
| Pension and postretirement expense | **6.6** | 8.6 |
| Pension and postretirement contributions and payments | **(1.9)** | (5.2) |
|  |  |  |
| Reimbursement from postretirement plan assets | **13.3** | — |
| Changes in operating assets and liabilities: |  |  |
|  |  |  |
| Accounts receivable | **(14.1)** | 0.4 |
| Inventories, net | **13.0** | 16.6 |
|  |  |  |
| Accounts payable | **6.6** | (23.4) |
| Other accrued expenses | **(10.7)** | (31.3) |
|  |  |  |
| Prepaid expenses | **7.0** | 19.8 |
| Other, net | **1.6** | (1.6) |
|  |  |  |
| **Net Cash Provided by Operating Activities** | **20.1** | 14.6 |
|  |  |  |
| **Investing Activities** |  |  |
| Capital expenditures | **(8.5)** | (17.9) |
|  |  |  |
| Proceeds from disposals of property, plant and equipment | **—** | 0.2 |
| **Net Cash Used by Investing Activities** | **(8.5)** | (17.7) |
|  |  |  |
|  |  |  |
| **Financing Activities** |  |  |
|  |  |  |
| Cash dividends paid to shareholders | **—** | (6.3) |
| Purchase of treasury shares | **—** | (4.7) |
|  |  |  |
| Proceeds from exercise of stock options | **—** | 1.1 |
| Payment on long-term debt | **(15.0)** | (20.0) |
|  |  |  |
| Proceeds from issuance of debt | **—** | 30.0 |
| Deferred financing costs | **(1.5)** | — |
|  |  |  |
| Net transfers to Timken and affiliates | **—** | (0.5) |
| **Net Cash Used by Financing Activities** | **(16.5)** | (0.4) |
|  |  |  |
| Effect of exchange rate changes on cash | **—** | — |
| **Decrease In Cash and Cash Equivalents** | **(4.9)** | (3.5) |
|  |  |  |
| Cash and cash equivalents at beginning of period | **42.4** | 34.5 |
| **Cash and Cash Equivalents at End of Period** | **$37.5** | $31.0 |
|  |  |  |

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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**TimkenSteel Corporation**

**Notes to Unaudited Consolidated Financial Statements**

*(dollars in millions, except per share data)*

**Note 1 - Basis of Presentation**

The accompanying Unaudited Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) and disclosures considered necessary for a fair presentation have been included. For further information, refer to TimkenSteel’s Audited Consolidated Financial Statements and Notes included in its Annual Report on Form 10-K for the year ended December 31, 2015.

TimkenSteel manufactures alloy steel, as well as carbon and micro-alloy steel, with an annual melt capacity of approximately two million tons. TimkenSteel’s portfolio includes special bar quality steel (SBQ), seamless mechanical tubes (tubes) and value-add solutions, such as precision steel components. In addition, TimkenSteel supplies machining and thermal treatment services, as well as manages raw material recycling programs, which are used as a feeder system for the Company’s melt operations. The Company’s products and services are used in a diverse range of demanding applications in the following market sectors: oil & gas; automotive; industrial equipment; mining; construction; rail; aerospace and defense; heavy truck; agriculture; and power generation.

The SBQ bars and tube production process occurs out of the Company’s Canton, Ohio manufacturing location. This location accounts for all of the SBQ bars and seamless mechanical tubes the Company produces and includes three manufacturing facilities: the Faircrest, Harrison, and Gambrinus facilities. TimkenSteel’s value-add solutions production process occurs out of three downstream manufacturing facilities: the TimkenSteel Material Services, Tryon Peak, and St. Clair facilities. Many of the production processes are integrated, and the manufacturing facilities produce products that are sold in all of the Company’s market sectors. As a result, investments in the Company’s facilities and resource allocation decisions affecting the Company’s operations are designed to benefit the overall business of the Company, not any specific aspect of the business.

Effective January 1, 2016, TimkenSteel eliminated its segment reporting as a result of organizational changes made in the fourth quarter of 2015, in addition to the integrated nature of the Company’s business as described above. These organizational changes were made to better align resources to support the business strategy of operating in a leaner, more efficient environment. Specifically, the Company has centralized its customer-facing activities under one leadership role and eliminated the two segment operating structure. The Company is now organized in a centralized manner based on functionality. As a result, TimkenSteel is conducting its business activities and reporting financial results in one business segment.

The presentation of financial results as one reportable segment is consistent with the way the Company operates its business under the realigned organization and is consistent with the manner in which the Chief Operating Decision Maker (CODM) evaluates performance and makes resource and operating decisions for the business as described above. Furthermore the Company notes that monitoring financial results as one reportable segment will help the CODM manage costs on a consolidated basis, consistent with the integrated nature of the operations.

**Note 2 - Recent Accounting Pronouncements**

***Recently Adopted Accounting Standards***

In April 2015, the Financial Accounting Standard Board (FASB) issued Accounting Standard Update (ASU) 2015-05, “Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.” This ASU clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software. It is effective for annual and interim reporting periods beginning after December 15, 2015, with early adoption permitted. TimkenSteel has adopted ASU 2015-05 effective January 1, 2016 on a prospective basis. The adoption of this ASU did not have a material effect on the Consolidated Financial Statements of TimkenSteel.

In April 2015, the FASB issued ASU 2015-03, “Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.” This ASU amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. It is effective for annual reporting periods beginning after December 15, 2015, with early adoption permitted. The adoption of ASU 2015-03 as of March 31, 2016 did not have a material effect on the Consolidated Balance Sheets of TimkenSteel.

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In November 2015, the FASB issued ASU 2015-17, “Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes.” This guidance requires companies to classify all deferred tax asset and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. Also, companies will no longer allocate valuation allowances between current and noncurrent deferred tax assets because those allowances will be classified as noncurrent. It is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. TimkenSteel adopted ASU 2015-17 as of December 31, 2015 and is presenting the changes prospectively.

In May 2015, the FASB issued ASU 2015-07, “Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent),” which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. However, sufficient information must be provided to permit reconciliation of the fair value of assets categorized within the fair value hierarchy to the amounts presented in the financial statements. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2015. Early adoption is permitted. Upon adoption, the amendments shall be applied retrospectively to all periods presented. TimkenSteel adopted ASU 2015-07 effective December 31, 2015.

In August 2015, the FASB issued ASU 2015-15, "Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements". This ASU provides additional guidance to ASU 2015-03, “Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs” (ASU 2015-3), which did not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. This guidance explains that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The adoption of ASU 2015-15 did not affect the results of operations and financial position of TimkenSteel.

In August 2014, the FASB issued ASU 2014-15, “Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” This ASU is intended to define management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. The amendments in this ASU are effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The adoption of ASU 2014-15 did not affect the results of operations and financial condition of TimkenSteel.

***Recently Issued Accounting Standards***

In March 2016, the FASB issued ASU 2016-09, “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”. This ASU will affect several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification on the statement of cash flows and accounting for forfeitures. It is effective for fiscal years beginning after December 15, 2016, including interim periods, with early adoption permitted. TimkenSteel is currently evaluating the impact of the adoption of this ASU on its results of operations and financial condition.

In March 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” which amends the principal versus agent guidance in ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” by clarifying how an entity should identify the unit of accounting for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. The effective date and transition requirements are the same as those for ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”. TimkenSteel is currently evaluating the impact of adopting this ASU on its results of operations and financial condition.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” which requires lessees to recognize a lease liability and right-of-use asset on the balance sheet for operating leases with a term greater than one year. The guidance requires the use of a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. It is effective for annual reporting periods beginning after December 15, 2018. TimkenSteel regularly enters into operating leases which previously did not require recognition on the balance sheet. The Company is currently evaluating the impact of the adoption of this ASU on its results of operations and financial condition.

In July 2015, the FASB issued ASU 2015-11, “Inventory: Simplifying the Measurement of Inventory (Topic 330),” which provides guidance that simplifies the subsequent measurement of inventories by replacing the lower of cost or market test with a lower of cost and net realizable value test. The guidance applies only to inventories for which cost is determined by methods other than last-in, first-out (LIFO) and therefore applies only to the approximately 37% of inventory that TimkenSteel values by first-in, first-out (FIFO), average cost or specific identification methods. It is effective for annual reporting periods beginning after

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December 15, 2016, with early adoption permitted. TimkenSteel is currently evaluating the impact of the adoption of this ASU on its results of operations and financial condition.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” which provides guidance for revenue recognition. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. This ASU will supersede the revenue recognition requirements in Topic 605, “Revenue Recognition,” and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, “Revenue Recognition-Construction-Type and Production-Type Contracts.” The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today’s guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date". This ASU defers the effective date of ASU 2014-09 for all entities by one year. Early application is permitted but not before the original effective date of annual periods beginning after December 15, 2016. TimkenSteel is currently evaluating the impact of the adoption of this ASU on its results of operations and financial condition.

**Note 3 - Inventories**

The components of inventories, net as of March 31, 2016 and December 31, 2015 were as follows:

|  |  |  |
| --- | --- | --- |
|  | **March 31,** | **December 31,** |
|  | **2016** | **2015** |
|  |  |  |
| Inventories, net: |  |  |
| Manufacturing supplies | **$41.4** | $43.3 |
|  |  |  |
| Raw materials | **13.1** | 14.6 |
| Work in process | **57.9** | 59.5 |
|  |  |  |
| Finished products | **57.6** | 64.9 |
| Subtotal | **170.0** | 182.3 |
|  |  |  |
| Allowance for surplus and obsolete inventory | **(9.1)** | (8.4) |
| Total Inventories, net | **$160.9** | $173.9 |
|  |  |  |

Inventories are valued at the lower of cost or market, with approximately 63% valued by the LIFO method and the remaining inventories, including manufacturing supplies inventory as well as international (outside the United States) inventories, valued by FIFO, average cost or specific identification methods.

An actual valuation of the inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must be based on management’s estimates of expected year-end inventory levels and costs. Because these calculations are subject to many factors beyond management’s control, annual results may differ from interim results as they are subject to the final year-end LIFO inventory valuation.

The LIFO reserve as of March 31, 2016 and December 31, 2015 was $48.9 million and $51.4 million, respectively. TimkenSteel projects that its LIFO reserve will decrease for the year ending December 31, 2016 due primarily to lower anticipated manufacturing costs.

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**Note 4 - Property, Plant and Equipment**

The components of property, plant and equipment, net as of March 31, 2016 and December 31, 2015 were as follows:

|  |  |  |
| --- | --- | --- |
|  | **March 31,** | **December 31,** |
|  | **2016** | **2015** |
|  |  |  |
| Property, Plant and Equipment, net: |  |  |
| Land | **$13.4** | $13.4 |
|  |  |  |
| Buildings and improvements | **417.6** | 418.2 |
| Machinery and equipment | **1,318.5** | 1,298.2 |
|  |  |  |
| Construction in progress | **62.4** | 74.9 |
| Subtotal | **1,811.9** | 1,804.7 |
|  |  |  |
| Less allowances for depreciation | **(1,051.4)** | (1,035.4) |
| Property, Plant and Equipment, net | **$760.5** | $769.3 |
|  |  |  |

Total depreciation expense was $17.1 million and $15.9 million for the three months ended March 31, 2016 and 2015, respectively. TimkenSteel recorded capitalized interest related to construction projects of $0.2 million and $1.0 million for the three months ended March 31, 2016 and 2015, respectively. TimkenSteel recorded impairment charges of $0.4 million related to the discontinued use of certain assets during the three months ended March 31, 2015.

On February 26, 2016, TimkenSteel entered into an agreement for a sale and leaseback transaction (the “Transaction”) regarding its Canton, Ohio office facilities for a purchase price of $20 million. TimkenSteel will lease back the facilities for a term of 20 years. TimkenSteel anticipates closing the Transaction late in the second quarter of 2016.

**Note 5 - Intangible Assets**

The components of intangible assets, net as of March 31, 2016 and December 31, 2015 were as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **March 31, 2016** |  |  | **December 31, 2015** |  |
|  | **Gross Carrying** | **Accumulated** | **Net Carrying** | **Gross Carrying** | **Accumulated** | **Net Carrying** |
|  | **Amount** | **Amortization** | **Amount** | **Amount** | **Amortization** | **Amount** |
| Intangible Assets Subject to Amortization: |  |  |  |  |  |  |
| Customer relationships | **$6.8** | **$3.7** | **$3.1** | $6.8 | $3.7 | $3.1 |
|  |  |  |  |  |  |  |
| Technology use | **9.0** | **4.8** | **4.2** | 9.0 | 4.7 | 4.3 |
| Capitalized software | **58.0** | **36.2** | **21.8** | 57.9 | 34.7 | 23.2 |
|  |  |  |  |  |  |  |
| Total Intangible Assets | **$73.8** | **$44.7** | **$29.1** | $73.7 | $43.1 | $30.6 |
|  |  |  |  |  |  |  |

Intangible assets subject to amortization are amortized on a straight-line method over their legal or estimated useful lives. Amortization expense for intangible assets for the three months ended March 31, 2016 and 2015 was $1.6 million and $1.7 million, respectively.

**Note 6 - Financing Arrangements**

The components of long-term debt as of March 31, 2016 and December 31, 2015 were as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March 31,** | **December 31,** |  |
|  | **2016** | **2015** |  |
|  |  |  |  |
| Variable-rate State of Ohio Water Development Revenue Refunding Bonds, maturing on November 1, | **$12.2** |  |  |
| 2025 (0.38% as of March 31, 2016) | $12.2 |  |
| Variable-rate State of Ohio Air Quality Development Revenue Refunding Bonds, maturing on November | **9.5** |  |  |
| 1, 2025 (0.39% as of March 31, 2016) | 9.5 |  |
|  |  |  |  |
| Variable-rate State of Ohio Pollution Control Revenue Refunding Bonds, maturing on June 1, 2033 | **8.5** |  |  |
| (0.39% as of March 31, 2016) | 8.5 |  |
| Amended Credit Agreement, due 2019 (LIBOR plus applicable spread) | **155.0** | 170.0 |  |
|  |  |  |  |
| Total Long-Term Debt | **$185.2** | $200.2 |  |
|  |  |  |  |

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***Amended Credit Agreement***

On February 26, 2016, the Company, as borrower, and certain domestic subsidiaries, as subsidiary guarantors, entered into Amendment No. 1 to the Amended and Restated Credit Agreement (as amended by the Amendment, the “Amended Credit Agreement”) with JPMorgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto.

The Amended Credit Agreement provides for a $265.0 million asset-based revolving credit facility, including a $13.3 million sublimit for the issuance of commercial and standby letters of credit and a $26.5 million sublimit for swingline loans. The availability of borrowings under the Amended Credit Agreement is subject to a borrowing base calculation based upon a valuation of the eligible accounts receivable, inventory and machinery and equipment of TimkenSteel and the subsidiaries of TimkenSteel guaranteeing TimkenSteel’s obligations thereunder, each multiplied by an applicable advance rate. The Amended Credit Agreement includes a block on availability equal to the greater $28.9 million or 12.5% of the aggregate commitments (except that in the event of a mandatory reduction in the commitments the block on availability will be equal to the greater of $20.0 million or 12.5% of the aggregate commitments), effectively reducing the Company’s borrowing base by the availability block.

The Amended Credit Agreement contains certain customary covenants, including covenants that limit the ability of TimkenSteel and its subsidiaries to, among other things, (i) incur or suffer to exist certain liens, (ii) make investments, (iii) incur or guaranty additional indebtedness (iv) enter into consolidations, mergers, acquisitions and sales of assets, (v) make distributions and other restricted payments, (vi) change the nature of its business,

1. engage in transactions with affiliates and (viii) enter into restrictive agreements, including agreements that restrict the ability to incur liens or make distributions. Further, the Amended Credit Agreement contains financial covenants that (i) limit the amount of capital expenditures TimkenSteel may make to $45 million in fiscal year 2016 and $50 million in fiscal years thereafter and (ii) require the Company to maintain a minimum specified fixed charge coverage ratio for the year-to-date periods ending June 30, 2017, July 31, 2017 and August 31, 2017.

Borrowings under the Amended Credit Agreement bear interest based on the daily balance outstanding at LIBOR (with no rate floor), plus an applicable margin (varying from 3.00% to 3.50%) and an additional 0.75% on the machinery and equipment component or, in certain cases, an alternate base rate (based on certain lending institutions’ Prime Rate or as otherwise specified in the Amended and Restated Credit Agreement, with no rate floor), plus an applicable margin (varying from 2.00% to 2.50%). The Amended Credit Agreement also carries a commitment fee equal to the unused borrowings multiplied by an applicable margin 0.50%. The applicable margins are calculated quarterly and vary based on TimkenSteel’s average quarterly availability as set forth in the Amended Credit Agreement. The interest rate under the Amended Credit Agreement was 4.22% as of March 31, 2016. The amount available under the Amended Credit Agreement as of March 31, 2016 was $17.1 million net, after reducing for the block on availability of $33.1 million.

***Advanced Quench-and-Temper Facility***

In the second quarter of 2015, TimkenSteel entered into a capital lease arrangement with the Stark County Port Authority in connection with the construction of a new advanced quench-and-temper facility in Perry Township, Ohio and the issuance of an Industrial Revenue Bond. The bond is held 100% by TimkenSteel Material Services, LLC (a wholly-owned subsidiary of TimkenSteel) and, accordingly, the obligation under the lease agreement and investment in the Industrial Revenue Bond, as well as the related interest income and expense, are eliminated in the Consolidated Financial Statements. As of March 31, 2016, $34.6 million has been spent on the new advanced quench-and-temper facility and is reported in property, plant and equipment, net in the Consolidated Balance Sheets. Of this amount, $7.2 million has been financed through the capital lease arrangement described above.

***Revenue Refunding Bonds***

On June 1, 2014, Timken purchased, in lieu of redemption, the State of Ohio Water Development Revenue Refunding Bonds (Water Bonds), State of Ohio Air Quality Development Revenue Refunding Bonds (Air Quality Bonds) and State of Ohio Pollution Control Revenue Refunding Bonds (Pollution Control Bonds) (collectively, Bonds). Pursuant to an Assignment and Assumption Agreement dated June 24, 2014 (Assignment) between Timken and TimkenSteel, Timken assigned all of its right, title and interest in and to the loan agreements and the notes associated with the Bonds to, and these obligations were assumed by, TimkenSteel. Additionally, replacement letters of credit were issued for the Water Bonds and the Pollution Control Bonds. The Bonds were remarketed on June 24, 2014 (Remarketing Date) in connection with the conversion of the interest rate mode for the Bonds to the weekly rate and the delivery of the replacement letters of credit, as applicable. TimkenSteel is responsible for payment of the interest and principal associated with the Bonds subsequent to the Remarketing Date.

All of TimkenSteel’s long-term debt is variable-rate debt and, as a result, the carrying value of this debt is a reasonable estimate of fair value as interest rates on these borrowings approximate current market rates, which is considered a Level 2 fair

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value input as defined by Accounting Standard Codification (ASC) 820, “Fair Value Measurements”. The valuation of Level 2 is based on quoted prices for similar assets and liabilities in active markets that are observable either directly or indirectly.

**Note 7 - Accumulated Other Comprehensive Loss**

Changes in accumulated other comprehensive loss for the three months ended March 31, 2016 and 2015 by component are as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Foreign Currency** | **Pension and** |  |  |
|  |  | **Translation** | **Postretirement** |  |  |
|  |  | **Adjustments** | **Liability Adjustments** | **Total** |  |
|  |  |  |  |  |  |
| **Balance at December 31, 2015** | ($6.3) | ($257.5) | ($263.8) |  |
|  | Other comprehensive income (loss) before reclassifications, before income tax | (0.5) | — | (0.5) |  |
|  |  |  |  |  |  |
|  | Amounts reclassified from accumulated other comprehensive loss, before income tax | — | 6.5 | 6.5 |  |
|  | Income tax expense | — | (2.3) | (2.3) |  |
|  |  |  |  |  |  |
| Net current period other comprehensive (loss), net of income taxes | (0.5) | 4.2 | 3.7 |  |
| **Balance at March 31, 2016** | **($6.8)** | **($253.3)** | **($260.1)** |  |
|  |  |  |  |  |  |
|  |  | **Foreign Currency** | **Pension and** |  |  |
|  |  | **Translation** | **Postretirement** |  |  |
|  |  | **Adjustments** | **Liability Adjustments** | **Total** |  |
|  |  |  |  |  |  |
|  | **Balance at December 31, 2014** | ($4.8) | ($292.5) | ($297.3) |  |
|  | Other comprehensive income (loss) before reclassifications, before income tax | (0.9) | 0.8 | (0.1) |  |
|  |  |  |  |  |  |
|  | Amounts reclassified from accumulated other comprehensive loss, before income tax | — | 9.1 | 9.1 |  |
|  | Income tax expense | — | (3.4) | (3.4) |  |
|  |  |  |  |  |  |
|  | Net current period other comprehensive (loss), net of income taxes | (0.9) | 6.5 | 5.6 |  |
|  | **Balance at March 31, 2015** | **($5.7)** | **($286.0)** | **($291.7)** |  |
|  |  |  |  |  |  |

The reclassification of the pension and postretirement liability adjustment was included in costs of products sold and selling, general and administrative expenses in the Unaudited Consolidated Statements of Operations. These components are included in the computation of net periodic benefit cost.

**Note 8 - Changes in Shareholders' Equity**

Changes in the components of shareholders’ equity for the three months ended March 31, 2016 were as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Total** | **Additional Paid-in** | **Retained (Deficit)** | **Treasury Shares** | **Accumulated Other** |  |
|  | **Capital** | **Comprehensive Loss** |  |
| **Balance as of December 31, 2015** | $686.4 | $1,058.2 | ($61.7) | ($46.3) | ($263.8) |  |
| Net loss | (13.6) | — | (13.6) | — | — |  |
|  |  |  |  |  |  |  |
| Pension and postretirement adjustment, net of tax | 4.2 | — | — | — | 4.2 |  |
| Foreign currency translation adjustments | (0.5) | — | — | — | (0.5) |  |
|  |  |  |  |  |  |  |
| Stock-based compensation expense | 1.5 | 1.5 | — | — | — |  |
| Issuance of treasury shares | — | (1.2) | — | 1.2 | — |  |
|  |  |  |  |  |  |  |
| **Balance as of March 31, 2016** | **$678.0** | **$1,058.5** | **($75.3)** | **($45.1)** | **($260.1)** |  |
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**Note 9 - Retirement and Postretirement Plans**

The components of net periodic benefit cost for the three months ended March 31, 2016 and 2015 were as follows:

|  |  |  |
| --- | --- | --- |
|  | **Three Months Ended** | **Three Months Ended** |
|  | **March 31, 2016** | **March 31, 2015** |
|  |  |  |  |  |
| **Components of net periodic benefit cost:** | **Pension** | **Postretirement** | **Pension** | **Postretirement** |
|  |  |  |  |  |
| Service cost | **$4.2** | **$0.4** | $4.2 | $0.4 |
| Interest cost | **13.1** | **2.3** | 13.0 | 2.4 |
|  |  |  |  |  |
| Expected return on plan assets | **(18.2)** | **(1.7)** | (18.8) | (1.7) |
| Amortization of prior service cost | **0.2** | **0.3** | 0.1 | 0.3 |
|  |  |  |  |  |
| Amortization of net actuarial loss | **6.0** | **—** | 8.6 | 0.1 |
| **Net Periodic Benefit Cost** | **$5.3** | **$1.3** | $7.1 | $1.5 |
|  |  |  |  |  |

Net periodic benefit costs are included in the Unaudited Consolidated Statements of Operations as a component of cost of products sold and selling, general and administrative expenses.

**Note 10 - Earnings Per Share**

On June 30, 2014, 45.4 million TimkenSteel common shares were distributed to Timken shareholders in conjunction with the spinoff. For the three months ended March 31, 2015, 2.4 million of equity-based awards were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive. In periods in which a net loss has occurred, as is the case for the three months ended March 31, 2016, the dilutive effect of stock-based awards is not recognized and thus is not utilized in the calculation of diluted earnings per share.

The following table sets forth the reconciliation of the numerator and the denominator of basic earnings per share and diluted earnings per share for the three months ended March 31, 2016 and 2015:

**Three Months Ended**

**March 31,**



|  |  |  |
| --- | --- | --- |
|  | **2016** | **2015** |
|  |  |  |
| **Numerator:** |  |  |
| Net (loss) income for basic and diluted earnings per share | **($13.6)** | $6.9 |
|  |  |  |
|  |  |  |
| **Denominator:** |  |  |
|  |  |  |
| Weighted average shares outstanding, basic | **44,206,837** | 44,769,679 |
| Dilutive effect of stock-based awards | **—** | 250,344 |
|  |  |  |
| Weighted average shares outstanding, diluted | **44,206,837** | 45,020,023 |
|  |  |  |
| **Basic (loss) earnings per share** | **($0.31)** | $0.15 |
| **Diluted (loss) earnings per share** | **($0.31)** | $0.15 |
|  |  |  |

**Note 11 - Income Tax (Benefit) Provision**

TimkenSteel’s (benefit) provision for income taxes in interim periods is computed by applying the appropriate estimated annual effective tax rates to income or loss before income taxes for the period. In addition, non-recurring or discrete items, including interest on prior-year tax liabilities, are recorded during the periods in which they occur.

**Three Months Ended**

**March 31,**



|  |  |  |
| --- | --- | --- |
| **2016** |  | **2015** |
|  |  |  |
| (Benefit) provision for income taxes | **($8.7)** | $4.2 |
| Effective tax rate | **39.0%** | 37.8% |
|  |  |  |

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The effective tax rate for the three months ended March 31, 2016 was higher than the U.S. federal statutory rate of 35% due primarily to U.S. state and local taxes and certain discrete tax items.

The effective tax rate for the three months ended March 31, 2015 was higher than the U.S. federal statutory rate of 35% primarily due to U.S. state and local tax rate differences.

**Note 12 - Contingencies**

TimkenSteel has a number of loss exposures that are incurred in the ordinary course of business such as environmental claims, product warranty claims, litigation and accounts receivable reserves. Establishing loss reserves for these matters requires management’s estimate and judgment regarding risk exposure and ultimate liability or realization. These loss reserves are reviewed periodically and adjustments are made to reflect the most recent facts and circumstances.

***Environmental Matters***

From time to time, TimkenSteel may be a party to lawsuits, claims or other proceedings related to environmental matters and/or may receive notices of potential violations of environmental laws and regulations from the U.S. Environmental Protection Agency and similar state or local authorities. TimkenSteel recorded reserves for such environmental matters as other current liabilities on the Unaudited Consolidated Balance Sheets. Accruals related to such environmental matters represent management’s best estimate of the fees and costs associated with these matters. Although it is not possible to predict with certainty the outcome of such matters, management believes that their ultimate dispositions should not have a material adverse effect on TimkenSteel’s financial position, cash flows, or results of operations.

|  |  |  |
| --- | --- | --- |
| **2016** |  | **2015** |
| Beginning Balance, January 1 | **$1.3** | **$1.3** |
|  |  |  |
| Expenses | **0.1** | **—** |
| Payments | **(0.1)** | **(0.1)** |
|  |  |  |
| Ending Balance, March 31 | **$1.3** | **$1.2** |
|  |  |  |

**Note 13 - Restructuring Charges**

During the second quarter of 2015, TimkenSteel approved and began implementing a cost reduction plan that resulted in the reduction of TimkenSteel’s salaried and hourly headcount. As of March 31, 2016 and December 31, 2015, TimkenSteel recorded a $0.3 million and $2.3 million reserve for such restructuring charges, respectively, classified as other current liabilities on the Consolidated Balance Sheets. The following is a rollforward of the consolidated restructuring accrual for the three months ended March 31, 2016:

|  |  |
| --- | --- |
| Balance at December 31, 2015 | **$2.3** |
| Expenses | **—** |
|  |  |
| Payments | **(2.0)** |
| Balance at March 31, 2016 | **$0.3** |
|  |  |

**Note 14 - Segment Information**

TimkenSteel manufactures alloy steel, as well as carbon and micro-alloy steel, with an annual melt capacity of approximately two million tons. TimkenSteel’s portfolio includes special bar quality steel (SBQ), seamless mechanical tubes (tubes) and value-add solutions, such as precision steel components. In addition, TimkenSteel supplies machining and thermal treatment services, as well as manages raw material recycling programs, which are used as a feeder system for the Company’s melt operations. The Company’s products and services are used in a diverse range of demanding applications in the following market sectors: oil & gas; automotive; industrial equipment; mining; construction; rail; aerospace and defense; heavy truck; agriculture; and power generation.

The SBQ bars and tube production process occurs out of the Company’s Canton, Ohio manufacturing location. This location accounts for all of the SBQ bars and seamless mechanical tubes the Company produces and includes three manufacturing facilities: the Faircrest, Harrison, and Gambrinus facilities. TimkenSteel’s value-add solutions production process occurs out of three downstream manufacturing facilities: the TimkenSteel Material Services, Tryon Peak, and St. Clair facilities. Many of the production processes are integrated, and the manufacturing facilities produce products that are sold in all of the Company’s market

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sectors. As a result, investments in the Company’s facilities and resource allocation decisions affecting the Company’s operations are designed to benefit the overall business of the Company, not any specific aspect of the business.

Effective January 1, 2016, TimkenSteel eliminated its segment reporting as a result of organizational changes made in the fourth quarter of 2015, in addition to the integrated nature of the Company’s business as described above. These organizational changes were made to better align resources to support the business strategy of operating in a leaner, more efficient environment. Specifically, the Company has centralized its customer-facing activities under one leadership role and eliminated the two segment operating structure. The Company is now organized in a centralized manner based on functionality. As a result, TimkenSteel is conducting its business activities and reporting financial results in one business segment.

The presentation of financial results as one reportable segment is consistent with the way the Company operates its business under the realigned organization and is consistent with the manner in which the Chief Operating Decision Maker (CODM) evaluates performance and makes resource and operating decisions for the business as described above. Furthermore the Company notes that monitoring financial results as one reportable segment will help the CODM manage costs on a consolidated basis, consistent with the integrated nature of the operations. The Company’s Consolidated Financial Statements will reflect the realignment of the reportable segments for periods beginning after January 1, 2016 and for all comparable periods presented.

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**ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF**

**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*(dollars in millions, except per share data)*

**Business Overview**

TimkenSteel Corporation (we, us, our, the Company or TimkenSteel) was incorporated in Ohio on October 24, 2013, and became an independent, publicly traded company as the result of a spinoff (spinoff) from The Timken Company (Timken) on June 30, 2014.

We manufacture alloy steel, as well as carbon and micro-alloy steel, with an annual melt capacity of approximately two million tons. Our portfolio includes special bar quality steel (SBQ), seamless mechanical tubes (tubes) and value-add solutions, such as precision steel components. In addition, we supply machining and thermal treatment services, as well as manage raw material recycling programs, which are used as a feeder system for our melt operations. Our products and services are used in a diverse range of demanding applications in the following market sectors: oil & gas; automotive; industrial equipment; mining; construction; rail; aerospace and defense; heavy truck; agriculture; and power generation.

Based on our knowledge of the steel industry, we believe we are the only focused SBQ steel producer in North America and have the largest SBQ steel large bar (6-inch diameter and greater) production capacity among the North American steel producers. In addition, we are the only steel manufacturer with capabilities of developing SBQ steel large bars up to 16-inches in diameter. SBQ steel is made to restrictive chemical compositions and high internal purity levels and is used in critical mechanical applications. We make these products from nearly 100% recycled steel, using our expertise in raw materials to create custom steel products with a competitive cost structure similar to that of a high-volume producer. We focus on creating tailored products and services for our customers’ most demanding applications. Our engineers are experts in both materials and applications, so we can work closely with each customer to deliver flexible solutions related to our products as well as to their applications and supply chains. We believe our unique operating model and production assets give us a competitive advantage in our industry.

The SBQ bars and tube production process occurs out of our Canton, Ohio manufacturing location. This location accounts for all of the SBQ bars and seamless mechanical tubes we produce and includes three manufacturing facilities: the Faircrest, Harrison, and Gambrinus facilities. Our value-add solutions production process occurs out of three downstream manufacturing facilities: the TimkenSteel Material Services, Tryon Peak, and St. Clair facilities. Many of the production processes are integrated, and the manufacturing facilities produce products that are sold in all of our market sectors. As a result, investments in our facilities and resource allocation decisions affecting our operations are designed to benefit the overall business, not any specific aspect of the business.

Effective January 1, 2016, we eliminated our segment reporting as a result of organizational changes made in the second half of 2015, in addition to the integrated nature of our business. These organizational change were made to better align resources to support the business strategy of operating in a leaner, more efficient environment. Specifically, we have centralized our customer-facing activities under one leadership role and eliminated the two segment operating structure. We are now organized in a centralized manner based on functionality. As a result, we are conducting its business activities and reporting financial results in one business segment.

The presentation of financial results as one reportable segment is consistent with the way the Company operates its business under the realigned organization and is consistent with the manner in which the Chief Operating Decision Maker (CODM) evaluates performance and makes resource and operating decisions for the business as described above. Furthermore we note that monitoring financial results as one reportable segment will help the CODM manage costs on a consolidated basis, consistent with the integrated nature of the operations. We have conformed Management’s Discussion and Analysis of Financial Condition and Results of Operations to reflect this change in reportable segments.

***Capital Investments***

We investment in capital projects to strengthen our position of offering what we believe to be the broadest range of SBQ bars and seamless mechanical tubing steel capabilities, enhance our position as a leader in large bar capabilities in North America, provide differentiated solutions for the energy, industrial and automotive market sectors, and improve our operational performance and customer service capabilities.

On July 17, 2014, we announced plans to invest in additional advanced quench-and-temper heat-treat capacity. The $40 million facility will perform quench-and-temper heat-treat operations and, we believe, will have capacity for up to 50,000 process-tons annually of 4-inch to 13-inch bars and tubes. This facility will be located in Perry Township, Ohio on the site of our Gambrinus Steel Plant near three existing thermal treatment facilities. This facility will be larger than each of our three existing thermal

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treatment facilities in Canton, Ohio. In response to the continued weakness in energy and some industrial end markets, we have decided to defer the installation until market conditions provide us the opportunity to achieve the best return on this investment.

***Impact of Raw Material Prices and LIFO***

In the ordinary course of business, we are exposed to the volatility of the costs of our raw materials. Whenever possible, we manage our exposure to commodity risks primarily through the use of supplier pricing agreements that enable us to establish the purchase prices for certain inputs that are used in our manufacturing process. We utilize a raw material surcharge mechanism that is designed to mitigate the impact of increases or decreases in raw material costs, although generally with a lag effect. This timing effect can result in raw material spread whereby costs can be over- or under-recovered in certain periods. While the surcharge generally protects gross profit, under certain circumstances it may have the effect of diluting gross margin as a percentage of sales.

We value certain of our inventory utilizing the LIFO inventory valuation method. Changes in the cost of raw materials and production activities are recognized in cost of products sold in the current period even though these materials and other costs may have been incurred in different periods at significantly different values due to the length of time of our production cycle. In a period of rising raw material prices, cost of products sold expense recognized under LIFO is generally higher than the cash costs incurred to acquire the inventory sold. Conversely, in a period of declining raw material prices, cost of products sold recognized under LIFO is generally lower than cash costs incurred to acquire the inventory sold. In periods of rising inventories and deflating raw material prices, the likely result will be a positive impact to net income. Conversely, in periods of rising inventories and increasing raw materials prices, the likely result will be a negative impact to net income.

***Results of Operations***



|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Three Months Ended** |  |
|  |  | **March 31,** |  |  |
|  |  |  |  |  |
|  | **2016** | **2015** | **$ Change** | **% Change** |
|  |  |  |  |  |
| Net sales | **$217.9** | $388.7 | ($170.8) | (43.9)% |
| Net sales, excluding surcharges | **202.4** | 313.6 | (111.2) | (35.5)% |
|  |  |  |  |  |
| Gross profit | **3.4** | 41.6 | (38.2) | (91.8)% |
| Gross margin | **1.6%** | 10.7% | NM | (910) bps |
|  |  |  |  |  |
| Selling, general and administrative expenses | **22.9** | 29.1 | (6.2) | (21.3)% |
| Net (loss) income | **(13.6)** | 6.9 | (20.5) | (297.1)% |
|  |  |  |  |  |
| Scrap index per ton | **177** | 335 | (158) | (47.2)% |
| Shipments (in tons) | **186,152** | 271,102 | (84,950) | (31.3)% |
|  |  |  |  |  |
| Average selling price per ton, including surcharges | **$1,171** | $1,434 | ($263) | (18.3)% |
| Capacity utilization | **47%** | 66% | NM | (1,900) bps |
|  |  |  |  |  |

**Net Sales**

Net sales for the first quarter of 2016 were $217.9 million, a decrease of $170.8 million compared to the first quarter of 2015. Excluding surcharges, net sales decreased $111.2 million, or 35.5%. The decrease was driven primarily by lower volume of approximately $102 million due to lower ship tons of approximately 86.9% in the energy end market and 38.1% in the industrial end market. Lower shipments for the first quarter of 2016 in the energy end market were driven primarily by a decrease in the U.S. rig count of over 65% compared to the first quarter of 2015. Lower shipments for the first quarter of 2016 in the industrial end market as compared to the first quarter of 2015 were due primarily to the ancillary impact of the decline in oil and gas markets.

**Gross (Loss) Profit**

Gross profit for the first quarter of 2016 was $3.4 million, a decrease of $38.2 million, or 91.8%, compared to gross profit of $41.6 million for the first quarter of 2015. The decrease was driven primarily by lower volume of approximately $27 million, higher manufacturing costs of approximately $10 million, price/mix of approximately $7 million and lower LIFO income of approximately $4 million, partially offset by favorable raw material spread of approximately $10 million. Raw material spread is a results of the timing difference between the cost of scrap and the surcharge recovery, as discussed above.

We have 2 million tons of annual melt capacity. The amount of actual melt produced as a percentage of the capacity defines our melt utilization. Melt utilization is a key performance indicator for our business and is influenced by customer demand and inventory levels. We believe that production levels of approximately 50% melt utilization will generate breakeven Earnings

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Before Interest Taxes Depreciation and Amortization (EBITDA) results in normalized scrap markets. Many factors can influence the level at which melt utilization will generate breakeven results. The primary factors are product volume and mix, product price and cost structure.

Melt utilization for the first quarter of 2016 was 47% compared to melt utilization of 66% for the first quarter of 2015. Weakness in commodity markets, declining rig counts and high inventory levels in the distribution supply chain, resulted in lower customer demand and therefore lower production volumes. In order to align our cost structure with market demand and continue to manage our breakeven levels to offset potential headwinds from product mix and price, in the second half of 2015 we implemented a $75 million cost reduction initiative. These actions, which included reducing headcount, lowering operating costs and minimizing capital expenditures, were necessary to support our ability to generate EBITDA breakeven financial performance at 50% melt utilization.

**Selling, General and Administrative Expenses**

Selling, general and administrative (SG&A) expenses for the first quarter of 2016 decreased $6.2 million, or 21.3%, compared to the first quarter of 2015 due primarily to realized cost reduction actions.

**(Benefit) Provision for Income Taxes**



|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Three Months Ended** |  |
|  |  | **March 31,** |  |  |
|  |  |  |  |  |
|  | **2016** | **2015** | **$ Change** | **% Change** |
|  |  |  |  |  |
| (Benefit) provision for income taxes | **($8.7)** | $4.2 | ($12.9) | (307.1)% |
| Effective tax rate | **39.0%** | 37.8% | NM | 120 bps |
|  |  |  |  |  |

The decrease in the effective tax rate for the first quarter of 2016 compared to the first quarter of 2015 was due primarily to discrete items recognized during the first quarter of 2016.

***Net Sales, Excluding Surcharges***

The table below presents net sales by end market sector, adjusted to exclude raw material surcharges which represents a financial measure that has not been determined in accordance with U.S. GAAP. We believe presenting net sales by end market sector to exclude raw material surcharges provides additional insight into key drivers of net sales such as base price and product mix.

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**Net Sales adjusted to exclude surcharges**

***(Tons in thousands)***



|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended** |  |
|  |  |  | **March 31, 2016** |  |  |  |
|  |  |  |  |  |  |
|  | **Mobile** | **Industrial** | **Energy** | **Other** | **Total** |
|  |  |  |  |  |  |  |
| **Tons** | **107.2** | **72.1** | **6.9** | **—** | **186.2** |
|  |  |  |  |  |  |  |
| **Net Sales** | **$121.3** | **$82.3** | **$10.0** | **$4.3** |  | **$217.9** |
| **Less: Surcharges** | **8.8** | **6.1** | **0.6** | **—** | **15.5** |
|  |  |  |  |  |  |  |
| **Base Sales** | **$112.5** | **$76.2** | **$9.4** | **$4.3** |  | **$202.4** |
|  |  |  |  |  |  |  |
| **Sales / Ton** | **$1,132** | **$1,141** | **$1,449** | **N/A** | **$1,171** |
| **Base Sales / Ton** | **$1,049** | **$1,057** | **$1,362** | **N/A** | **$1,087** |
|  |  |  |  |  |
|  |  |  | **Three Months Ended** |  |
|  |  |  | **March 31, 2015** |  |  |  |
|  |  |  |  |  |  |
|  | **Mobile** | **Industrial** | **Energy** | **Other** | **Total** |
|  |  |  |  |  |  |  |
| Tons | 102.0 | 116.5 | 52.6 | — | 271.1 |
|  |  |  |  |  |  |  |
| Net Sales | $131.3 | $164.9 | $87.7 | $4.8 |  | $388.7 |
| Less: Surcharges | 24.2 | 34.2 | 16.7 | — | 75.1 |
|  |  |  |  |  |  |  |
| Base Sales | $107.1 | $130.7 | $71.0 | $4.8 |  | $313.6 |
|  |  |  |  |  |  |  |
| Sales / Ton | $1,287 | $1,415 | $1,667 | N/A | $1,434 |
| Base Sales / Ton | $1,050 | $1,122 | $1,350 | N/A | $1,157 |

**The Balance Sheet**

The following discussion is a comparison of the Unaudited Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015:

|  |  |  |
| --- | --- | --- |
|  | **March 31,** | **December 31,** |
| **Current Assets** | **2016** | **2015** |
|  |  |  |
| Cash and cash equivalents | **$37.5** | $42.4 |
| Accounts receivable, net | **95.0** | 80.9 |
|  |  |  |
| Inventories, net | **160.9** | 173.9 |
| Prepaid expenses | **4.4** | 11.4 |
|  |  |  |
| Other current assets | **7.9** | 9.2 |
| **Total Current Assets** | **$305.7** | $317.8 |
|  |  |  |

Refer to the “Liquidity and Capital Resources” section in this Management’s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of the change in cash and cash equivalents. Accounts receivables increased $14.1 million and inventories decreased by $13.0 million due to higher sales in the first quarter of 2016 compared to the fourth quarter of 2015. Inventories also decreased due to continued efforts to reduce inventory to align with anticipated sales volumes. Prepaid expenses decreased by $7.0 million due primarily to the receipt of a tax refund.

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|  |  |  |
| --- | --- | --- |
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|  |  | **March 31,** | **December 31,** |
| **Property, Plant and Equipment** | **2016** | **2015** |
|  |  |  |  |
| Property, plant and equipment, net | **$760.5** | $769.3 |
|  |  |  |  |

Property, plant and equipment, net decreased $8.8 million as of March 31, 2016 from the balance as of December 31, 2015. The decrease in property, plant and equipment, net was due to depreciation expense of approximately $17 million partially offset by capital expenditures, excluding accruals of approximately $1 million, during the three months ended March 31, 2016.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March 31,** |  | **December 31,** |
| **Other Assets** | **2016** |  | **2015** |
|  |  |  |  |
| Pension assets |  | $23.4 | $20.0 |
| Intangible assets, net |  | 29.1 | 30.6 |
|  |  |  |  |
| Other non-current assets |  | 5.4 | 4.1 |
| Total Other Assets |  | $57.9 | $54.7 |
|  |  |  |  |

Pension assets increased $3.4 million as of March 31, 2016 from the balance as of December 31, 2015. This increase in the funded status of certain retirement plans was primarily driven by the expected return on plan assets exceeding service and interest costs and changes in the exchange rate. Intangible assets, net decreased $1.5 million from the balance as of December 31, 2015 primarily driven by approximately $2 million of amortization in the three months ended March 31, 2016.

|  |  |  |
| --- | --- | --- |
|  | **March 31,** | **December 31,** |
| **Liabilities and Shareholders’ Equity** | **2016** | **2015** |
|  |  |  |
| Current liabilities | **$98.3** | $104.2 |
| Long-term debt | **185.2** | 200.2 |
|  |  |  |
| Accrued pension and postretirement cost | **129.5** | 114.1 |
| Deferred income taxes | **21.5** | 26.9 |
|  |  |  |
| Other non-current liabilities | **11.6** | 10.0 |
| Total shareholders’ equity | **678.0** | 686.4 |
|  |  |  |
| **Total Liabilities and Shareholders’ Equity** | **$1,124.1** | $1,141.8 |
|  |  |  |

Current liabilities decreased to $98.3 million as of March 31, 2016 as compared to $104.2 million as of December 31, 2015. The decrease was due primarily to lower capital spending, lower benefit accruals and lower restructuring accruals, offset by an increase in accounts payable of approximately $7 million primarily due to changes in payment terms. Long-term debt decreased for the period due to payments of $15.0 million made on the Amended Credit Agreement in the first quarter 2016. Non-current accrued pension and postretirement cost increased as a result of the recognition of the three months ended March 31, 2016 expense, partially offset by payments made on the post retirement plans. The decrease in our non-current deferred income taxes related primarily to the non-current deferred tax assets generated by net operating losses, partially offset by the recognition of the non-current deferred tax liability for pension and postretirement expense during the three months ended March 31, 2016. Refer to Note 8 - “Changes in Shareholders' Equity” in the Notes to our Unaudited Consolidated Financial Statements for details of the decrease in shareholders’ equity.

**Liquidity and Capital Resources**

During the third quarter of 2015, we projected that at December 31, 2015, we would not be in compliance with the interest coverage ratio covenant contained in our then-existing revolving credit facility, due to a steeper-than-expected drop in industrial demand driven by depressed commodity prices. Accordingly, on December 21, 2015, we amended and restated our existing revolving credit facility, effectively converting the revolving credit facility from a cash flow-based facility to an asset-based facility in order to eliminate various financial covenants that are customary in cash-flow based facilities, including the interest coverage ratio covenant. As amended in December 2015, the revolving credit facility required us to maintain (i) certain minimum availability under the revolving credit facility, including a requirement to have availability of not less than $100 million for at least one day prior to July 1, 2016, and (ii) a minimum fixed charge coverage ratio of no less than 1.0 to 1.0 for the twelve-month periods ending July 31, 2017, August 31, 2017 and September 30, 2017, and thereafter on a springing basis if minimum availability requirements were not maintained.

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On February 26, 2016, we entered into Amendment No. 1 (the “Amendment”) to the Amended and Restated Credit Agreement dated as of December 21, 2015 (as amended by the Amendment, the “Amended Credit Agreement”) in order to provide more flexibility with respect to the amount and form of financing we could obtain to enhance our liquidity. The Amendment made several changes to the then-current revolving credit facility including, among other things: eliminating the one-time $100 million liquidity requirement; revising the timing of the applicability of, and eliminating the springing component related to, the fixed charge coverage ratio; permitting certain sale and leaseback transactions; and expanding the types of additional indebtedness that we are permitted to incur.

Also, on February 26, 2016, we entered into an agreement for a sale and leaseback transaction regarding our Canton, Ohio office facilities for a purchase price of $20 million. We anticipate closing the transaction late in the second quarter of 2016.

Pursuant to the Amendment, we also reduced the size of the revolving credit facility from $300 million to $265 million given that, in the near-term, it was unlikely that we would have a borrowing base sufficient to support such availability. The Amended Credit Agreement also includes a block on availability equal to the greater of $28.9 million or 12.5% of the aggregate commitments (except that in the event of a mandatory reduction in the commitments the block on availability will be equal to the greater of $20.0 million or 12.5% of the aggregate commitments), effectively reducing our borrowing base by the availability block.

The Amended Credit Agreement has a term of five years through June 30, 2019. The following represents a summary of key liquidity measures as of

March 31, 2016:



|  |  |
| --- | --- |
|  | **March 31, 2016** |
|  |  |
| Cash and cash equivalents | **$37.5** |
|  |  |
| **Amended Credit Agreement:** |  |
| Maximum availability | **$205.9** |
|  |  |
| Amount borrowed | **155.0** |
| Letter of credit obligations | **0.7** |
|  |  |
| Availability not borrowed | **50.2** |
| Availability block | **33.1** |
|  |  |
| Net availability | **$17.1** |
|  |  |
| Total liquidity | **$54.6** |
|  |  |

Our principal sources of liquidity are cash and cash equivalents, cash flows from operations and available borrowing capacity under our Amended Credit Agreement. We currently expect that our cash and cash equivalents on hand, expected cash flows from operations and funding from the sale and leaseback transaction will be sufficient to meet our liquidity needs; however, these plans rely on certain underlying assumptions and estimates that may differ from actual results. Such assumptions include improvements in operating results and cash flows driven by the restructuring and cost reduction activities taken during 2015 that streamlined our organizational structure, lowered operating costs and increased liquidity. As we continue through these challenging market conditions, prudent capital allocation tactics have also been deployed. In the fourth quarter of 2015, the Board of Directors suspended the Company’s cash dividend. Additionally, we have reduced the cash being spent on capital expenditures by 40% over 2015 levels to $45 million, in accordance with the restrictions in our Amended Credit Agreement, including the deferral of certain elements of the previously announced advanced quench-and-temper facility.

As of March 31, 2016, taking into account the foregoing, as well as our view of industrial, energy, and automotive market demands for our products, our 2016 operating plan and our long-range plan, we believe that our cash balance as of March 31, 2016 of $37.5 million, projected cash generated from operations and the sale and leaseback transaction, and borrowings available under the Amended Credit Agreement will be sufficient to satisfy our working capital needs, capital expenditures and other liquidity requirements associated with our operations, including servicing our debt obligations, for at least the next twelve months and through June 30, 2019, the maturity date of our Amended Credit Agreement.

To the extent our liquidity needs prove to be greater than expected or cash generated from operations are less than anticipated, and cash on hand or credit availability is insufficient, we would seek additional financing to provide additional liquidity. We regularly evaluate our potential access to the equity and debt capital markets as sources of liquidity and we believe that additional financing would likely be available if necessary, although we can make no assurance as to the form or terms of any

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such financing. We would also consider additional cost reductions and further reductions of capital expenditures. Regardless, we will continue to evaluate additional financing or may seek to refinance outstanding borrowings under the Amended Credit Agreement to provide us with additional flexibility and liquidity. Any additional financing beyond that incurred to refinance existing debt would increase our overall debt and could increase interest expense. For additional discussion regarding risk factors related to our business and our debt, see “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC.

For more details on the Amended Credit Agreement, please refer to Note 6 - “Financing Arrangements” in the Notes to the Unaudited Consolidated Financial Statements.

**Cash Flows**

The following table reflects the major categories of cash flows for the three months ended March 31, 2016 and 2015. For additional details, please see the Unaudited Consolidated Statements of Cash Flows contained elsewhere in this quarterly report.



|  |  |
| --- | --- |
| **Three Months Ended** |  |
| **Cash Flows** | **March 31,** |  |
|  |  |  |
| **2016** | **2015** |  |
|  |  |  |
| Net cash provided by operating activities | **$20.1** | $14.6 |
| Net cash used by investing activities | **(8.5)** | (17.7) |
|  |  |  |
| Net cash used by financing activities | **(16.5)** | (0.4) |
| **Decrease in Cash and Cash Equivalents** | **($4.9)** | ($3.5) |
|  |  |  |

*Operating activities*

Net cash provided by operating activities for the three months ended March 31, 2016 and 2015 was $20.1 million and $14.6 million, respectively. The $5.5 million increase was primarily the result of approximately $13 million of cash provided by a reimbursement from the postretirement plan assets for benefits previously paid by us, the receipt of a $6 million tax refund during the first quarter of 2016, and decreased cash used for accounts payable as a result of cost control initiatives, partially offset by a $21 million decrease in net income during the first quarter of 2016 as compared to the first quarter of 2015.

*Investing activities*

Net cash used by investing activities for the three months ended March 31, 2016 and 2015 was $8.5 million and $17.7 million, respectively. Cash used for investing activities primarily relates to capital investments in our production processes. Capital spending decreased $9.4 million due to lower spending compared to the three months ended March 31, 2015.

Our business sometimes requires capital investments to remain competitive and to ensure we can implement strategic initiatives. Our $62 million construction in progress balance as of March 31, 2016 includes: (a) $43 million relating to growth initiatives (i.e., new product offerings, additional capacity and new capabilities) and continuous improvement projects; and (b) $19 million relating primarily to routine capital costs to maintain the reliability, integrity and safety of our manufacturing equipment and facilities. We expect to incur approximately $31 million of additional costs including approximately $18 million relating to additional growth initiatives and continuous improvement and approximately $13 million of additional costs to complete other remaining projects. These additional costs are expected to be incurred during the next one to three years.

*Financing activities*

Net cash used by financing activities for the three months ended March 31, 2016 was $16.5 million compared to net cash used by financing activities of $0.4 million for the three months ended March 31, 2015. The change was due to a $15 million payment made during the three months ended March 31, 2016 on the Amended Credit Agreement.

**Covenant Compliance**

Under the Amended Credit Agreement, we are required to comply with certain customary covenants, including covenants that limit our ability to, among other things, (i) incur or suffer to exist certain liens, (ii) make investments, (iii) incur or guaranty additional indebtedness (iv) enter into consolidations, mergers, acquisitions and sales of assets, (v) make distributions and other restricted payments, (vi) change the nature of our business, (vii) engage in transactions with affiliates and (viii) enter into restrictive agreements, including agreements that restrict the ability to incur liens or make distributions. Further, the Amended Credit Agreement contains financial covenants that (i) limit the amount of capital expenditures we may make to $45 million in fiscal

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year 2016 and $50 million in fiscal years thereafter and (ii) require the Company to maintain a minimum specified fixed charge coverage ratio for the year-to-date periods ending June 30, 2017, July 31, 2017 and August 31, 2017. The fixed charge coverage ratio is the ratio of EBITDA to fixed charges. Fixed charges include, among other things, cash interest, scheduled principal payments, cash taxes, dividends and capital lease obligation payments. As of March 31, 2016, we anticipate that EBITDA will need to be approximately $10 million in the first half of 2017 in order to comply with the fixed charge coverage ratio covenant as of June 30, 2017, and we believe that our earnings will be sufficient to meet this covenant throughout the term of the Amended Credit Agreement.

We expect to remain in compliance with our debt covenants for at least the next twelve months. If at any time we expect that we will be unable to meet the covenants under the Amended Credit Agreement, we would seek to further amend the Amended Credit Agreement to be in compliance and avoid a default or pursue other alternatives, such as additional financing. If, contrary to our expectations, we were unable to amend the terms of our Amended Credit Agreement to remain in compliance or refinance the debt under the Amended Credit Agreement, we would experience an event of default and all outstanding debt under the revolving credit facility would be subject to acceleration and may become immediately due and payable.

For additional discussion regarding risk factors related to our business and our debt, see “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC.

**Dividends and Share Repurchases**

On November 13, 2015, our Board of Directors decided to suspend the cash dividend as we continue to manage through a challenging market environment. Our Board of Directors will review the dividend as business conditions improve.

On August 6, 2014, our Board of Directors approved a share repurchase plan pursuant to which we may repurchase up to three million of our outstanding common shares in the aggregate. This share repurchase plan expires on December 31, 2016. We may repurchase such shares from time to time in open market purchases or privately negotiated transactions. We are not obligated to acquire any particular amount of common shares and may commence, suspend or discontinue purchases at any time or from time to time without prior notice. We may make all or part of these purchases pursuant to accelerated share repurchases or Rule 10b5-1 plans.

Our Amended Credit Agreement places certain limitations on our ability to repurchase our outstanding common shares. Accordingly, we did not repurchase any of our shares under this program during the first quarter of 2016. From inception through March 31, 2016, $45.8 million was used to repurchase 1,540,093 shares under the share repurchase plan. Common shares repurchased are held as treasury shares.

**Critical Accounting Policies and Estimates**

Our financial statements are prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. We review our critical accounting policies throughout the year.

There have been no material changes to these policies during the three months ended March 31, 2016. For a summary of the critical accounting policies and estimates that we used in the preparation of our Unaudited Consolidated Financial Statements, see our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on February 29, 2016.

**New Accounting Guidance**

See Note 2 to our Unaudited Consolidated Financial Statements entitled “Recent Accounting Pronouncements” for a discussion of recently issued accounting pronouncements.

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***Forward-Looking Statements***

Certain statements set forth in this Form 10-Q (including our forecasts, beliefs and expectations) that are not historical in nature are “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. In particular, Management’s Discussion and Analysis of Financial Condition and Results of Operations contains numerous forward-looking statements. Forward-looking statements generally will be accompanied by words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “outlook,” “intend,” “may,” “plan,” “possible,” “potential,” “predict,” “project,” “seek,” “should,” “target,” “would,” or other similar words, phrases or expressions that convey the uncertainty of future events or outcomes. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this Form 10-Q. We caution readers that actual results may differ materially from those expressed or implied in forward-looking statements made by or on behalf of us due to a variety of factors, such as:

* deterioration in world economic conditions, or in economic conditions in any of the geographic regions in which we conduct business, including additional adverse effects from global economic slowdown, terrorism or hostilities. This includes: political risks associated with the potential instability of governments and legal systems in countries in which we or our customers conduct business, and changes in currency valuations;
* the effects of fluctuations in customer demand on sales, product mix and prices in the industries in which we operate. This includes: our ability to respond to rapid changes in customer demand; the effects of customer bankruptcies or liquidations; the impact of changes in industrial business cycles; and whether conditions of fair trade continue in the U.S. markets;
* competitive factors, including changes in market penetration; increasing price competition by existing or new foreign and domestic competitors; the introduction of new products by existing and new competitors; and new technology that may impact the way our products are sold or distributed;
* changes in operating costs, including the effect of changes in our manufacturing processes; changes in costs associated with varying levels of operations and manufacturing capacity; availability of raw materials and energy; our ability to mitigate the impact of fluctuations in raw materials and energy costs and the effectiveness of our surcharge mechanism; changes in the expected costs associated with product warranty claims; changes resulting from inventory management, cost reduction initiatives and different levels of customer demands; the effects of unplanned work stoppages; and changes in the cost of labor and benefits;
* the success of our operating plans, announced programs, initiatives and capital investments (including the jumbo bloom vertical caster and advanced quench-and-temper facility); the ability to integrate acquired companies; the ability of acquired companies to achieve satisfactory operating results, including results being accretive to earnings; and our ability to maintain appropriate relations with unions that represent our associates in certain locations in order to avoid disruptions of business;
* unanticipated litigation, claims or assessments, including claims or problems related to intellectual property, product liability or warranty, environmental issues and taxes, among other matters;
* the availability of financing and interest rates, which affect: our cost of funds and/or ability to raise capital; our pension obligations and investment performance; and/or customer demand and the ability of customers to obtain financing to purchase our products or equipment that contain our products; and the amount of any dividend declared by our Board of Directors on our common shares and the amount and timing of any repurchases of our common shares; and
* those items identified under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC.

You are cautioned that it is not possible to predict or identify all of the risks, uncertainties and other factors that may affect future results and that the above list should not be considered to be a complete list. Except as required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest Rate Risk**

Our borrowings consist entirely of variable-rate debt, principally borrowings under our Amended Credit Agreement. We are exposed to the risk of rising interest rates to the extent we fund our operations with these variable-rate borrowings. As of March 31, 2016, we have $185.2 million of aggregate debt outstanding, all of which consists of debt with variable interest rates. Based on the amount of debt with variable-rate interest outstanding, a 1% rise in interest rates would result in an increase in interest expense of approximately $1.9 million annually, with a corresponding decrease in income from operations before income taxes of the same amount.

**Foreign Currency Exchange Rate Risk**

Fluctuations in the value of the U.S. dollar compared to foreign currencies may impact our earnings. Geographically, our sales are primarily made to customers in the United States. Currency fluctuations could impact us to the extent they impact the currency or the price of raw materials in foreign countries in which our competitors operate or have significant sales.

**Commodity Price Risk**

In the ordinary course of business, we are exposed to market risk with respect to commodity price fluctuations, primarily related to our purchases of raw materials and energy, principally scrap steel, other ferrous and non-ferrous metals, alloys, natural gas and electricity. Whenever possible, we manage our exposure to commodity risks primarily through the use of supplier pricing agreements that enable us to establish the purchase prices for certain inputs that are used in our manufacturing business. We utilize a raw material surcharge as a component of pricing steel to pass through the cost increases of scrap, alloys and other raw materials, as well as natural gas. From time to time, we may use derivative financial instruments to hedge a portion of our exposure to price risk related to natural gas and electricity purchases. In periods of stable demand for our products, the surcharge mechanism has worked effectively to reduce the normal time lag in passing through higher raw material costs so that we can maintain our gross margins. When demand and cost of raw materials is lower, however, the surcharge impacts sales prices to a lesser extent.

**ITEM 4. CONTROLS AND PROCEDURES**

1. Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)). Based upon that evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

1. Changes in Internal Control Over Financial Reporting

During the Company’s most recent fiscal quarter, there have been no changes in the Company’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of our management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

**Item 1A. Risk Factors**

We are subject to various risks and uncertainties in the course of our business. The discussion of such risks and uncertainties may be found under “Risk Factors” in our Annual Report on Form 10-K filed with the SEC. There have been no material changes to such risk factors.

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

The following table provides information about purchases by the Company of its common shares during the quarter ended March 31, 2016.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Total number of shares** | **Maximum number of** |
|  |  |  |  | **purchased as** | **shares that may yet** |
|  | **Total number** |  | **Average** | **part of publicly** | **be purchased** |
|  | **of shares** |  | **price paid** | **announced plans or** | **under the plans or** |
| **Period** | **purchased (1)** |  | **per share** | **programs** | **programs (2)** |
| January 1 - 31, 2016 |  | — | $— | — | 1,459,907 |
| February 1 - 29, 2016 |  | — | $— | — | 1,459,907 |
|  |  |  |  |  |  |
| March 1 - 31, 2016 |  | — | $— | — | 1,459,907 |
| Total |  | — | $— | — | 1,459,907 |
|  |  |  |  |  |  |

1. All shares not included in the number of shares purchased as part of publicly announced plans or programs were surrendered or deemed surrendered to the Company in connection with the Company’s stock-based compensation plans.
2. On August 6, 2014, the Company announced that its Board of Directors approved a share repurchase plan pursuant to which the Company may repurchase up to 3 million of its common shares in the aggregate. This share repurchase plan expires on December 31, 2016. The Company may repurchase such shares from time to time in open market purchases or privately negotiated transactions. The Company may make all or part of these repurchases pursuant to accelerated share repurchases or Rule 10b5-1 plans.

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| --- | --- |
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| **Item 6. Exhibits** |  |  |
|  | **Exhibit Number** | **Exhibit Description** |
|  |  |  |  |  |
| 12.1\* |  |  | Computation of Ratio of Earnings to Fixed Charges. |
| 31.1\* |  |  | Certification of the Chief Executive Officer pursuant to Rule 13a-14 of the Exchange Act, as adopted, pursuant to Section 302 of the |
|  |  |  |  | Sarbanes-Oxley Act of 2002. |
| 31.2\* |  |  | Certification of the Chief Financial Officer pursuant to Rule 13a-14 of the Exchange Act, as adopted, pursuant to Section 302 of the |
|  |  |  |  | Sarbanes-Oxley Act of 2002. |
| 32.1\*\* |  |  | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 |
|  |  |  |  | of the Sarbanes-Oxley Act of 2002. |
|  | 101.INS\* | XBRL Instance Document |
|  | 101.SCH\* | XBRL Taxonomy Extension Schema Document |
|  | 101.PRE\* | XBRL Taxonomy Extension Presentation Linkbase Document |
|  | 101.CAL\* | XBRL Taxonomy Extension Calculation Linkbase Document |
|  | 101.LAB\* | XBRL Taxonomy Extension Label Linkbase Document |
|  | 101.DEF\* | XBRL Taxonomy Extension Definition Linkbase Document |

* Filed herewith.
* Furnished herewith.

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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.

TIMKENSTEEL CORPORATION

Date: May 4, 2016 /s/ Christopher J. Holding



Christopher J. Holding

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

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| --- | --- |
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