

TRIMAS CORP  
Form 10-Q  
July 27, 2017  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON D.C. 20549  
FORM 10-Q  
(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2017

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 001-10716

TRIMAS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 38-2687639  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification No.)  
38505 Woodward Avenue, Suite 200  
Bloomfield Hills, Michigan 48304  
(Address of principal executive offices, including zip code)  
(248) 631-5450  
(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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 20, 2017, the number of outstanding shares of the Registrant's common stock, \$0.01 par value, was 45,721,160 shares.

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Forward-Looking Statements

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 about our financial condition, results of operations and business. These forward-looking statements can be identified by the use of forward-looking words, such as “may,” “could,” “should,” “estimate,” “project,” “forecast,” “intend,” “expect,” “anticipate,” “believe,” “target,” “plan” or other comparable words, or by discussions of strategy that may involve risks and uncertainties.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties which could materially affect our business, financial condition or future results including, but not limited to: the Company's leverage; liabilities imposed by the Company's debt instruments; market demand; competitive factors; supply constraints; material and energy costs; risks and uncertainties associated with intangible assets, including goodwill or other intangible asset impairment charges; technology factors; litigation; government and regulatory actions; the Company's accounting policies; future trends; general economic and currency conditions; the potential impact of Brexit; various conditions specific to the Company's business and industry; the Company's ability to identify attractive acquisition candidates, successfully integrate acquired operations or realize the intended benefits of such acquisitions; potential costs and savings related to facility consolidation activities; future prospects of the Company; and other risks that are discussed in Part I, Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2016. The risks described in our Annual Report on Form 10-K and elsewhere in this report are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deemed to be immaterial also may materially adversely affect our business, financial position and results of operations or cash flows.

The cautionary statements set forth above should be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue. We caution readers not to place undue reliance on the statements, which speak only as of the date of this report. We do not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statement to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

We disclose important factors that could cause our actual results to differ materially from our expectations implied by our forward-looking statements under Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this report. These cautionary statements qualify all forward-looking statements attributed to us or persons acting on our behalf. When we indicate that an event, condition or circumstance could or would have an adverse effect on us, we mean to include effects upon our business, financial and other conditions, results of operations, prospects and ability to service our debt.

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## PART I. FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

TriMas Corporation

Consolidated Balance Sheet

(Dollars in thousands)

|  | June 30,<br>2017<br>(unaudited) | December 31,<br>2016 |
|--|---------------------------------|----------------------|
| Assets   |                                 |                      |
| Current assets:  |                                 |                      |
| Cash and cash equivalents  | \$22,680                        | \$ 20,710            |
| Receivables, net of reserves of approximately \$5.0 million and \$4.6 million as of June 30, 2017 and December 31, 2016, respectively                                | 123,790                         | 111,570              |
| Inventories  | 156,330                         | 160,460              |
| Prepaid expenses and other current assets  | 9,770                           | 16,060               |
| Total current assets   | 312,570                         | 308,800              |
| Property and equipment, net  | 183,760                         | 179,160              |
| Goodwill   | 317,850                         | 315,080              |
| Other intangibles, net   | 204,110                         | 213,920              |
| Other assets   | 34,840                          | 34,690               |
| Total assets   | \$1,053,130                     | \$ 1,051,650         |
| Liabilities and Shareholders' Equity   |                                 |                      |
| Current liabilities:   |                                 |                      |
| Current maturities, long-term debt   | \$13,760                        | \$ 13,810            |
| Accounts payable   | 77,060                          | 72,270               |
| Accrued liabilities  | 42,160                          | 47,190               |
| Total current liabilities  | 132,980                         | 133,270              |
| Long-term debt, net  | 332,740                         | 360,840              |
| Deferred income taxes  | 8,200                           | 5,910                |
| Other long-term liabilities  | 50,750                          | 51,910               |
| Total liabilities  | 524,670                         | 551,930              |
| Preferred stock, \$0.01 par: Authorized 100,000,000 shares;<br>Issued and outstanding: None  | —                               | —                    |
| Common stock, \$0.01 par: Authorized 400,000,000 shares;<br>Issued and outstanding: 45,720,921 shares at June 30, 2017 and 45,520,598 shares at<br>December 31, 2016 | 460                             | 460                  |
| Paid-in capital  | 820,440                         | 817,580              |
| Accumulated deficit  | (272,080 )                      | (293,920 )           |
| Accumulated other comprehensive loss   | (20,360 )                       | (24,400 )            |
| Total shareholders' equity   | 528,460                         | 499,720              |
| Total liabilities and shareholders' equity   | \$1,053,130                     | \$ 1,051,650         |

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

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TriMas Corporation

Consolidated Statement of Income

(Unaudited—dollars in thousands, except for per share amounts)

|  | Three months ended |            | Six months ended |            |
|--|--------------------|------------|------------------|------------|
|  | June 30,           |            | June 30,         |            |
|  | 2017               | 2016       | 2017             | 2016       |
| Net sales                                    | \$213,370          | \$203,320  | \$413,200        | \$406,200  |
| Cost of sales                                | (153,960 )         | (146,240 ) | (302,030 )       | (293,200 ) |
| Gross profit                                 | 59,410             | 57,080     | 111,170          | 113,000    |
| Selling, general and administrative expenses | (33,160 )          | (38,420 )  | (69,180 )        | (77,890 )  |
| Operating profit                             | 26,250             | 18,660     | 41,990           | 35,110     |
| Other expense, net:                          |                    |            |                  |            |
| Interest expense                             | (3,420 )           | (3,310 )   | (6,970 )         | (6,750 )   |
| Other income (expense), net                  | 30                 | 130        | (580 )           | 70         |
| Other expense, net                           | (3,390 )           | (3,180 )   | (7,550 )         | (6,680 )   |
| Income before income tax expense             | 22,860             | 15,480     | 34,440           | 28,430     |
| Income tax expense                           | (8,010 )           | (5,000 )   | (12,600 )        | (9,650 )   |
| Net income                                   | \$14,850           | \$10,480   | \$21,840         | \$18,780   |
| Basic earnings per share:                    |                    |            |                  |            |
| Net income per share                         | \$0.32             | \$0.23     | \$0.48           | \$0.41     |
| Weighted average common shares—basic         | 45,717,697         | 45,429,851 | 45,644,096       | 45,354,421 |
| Diluted earnings per share:                  |                    |            |                  |            |
| Net income per share                         | \$0.32             | \$0.23     | \$0.48           | \$0.41     |
| Weighted average common shares—diluted       | 45,922,416         | 45,726,348 | 45,915,687       | 45,690,582 |

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

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TriMas Corporation  
 Consolidated Statement of Comprehensive Income  
 (Unaudited—dollars in thousands)

|  | Three months<br>ended<br>June 30, |          | Six months ended<br>June 30, |           |
|--|-----------------------------------|----------|------------------------------|-----------|
|  | 2017                              | 2016     | 2017                         | 2016      |
| Net income   | \$14,850                          | \$10,480 | \$21,840                     | \$18,780  |
| Other comprehensive income (loss):                         |                                   |          |                              |           |
| Defined benefit pension and postretirement plans (Note 13) | 160                               | 150      | 330                          | 300       |
| Foreign currency translation                               | 1,930                             | (4,080 ) | 3,730                        | (6,740 )  |
| Derivative instruments (Note 8)                            | (400 )                            | (1,330 ) | (20 )                        | (4,290 )  |
| Total other comprehensive income (loss)                    | 1,690                             | (5,260 ) | 4,040                        | (10,730 ) |
| Total comprehensive income                                 | \$16,540                          | \$5,220  | \$25,880                     | \$8,050   |

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

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TriMas Corporation  
Consolidated Statement of Cash Flows  
(Unaudited—dollars in thousands)

|   | Six months ended<br>June 30, |           |
|---|------------------------------|-----------|
|   | 2017                         | 2016      |
| Cash Flows from Operating Activities:   |                              |           |
| Net income  | \$21,840                     | \$18,780  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |           |
| Loss on dispositions of assets  | 3,030                        | 1,120     |
| Depreciation  | 13,050                       | 11,980    |
| Amortization of intangible assets   | 9,990                        | 10,190    |
| Amortization of debt issue costs  | 690                          | 670       |
| Deferred income taxes   | 2,060                        | 230       |
| Non-cash compensation expense   | 3,340                        | 4,140     |
| Tax effect from stock based compensation  | —                            | (170 )    |
| Increase in receivables   | (11,490 )                    | (3,660 )  |
| Decrease in inventories   | 2,850                        | 1,130     |
| Decrease in prepaid expenses and other assets                                     | 6,280                        | 10,650    |
| Decrease in accounts payable and accrued liabilities                              | (1,930 )                     | (21,710 ) |
| Other operating activities  | (120 )                       | (410 )    |
| Net cash provided by operating activities   | 49,590                       | 32,940    |
| Cash Flows from Investing Activities:   |                              |           |
| Capital expenditures  | (16,910 )                    | (12,960 ) |
| Net proceeds from disposition of property and equipment                           | 1,780                        | 120       |
| Net cash used for investing activities  | (15,130 )                    | (12,840 ) |
| Cash Flows from Financing Activities:   |                              |           |
| Repayments of borrowings on term loan facilities                                  | (6,910 )                     | (6,950 )  |
| Proceeds from borrowings on revolving credit and accounts receivable facilities   | 300,050                      | 216,580   |
| Repayments of borrowings on revolving credit and accounts receivable facilities   | (324,900)                    | (225,050) |
| Shares surrendered upon options and restricted stock vesting to cover taxes       | (480 )                       | (650 )    |
| Other financing activities  | (250 )                       | 180       |
| Net cash used for financing activities  | (32,490 )                    | (15,890 ) |
| Cash and Cash Equivalents:  |                              |           |
| Net increase for the period   | 1,970                        | 4,210     |
| At beginning of period  | 20,710                       | 19,450    |
| At end of period  | \$22,680                     | \$23,660  |
| Supplemental disclosure of cash flow information:                                 |                              |           |
| Cash paid for interest  | \$6,060                      | \$5,860   |
| Cash paid for taxes   | \$10,600                     | \$3,170   |

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



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TriMas Corporation  
 Consolidated Statement of Shareholders' Equity  
 Six Months Ended June 30, 2017  
 (Unaudited—dollars in thousands)

|   | Common<br>Stock | Paid-in<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Total     |
|---|-----------------|--------------------|------------------------|---|-----------|
| Balances, December 31, 2016   | \$ 460          | \$817,580          | \$(293,920 )           | \$ (24,400 )                                  | \$499,720 |
| Net income  | —               | —                  | 21,840                 | —   | 21,840    |
| Other comprehensive income  | —               | —                  | —                      | 4,040   | 4,040     |
| Shares surrendered upon options and restricted stock vesting to cover taxes | —               | (480 )             | —                      | —   | (480 )    |
| Non-cash compensation expense   | —               | 3,340              | —                      | —   | 3,340     |
| Balances, June 30, 2017   | \$ 460          | \$820,440          | \$(272,080 )           | \$ (20,360 )                                  | \$528,460 |

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

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TRIMAS CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

1. Basis of Presentation

TriMas Corporation ("TriMas" or the "Company"), and its consolidated subsidiaries, is a global manufacturer and distributor of products for commercial, industrial and consumer markets. The Company is principally engaged in the following reportable segments with diverse products and market channels: Packaging, Aerospace, Energy and Engineered Components. See Note 10, "Segment Information," for further information on each of the Company's reportable segments.

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries and, in the opinion of management, contain all adjustments, including adjustments of a normal and recurring nature, necessary for a fair presentation of financial position and results of operations. Results of operations for interim periods are not necessarily indicative of results for the full year. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the Company's 2016 Annual Report on Form 10-K.

2. New Accounting Pronouncements

Recently Issued Accounting Pronouncements

In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" ("ASU 2017-07"). ASU 2017-07 requires that the service cost component of net period pension and postretirement benefit cost be presented in the same line item as other employee compensation costs, while the other components be presented separately as non-operating income (expense). ASU 2017-07 also allows only the service cost component to be eligible for capitalization when applicable. ASU 2017-07 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted. The Company is in the process of assessing the impact of adoption on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"), which simplifies the test for goodwill impairment by eliminating the requirement to perform a hypothetical purchase price allocation to measure the amount of goodwill impairment. ASU 2017-04 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, with early adoption permitted. The Company is in the process of assessing the impact of adoption on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business" ("ASU 2017-01"). ASU 2017-01 provides guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted under certain circumstances. The Company is in the process of assessing the impact of adoption on its consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory" ("ASU 2016-16"), which requires that income tax consequences of an intra-entity transfer of an asset other than inventory are recognized when the transfer occurs. ASU 2016-16 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and is to be applied using a modified retrospective approach with early adoption permitted. The Company is in the process of assessing the impact of adoption on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"), which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and is to be applied using a retrospective approach with early

adoption permitted. The Company is in the process of assessing the impact of adoption on its consolidated financial statements.

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## TRIMAS CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which requires that lessees, at the lease commencement date, recognize a lease liability representing the lessee's obligation to make lease payments arising from a lease as well as a right-of-use asset, which represents the lessee's right to use, or control the use of a specified asset, for the lease term. The new guidance also aligns lessor accounting to the lessee accounting model and to Topic 606, "Revenue from Contracts with Customers." ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and is to be applied using a modified retrospective approach with early adoption permitted. The Company is in the process of assessing the impact of the adoption on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). ASU 2014-09 requires that an entity recognize revenue to depict the transfer of 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. Since the issuance of the original standard, the FASB has issued several subsequent updates as disclosed within the Company's 2016 Annual Report on Form 10-K. Although the Company is still in the process of evaluating its contracts, the Company does not believe the adoption of this standard will have a material impact on the amount or timing of its revenues. The Company expects to adopt this standard on January 1, 2018 utilizing the modified retrospective approach. The Company continues to evaluate the impact of the adoption on its consolidated financial statements.

## 3. Facility Closures

## Reynosa, Mexico facility

In March 2017, the Company announced plans within the Energy reportable segment to cease production at its Reynosa, Mexico facility, and consolidate production into its Houston, Texas facility. During the second quarter of 2017, upon the cease use date of the facility, the Company recorded a pre-tax charge of approximately \$1.5 million within cost of sales for estimated future unrecoverable lease obligations, net of estimated sublease recoveries, for the lease that expires in 2025. In addition, in the second quarter of 2017, the Company incurred approximately \$1.2 million of pre-tax non-cash charges within cost of sales related to accelerated depreciation expense as a result of shortening the expected lives on certain machinery, equipment and leasehold improvement assets that the Company no longer used following the facility closure.

## Wolverhampton, United Kingdom facility

In March 2017, the Company exited its Wolverhampton, United Kingdom facility within the Energy reportable segment. In connection with this action, during the first quarter of 2017 the Company recorded pre-tax charges of approximately \$3.5 million within selling, general and administrative expenses, of which approximately \$3.2 million were non-cash charges related to the disposal of certain assets.

## 4. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the six months ended June 30, 2017 are summarized as follows (dollars in thousands):

|  | Packaging  | Aerospace  | Energy | Engineered<br>Components | Total      |
|--|------------|------------|--------|--------------------------|------------|
| Balance, December 31, 2016             | \$ 162,090 | \$ 146,430 | \$ —   | \$ 6,560                 | \$ 315,080 |
| Foreign currency translation and other | 2,770      | —          | —      | —                        | 2,770      |
| Balance, June 30, 2017                 | \$ 164,860 | \$ 146,430 | \$ —   | \$ 6,560                 | \$ 317,850 |

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## TRIMAS CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The Company amortizes its other intangible assets over periods ranging from one to 30 years. The gross carrying amounts and accumulated amortization of the Company's other intangibles as of June 30, 2017 and December 31, 2016 are summarized below (dollars in thousands):

| Intangible Category by Useful Life    | As of June 30, 2017   |                          | As of December 31, 2016 |                          |
|---------------------------------------|-----------------------|--------------------------|-------------------------|--------------------------|
|                                       | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount   | Accumulated Amortization |
| Finite-lived intangible assets:       |                       |                          |                         |                          |
| Customer relationships, 5 – 12 years  | \$73,840              | \$(37,130)               | \$73,570                | \$(33,200)               |
| Customer relationships, 15 – 25 years | 132,230               | (48,420)                 | 132,230                 | (44,970)                 |
| Total customer relationships          | 206,070               | (85,550)                 | 205,800                 | (78,170)                 |
| Technology and other, 1 – 15 years    | 57,510                | (27,720)                 | 57,470                  | (26,040)                 |
| Technology and other, 17 – 30 years   | 43,300                | (32,430)                 | 43,300                  | (31,370)                 |
| Total technology and other            | 100,810               | (60,150)                 | 100,770                 | (57,410)                 |
| Indefinite-lived intangible assets:   |                       |                          |                         |                          |
| Trademark/Trade names                 | 42,930                | —                        | 42,930                  | —                        |
| Total other intangible assets         | \$349,810             | \$(145,700)              | \$349,500               | \$(135,580)              |

Amortization expense related to intangible assets as included in the accompanying consolidated statement of income is summarized as follows (dollars in thousands):

|  | Three months ended June 30, |          | Six months ended June 30, |           |
|--|-----------------------------|----------|---------------------------|-----------|
|  | 2017                        | 2016     | 2017                      | 2016      |
| Technology and other, included in cost of sales                                  | \$ 1,360                    | \$ 1,390 | \$ 2,710                  | \$ 2,770  |
| Customer relationships, included in selling, general and administrative expenses | 3,640                       | 3,700    | 7,280                     | 7,420     |
| Total amortization expense   | \$ 5,000                    | \$ 5,090 | \$ 9,990                  | \$ 10,190 |

## 5. Inventories

Inventories consist of the following components (dollars in thousands):

|                   | June 30, 2017 | December 31, 2016 |
|-------------------|---------------|-------------------|
| Finished goods    | \$86,230      | \$ 95,290         |
| Work in process   | 25,210        | 22,930            |
| Raw materials     | 44,890        | 42,240            |
| Total inventories | \$156,330     | \$ 160,460        |

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## TRIMAS CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

## 6. Property and Equipment, Net

Property and equipment consists of the following components (dollars in thousands):

|                                | June 30,<br>2017 | December 31,<br>2016 |
|--------------------------------|------------------|----------------------|
| Land and land improvements     | \$ 15,120        | \$ 14,910            |
| Buildings                      | 71,270           | 71,100               |
| Machinery and equipment        | 291,280          | 281,180              |
|                                | 377,670          | 367,190              |
| Less: Accumulated depreciation | 193,910          | 188,030              |
| Property and equipment, net    | \$ 183,760       | \$ 179,160           |

Depreciation expense as included in the accompanying consolidated statement of income is as follows (dollars in thousands):

|  | Three months ended June 30, |          | Six months ended June 30, |           |
|--|-----------------------------|----------|---------------------------|-----------|
|  | 2017                        | 2016     | 2017                      | 2016      |
| Depreciation expense, included in cost of sales                                | \$ 6,740                    | \$ 5,240 | \$ 11,940                 | \$ 10,470 |
| Depreciation expense, included in selling, general and administrative expenses | 510                         | 800      | 1,110                     | 1,510     |
| Total depreciation expense   | \$ 7,250                    | \$ 6,040 | \$ 13,050                 | \$ 11,980 |

## 7. Long-term Debt

The Company's long-term debt consists of the following (dollars in thousands):

|  | June 30,<br>2017 | December 31,<br>2016 |
|--|------------------|----------------------|
| Credit Agreement                         | \$298,670        | \$ 333,720           |
| Receivables facility and other           | 52,100           | 45,650               |
| Debt issuance costs                      | (4,270 )         | (4,720 )             |
|  | 346,500          | 374,650              |
| Less: Current maturities, long-term debt | 13,760           | 13,810               |
| Long-term debt, net                      | \$332,740        | \$ 360,840           |
| Credit Agreement                         |                  |                      |

The Company is party to a credit agreement (the "Credit Agreement"), consisting of a \$500.0 million senior secured revolving credit facility, which permits borrowings denominated in specific foreign currencies ("Foreign Currency Loans"), subject to a \$75.0 million sub limit, which matures on June 30, 2020 and is subject to interest at London Interbank Offered Rates ("LIBOR") plus 1.625%, and a \$275.0 million senior secured term loan A facility ("Term Loan A Facility"), which matures on June 30, 2020 and is subject to interest at LIBOR plus 1.625%. The interest rate spread is based upon the leverage ratio, as defined, as of the most recent determination date.

The Credit Agreement also provides incremental term loan and/or revolving credit facility commitments in an amount not to exceed the greater of \$300.0 million and an amount such that, after giving effect to such incremental commitments and the incurrence of any other indebtedness substantially simultaneously with the making of such commitments, the senior secured net leverage ratio, as defined, is no greater than 2.50 to 1.00. The terms and

conditions of any incremental term loan and/or revolving credit facility commitments must be no more favorable than the existing credit facility.

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## TRIMAS CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The Company may be required to prepay a portion of its Term Loan A Facility in an amount equal to a percentage of the Company's excess cash flow, as defined, with such percentage based on the Company's leverage ratio, as defined. As of June 30, 2017, no amounts are due under this provision.

The Company's revolving credit facility allows for the issuance of letters of credit, not to exceed \$40.0 million in aggregate. At June 30, 2017, the Company had approximately \$47.7 million outstanding under its revolving credit facility and had approximately \$436.0 million potentially available after giving effect to approximately \$16.3 million of letters of credit issued and outstanding. At December 31, 2016, the Company had approximately \$75.9 million outstanding under its revolving credit facility and had approximately \$408.2 million potentially available after giving effect to approximately \$15.9 million of letters of credit issued and outstanding. However, including availability under its accounts receivable facility and after consideration of leverage restrictions contained in the Credit Agreement, the Company had approximately \$176.7 million and \$126.5 million at June 30, 2017 and December 31, 2016, respectively, of borrowing capacity available for general corporate purposes.

Principal payments required under the Credit Agreement for the Term Loan A Facility are approximately \$3.4 million due each fiscal quarter from December 2015 through September 2018 and approximately \$5.2 million due each fiscal quarter from December 2018 through March 2020, with final payment of approximately \$202.8 million due on June 30, 2020.

The debt under the Credit Agreement is an obligation of the Company and certain of its domestic subsidiaries and is secured by substantially all of the assets of such parties. Borrowings under the \$75.0 million foreign currency sub limit of the \$500.0 million senior secured revolving credit facility are secured by a pledge of the assets of the foreign subsidiary borrowers that are a party to the agreement. The Credit Agreement also contains various negative and affirmative covenants and other requirements affecting the Company and its subsidiaries, including restrictions on the incurrence of debt, liens, mergers, investments, loans, advances, guarantee obligations, acquisitions, assets dispositions, sale-leaseback transactions, hedging agreements, dividends and other restricted payments, transactions with affiliates, restrictive agreements and amendments to charters, bylaws, and other material documents. The terms of the Credit Agreement also require the Company and its subsidiaries to meet certain restrictive financial covenants and ratios computed quarterly, including a maximum leverage ratio (total consolidated indebtedness plus outstanding amounts under the accounts receivable securitization facility over consolidated EBITDA, as defined) and a minimum interest expense coverage ratio (consolidated EBITDA, as defined, over cash interest expense, as defined). At June 30, 2017, the Company was in compliance with its financial covenants contained in the Credit Agreement.

As of June 30, 2017 and December 31, 2016, the Company's Term Loan A Facility traded at approximately 99.6% of par value and the Company's revolving credit facility traded at approximately 99.3% of par value. The valuations of the Credit Agreement were determined based on Level 2 inputs under the fair value hierarchy, as defined.

**Receivables Facility**

The Company is party to an accounts receivable facility through TSPC, Inc. ("TSPC"), a wholly-owned subsidiary, to sell trade accounts receivable of substantially all of the Company's domestic business operations. Under this facility, TSPC, from time to time, may sell an undivided fractional ownership interest in the pool of receivables up to \$75.0 million to a third-party multi-seller receivables funding company. The net amount financed under the facility is less than the face amount of accounts receivable by an amount that approximates the purchaser's financing costs. The cost of funds under this facility consisted of a 1-month LIBOR-based rate plus a usage fee of 1.00% and a fee on the unused portion of the facility of 0.35% as of June 30, 2017 and 2016.

The Company had approximately \$52.0 million and \$45.5 million outstanding under the facility as of June 30, 2017 and December 31, 2016, respectively, and approximately \$9.8 million and \$10.1 million available but not utilized as of June 30, 2017 and December 31, 2016, respectively. Aggregate costs incurred under the facility were approximately \$0.3 million and \$0.2 million for the three months ended June 30, 2017 and 2016, and \$0.6 million and \$0.4 million for the six months ended June 30, 2017 and 2016, respectively, and are included in interest expense in the



accompanying consolidated statement of income. The facility expires on June 30, 2020.

The cost of funds fees incurred are determined by calculating the estimated present value of the receivables sold compared to their carrying amount. The estimated present value factor is based on historical collection experience and a discount rate based on a 1-month LIBOR-based rate plus the usage fee discussed above and is computed in accordance with the terms of the agreement. As of June 30, 2017, the cost of funds under the facility was based on an average liquidation period of the portfolio of approximately 1.7 months and an average discount rate of 1.9%.

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## TRIMAS CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

## 8. Derivative Instruments

The Company utilizes interest rate swap agreements to fix the LIBOR-based variable portion of the interest rate on its long-term debt. Terms of the interest rate swap agreements require the Company to receive a variable interest rate and pay a fixed interest rate. As of June 30, 2017, the Company had interest rate swap agreements in place that hedge a declining notional value of debt ranging from approximately \$238.4 million to approximately \$192.7 million, amortizing consistent with future scheduled debt principal payments. The interest rate swap agreements establish fixed interest rates in a range of 0.74% to 2.68% with various expiration terms extending to June 30, 2020. At inception, the interest rate swaps were and continue to be designated as cash flow hedges.

As of June 30, 2017 and December 31, 2016, the fair value carrying amount of the Company's derivative instruments are recorded as follows (dollars in thousands):

|   | Balance Sheet Caption                     | Asset / (Liability)<br>Derivatives |                      |
|---|---|------------------------------------|----------------------|
|   |   | June 30,<br>2017                   | December 31,<br>2016 |
| Derivatives designated as hedging instruments       |   |                                    |                      |
| Interest rate swaps                                 | Prepaid expenses and other current assets | \$ 160                             | \$ 160               |
| Interest rate swaps                                 | Accrued liabilities                       | (1,030 )                           | (870 )               |
| Interest rate swaps                                 | Other long-term liabilities               | (3,240 )                           | (3,360 )             |
| Total derivatives designated as hedging instruments |   | \$(4,110)                          | \$(4,070 )           |

The following table summarizes the loss recognized in accumulated other comprehensive income or loss ("AOCI") as of June 30, 2017 and December 31, 2016, and the amounts reclassified from AOCI into earnings for the three and six months ended June 30, 2017 and 2016 (dollars in thousands):

|  | Amount of Loss<br>Recognized<br>in AOCI on Derivative<br>(Effective Portion, net<br>of tax) |                               | Location of Loss Reclassified from<br>AOCI into Earnings (Effective<br>Portion) | Amount of Loss Reclassified<br>from AOCI into Earnings |   |
|--|---|-------------------------------|---|--|---|
|  | As of<br>June 30,<br>2017   | As of<br>December 31,<br>2016 |   | Three months<br>ended<br>June 30,<br>2017              | Six months<br>ended<br>June 30,<br>2016 |
| Derivatives designated<br>as hedging instruments |   |                               |   |  |   |
| Interest rate swaps                              | \$(2,540)   | \$(2,520 )                    | Interest expense  | \$(90)   | \$(110)                                 |
|  |   |                               |   | \$(340)  | \$(220)                                 |

Over the next 12 months, the Company expects to reclassify approximately \$0.9 million of pre-tax deferred losses from AOCI to interest expense as the related interest payments for the designated interest rate swaps are funded.

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## TRIMAS CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The fair value of the Company's derivatives are estimated using an income approach based on valuation techniques to convert future amounts to a single, discounted amount. Estimates of the fair value of the Company's interest rate swaps use observable inputs such as interest rate yield curves. Fair value measurements and the fair value hierarchy level for the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016 are shown below (dollars in thousands):

| Description                           | Frequency | Asset /<br>(Liability) | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---------------------------------------|-----------|------------------------|---|---|--|
| June 30, 2017 Interest rate swaps     | Recurring | \$ (4,110 )            | \$  | —\$ (4,110 )  | \$ —   |
| December 31, 2016 Interest rate swaps | Recurring | \$ (4,070 )            | \$  | —\$ (4,070 )  | \$ —   |

## 9. Commitments and Contingencies

## Asbestos

As of June 30, 2017, the Company was a party to 609 pending cases involving an aggregate of 5,274 claims primarily alleging personal injury from exposure to asbestos containing materials formerly used in gaskets (both encapsulated and otherwise) manufactured or distributed by certain of its subsidiaries for use primarily in the petrochemical refining and exploration industries. The following chart summarizes the number of claims, number of claims filed, number of claims dismissed, number of claims settled, the average settlement amount per claim and the total defense costs, excluding amounts reimbursed under the Company's primary insurance, at the applicable date and for the applicable periods:

|                                     | Claims<br>pending<br>at<br>beginning<br>of<br>period | Claims<br>filed<br>during<br>period | Claims<br>dismissed<br>during<br>period | Claims<br>settled<br>during<br>period | Average<br>settlement<br>amount<br>per<br>claim<br>during<br>period | Total<br>defense<br>costs<br>during<br>period |
|-------------------------------------|--|-------------------------------------|---|---------------------------------------|---|---|
| Six Months Ended June 30, 2017      | 5,339  | 102                                 | 151                                     | 16                                    | \$ 6,422  | \$ 1,164,500                                  |
| Fiscal Year Ended December 31, 2016 | 6,242  | 140                                 | 1,009                                   | 34                                    | \$ 15,624   | \$ 2,920,000                                  |

In addition, the Company acquired various companies to distribute its products that had distributed gaskets of other manufacturers prior to acquisition. The Company believes that many of its pending cases relate to locations at which none of its gaskets were distributed or used.

The Company may be subjected to significant additional asbestos-related claims in the future, the cost of settling cases in which product identification can be made may increase, and the Company may be subjected to further claims in respect of the former activities of its acquired gasket distributors. The Company is unable to make a meaningful statement concerning the monetary claims made in the asbestos cases given that, among other things, claims may be initially made in some jurisdictions without specifying the amount sought or by simply stating the requisite or maximum permissible monetary relief, and may be amended to alter the amount sought. The large majority of claims do not specify the amount sought. Of the 5,274 claims pending at June 30, 2017, 58 set forth specific amounts of damages (other than those stating the statutory minimum or maximum). At June 30, 2017, of the 58 claims that set forth specific amounts, there were no claims seeking specific amounts for punitive damages. Below is a breakdown of

the amount sought for those claims seeking specific amounts:

|   | Compensatory   |                |        |
|---|----------------|----------------|--------|
| Range of damages sought (dollars in millions) | \$0.0 to \$0.6 | \$0.6 to \$5.0 | \$5.0+ |
| Number of claims                              | —              | 16             | 42     |

In addition, relatively few of the claims have reached the discovery stage and even fewer claims have gone past the discovery stage.

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TRIMAS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Total settlement costs (exclusive of defense costs) for all such cases, some of which were filed over 20 years ago, have been approximately \$8.4 million. All relief sought in the asbestos cases is monetary in nature. To date, approximately 40% of the Company's costs related to settlement and defense of asbestos litigation have been covered by its primary insurance. Effective February 14, 2006, the Company entered into a coverage-in-place agreement with its first level excess carriers regarding the coverage to be provided to the Company for asbestos-related claims when the primary insurance is exhausted. The coverage-in-place agreement makes asbestos defense costs and indemnity insurance coverage available to the Company that might otherwise be disputed by the carriers and provides a methodology for the administration of such expenses. Nonetheless, the Company believes it is likely there will be a period within the next 12 months, prior to the commencement of coverage under this agreement and following exhaustion of the Company's primary insurance coverage, during which the Company will be solely responsible for defense costs and indemnity payments, the duration of which would be subject to the scope of damage awards and settlements paid. Based on the settlements made to date and the number of claims dismissed or withdrawn for lack of product identification, the Company believes that the relief sought (when specified) does not bear a reasonable relationship to its potential liability. Based upon the Company's experience to date, including the trend in annual defense and settlement costs incurred to date, and other available information (including the availability of excess insurance), the Company does not believe these cases will have a material adverse effect on its financial position and results of operations or cash flows.

Claims and Litigation

The Company is subject to other claims and litigation in the ordinary course of business, but does not believe that any such claim or litigation will have a material adverse effect on its financial position and results of operations or cash flows.

10. Segment Information

TriMas groups its operating segments into reportable segments that provide similar products and services. Each operating segment has discrete financial information evaluated regularly by the Company's chief operating decision maker in determining resource allocation and assessing performance. Within these reportable segments, there are no individual products or product families for which reported net sales accounted for more than 10% of the Company's consolidated net sales. See below for more information regarding the types of products and services provided within each reportable segment:

Packaging – Highly engineered closure and dispensing systems for a range of end markets, using steel and plastic within industrial and consumer packaging applications.

Aerospace – Permanent blind bolts, highly engineered specialty fasteners, temporary fasteners and other precision machined parts used in the commercial, business and military aerospace industries.

Energy – Metallic and non-metallic industrial sealant products and fasteners for the petroleum refining, petrochemical and other industrial markets.

Engineered Components – High-pressure and low-pressure steel cylinders for the transportation, storage and dispensing of compressed gases, and natural gas engines, compressors, gas production equipment and chemical pumps engineered for use at well sites for the oil and gas industry.

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## TRIMAS CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Segment activity is as follows (dollars in thousands):

|                         | Three months ended |           | Six months ended |           |
|-------------------------|--------------------|-----------|------------------|-----------|
|                         | June 30,<br>2017   | 2016      | June 30,<br>2017 | 2016      |
| Net Sales               |                    |           |                  |           |
| Packaging               | \$88,740           | \$88,110  | \$169,700        | \$168,220 |
| Aerospace               | 47,580             | 44,090    | 93,000           | 84,590    |
| Energy                  | 43,490             | 39,950    | 84,420           | 84,700    |
| Engineered Components   | 33,560             | 31,170    | 66,080           | 68,690    |
| Total                   | \$213,370          | \$203,320 | \$413,200        | \$406,200 |
| Operating Profit (Loss) |                    |           |                  |           |
| Packaging               | \$21,540           | \$21,410  | \$38,390         | \$39,250  |
| Aerospace               | 6,930              | 3,550     | 11,930           | 7,010     |
| Energy                  | 110                | (3,090)   | (3,790)          | (6,700)   |
| Engineered Components   | 4,710              | 3,860     | 9,690            | 9,440     |
| Corporate expenses      | (7,040)            | (7,070)   | (14,230)         | (13,890)  |
| Total                   | \$26,250           | \$18,660  | \$41,990         | \$35,110  |

## 11. Equity Awards

The Company maintains the following long-term equity incentive plans: the TriMas Corporation 2017 Equity and Incentive Compensation Plan, the TriMas Corporation Director Retainer Share Election Program, the 2011 TriMas Corporation Omnibus Incentive Compensation Plan and the TriMas Corporation 2006 Long Term Equity Incentive Plan (collectively, the "Plans"). The 2006 Long Term Equity Incentive Plan expired in 2016, such that, while existing grants will remain outstanding until exercised, vested or cancelled, no new shares may be issued under the plan. See below for details of awards under the Plans by type.

## Stock Options

The Company did not grant any stock option awards during the six months ended June 30, 2017. Information related to stock options at June 30, 2017 is as follows:

|                                | Number<br>of<br>Stock<br>Options | Weighted<br>Average<br>Option Price | Average Remaining Contractual Life (Years) | Aggregate<br>Intrinsic<br>Value |
|--------------------------------|----------------------------------|-------------------------------------|--|---------------------------------|
| Outstanding at January 1, 2017 | 206,854                          | \$ 13.19                            |  |                                 |
| Granted                        | —                                | —                                   |  |                                 |
| Exercised                      | —                                | —                                   |  |                                 |
| Cancelled                      | —                                | —                                   |  |                                 |
| Expired                        | —                                | —                                   |  |                                 |
| Outstanding at June 30, 2017   | 206,854                          | \$ 13.19                            | 7.1  | \$1,583,511                     |

As of June 30, 2017, 56,854 stock options outstanding were exercisable under the Plans. As of June 30, 2017, there was approximately \$0.5 million of unrecognized compensation cost related to stock options that is expected to be recorded over a weighted average period of 2.1 years.

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## TRIMAS CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The Company recognized approximately \$0.2 million and \$0.3 million of stock-based compensation related to stock options during the three and six months ended June 30, 2017, respectively, and no stock-based compensation during the three and six months ended June 30, 2016. The stock-based compensation expense is included in selling, general and administrative expenses in the accompanying consolidated statement of income.

**Restricted Shares**

The Company awarded the following restricted shares during the six months ended June 30, 2017:

granted 189,062 restricted shares of common stock to certain employees, which are subject only to a service condition and vest ratably over three years so long as the employee remains with the Company; and granted 30,429 restricted shares of common stock to its non-employee independent directors, which vest one year from date of grant so long as the director and/or Company does not terminate the director's service prior to the vesting date.

In addition, during the six months ended June 30, 2017, the Company issued 7,124 shares related to director fee deferrals. The Company allows for its non-employee independent directors to make an annual election to defer all or a portion of their directors fees and to receive the deferred amount in cash or equity. Certain of the Company's directors have elected to defer all or a portion of their directors fees and to receive the amount in Company common stock at a future date.

During the six months ended June 30, 2017, the Company awarded 111,761 performance-based shares of common stock to certain Company key employees which vest three years from the grant date so long as the employee remains with the Company. These awards are earned 50% based upon the Company's achievement of earnings per share compound annual growth rate ("EPS CAGR") metrics over a period beginning January 1, 2017 and ending December 31, 2019. The remaining 50% of the grants are earned based on the Company's total shareholder return ("TSR") relative to the TSR of the common stock of a pre-defined industry peer-group, measured over the performance period. TSR is calculated as the Company's average closing stock price for the 20-trading days at the end of the performance period plus Company dividends, divided by the Company's average closing stock price for the 20-trading days prior to the start of the performance period. The Company estimated the grant-date fair value and term of the awards subject to a market condition using a Monte Carlo simulation model, using the following weighted average assumptions: risk-free interest rate of 1.52% and annualized volatility of 35.6%. Depending on the performance achieved for these two metrics, the amount of shares earned can vary from 40% of the target award to a maximum of 200% of the target award for the EPS CAGR metric and 0% of the target award to a maximum of 200% of the target award for the TSR metric.

During 2015, the Company awarded performance-based shares of common stock to certain Company key employees which were earned based upon the Company's total TSR relative to the TSR of the common stock of a pre-defined industry peer-group and measured over a period beginning September 10, 2015 and ending on December 31, 2016. The Company attained 121.1% of the target on a weighted average basis, resulting in an increase of 12,718 shares during the six months ended June 30, 2017.

Information related to restricted shares at June 30, 2017 is as follows:

|                                | Number of<br>Unvested<br>Restricted<br>Shares | Weighted<br>Average<br>Grant<br>Date Fair<br>Value | Average Remaining Contractual Life (Years) | Aggregate<br>Intrinsic<br>Value |
|--------------------------------|---|--|--|---------------------------------|
| Outstanding at January 1, 2017 | 645,660                                       | \$ 20.45   |  |                                 |
| Granted                        | 351,094                                       | 24.99  |  |                                 |
| Vested                         | (236,198 )                                    | 20.41  |  |                                 |
| Cancelled                      | (11,757 )                                     | 20.94  |  |                                 |

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Outstanding at June 30, 2017    748,799    \$ 22.59    1.3    \$15,612,459

As of June 30, 2017, there was approximately \$9.3 million of unrecognized compensation cost related to unvested restricted shares that is expected to be recorded over a weighted average period of 2.3 years.

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## TRIMAS CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The Company recognized approximately \$1.7 million and \$2.2 million of stock-based compensation expense related to restricted shares during the three months ended June 30, 2017 and 2016, respectively, and approximately \$3.0 million and \$4.1 million during the six months ended June 30, 2017 and 2016, respectively. The stock-based compensation expense is included in selling, general and administrative expenses in the accompanying consolidated statement of income.

## 12. Earnings per Share

Net income is divided by the weighted average number of common shares outstanding during the period to calculate basic earnings per share. Diluted earnings per share is calculated to give effect to stock options and restricted share awards. The following table summarizes the dilutive effect of restricted shares and options to purchase common stock for the three and six months ended June 30, 2017 and 2016:

|  | Three months ended<br>June 30, |            | Six months ended<br>June 30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  | 2017                           | 2016       | 2017                         | 2016       |
| Weighted average common shares—basic       | 45,717,697                     | 45,429,851 | 45,644,096                   | 45,354,421 |
| Dilutive effect of restricted share awards | 162,153                        | 215,881    | 222,996                      | 251,035    |
| Dilutive effect of stock options           | 42,566                         | 80,616     | 48,595                       | 85,126     |
| Weighted average common shares—diluted     | 45,922,416                     | 45,726,348 | 45,915,687                   | 45,690,582 |

## 13. Defined Benefit Plans

Net periodic pension benefit costs for the Company's defined benefit pension plans cover certain foreign employees, union hourly employees and salaried employees. The components of net periodic pension cost for the three and six months ended June 30, 2017 and 2016 are as follows (dollars in thousands):

|                                | Pension Plans                     |       |                                 |       |
|--------------------------------|-----------------------------------|-------|---------------------------------|-------|
|                                | Three months<br>ended<br>June 30, |       | Six months<br>ended<br>June 30, |       |
|                                | 2017                              | 2016  | 2017                            | 2016  |
| Service costs                  | \$270                             | \$240 | \$550                           | \$490 |
| Interest costs                 | 320                               | 390   | 640                             | 790   |
| Expected return on plan assets | (360)                             | (420) | (730)                           | (840) |
| Amortization of net loss       | 250                               | 250   | 500                             | 480   |
| Net periodic benefit cost      | \$480                             | \$460 | \$960                           | \$920 |

The Company contributed approximately \$0.8 million and \$1.1 million to its defined benefit pension plans during the three and six months ended June 30, 2017, respectively. The Company expects to contribute approximately \$3.1 million to its defined benefit pension plans for the full year 2017.

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## TRIMAS CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

## 14. Other Comprehensive Income (Loss)

Changes in AOCI by component for the six months ended June 30, 2017 are summarized as follows, net of tax (dollars in thousands):

|  | Defined<br>Benefit<br>Plans | Derivative<br>Instruments | Foreign<br>Currency<br>Translation | Total      |
|--|-----------------------------|---------------------------|------------------------------------|------------|
| Balance, December 31, 2016   | \$(12,120)                  | \$ (2,520 )               | \$ (9,760 )                        | \$(24,400) |
| Net unrealized gains (losses) arising during the period <sup>(a)</sup> | —                           | (230 )                    | 3,730                              | 3,500      |
| Less: Net realized losses reclassified to net income <sup>(b)</sup>    | (330 )                      | (210 )                    | —                                  | (540 )     |
| Net current-period other comprehensive income (loss)                   | 330                         | (20 )                     | 3,730                              | 4,040      |
| Balance, June 30, 2017   | \$(11,790)                  | \$ (2,540 )               | \$ (6,030 )                        | \$(20,360) |

<sup>(a)</sup> Derivative instruments, net of income tax of approximately \$0.1 million. See Note 8, "Derivative Instruments," for further details.

<sup>(b)</sup> Defined benefit plans, net of income tax of approximately \$0.1 million. See Note 13, "Defined Benefit Plans," for further details. Derivative instruments, net of income tax of approximately \$0.1 million. See Note 8, "Derivative Instruments," for further details.

Changes in AOCI by component for the six months ended June 30, 2016 are summarized as follows, net of tax (dollars in thousands):

|   | Defined<br>Benefit<br>Plans | Derivative<br>Instruments | Foreign<br>Currency<br>Translation | Total      |
|---|-----------------------------|---------------------------|------------------------------------|------------|
| Balance, December 31, 2015  | \$(12,370)                  | \$ (1,790 )               | \$ 2,860                           | \$(11,300) |
| Net unrealized losses arising during the period <sup>(a)</sup>      | —                           | (4,420 )                  | (6,740 )                           | (11,160 )  |
| Less: Net realized losses reclassified to net income <sup>(b)</sup> | (300 )                      | (130 )                    | —                                  | (430 )     |
| Net current-period other comprehensive income (loss)                | 300                         | (4,290 )                  | (6,740 )                           | (10,730 )  |
| Balance, June 30, 2016  | \$(12,070)                  | \$ (6,080 )               | \$ (3,880 )                        | \$(22,030) |

<sup>(a)</sup> Derivative instruments, net of income tax of approximately \$2.7 million. See Note 8, "Derivative Instruments," for further details.

<sup>(b)</sup> Defined benefit plans, net of income tax of approximately \$0.1 million. See Note 13, "Defined Benefit Plans," for further details. Derivative instruments, net of income tax of approximately \$0.1 million. See Note 8, "Derivative Instruments," for further details.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition contains forward-looking statements regarding industry outlook and our expectations regarding the performance of our business. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described under the heading "Forward-Looking Statements," at the beginning of this report. Our actual results may differ materially from those contained in or implied by any forward-looking statements. You should read the following discussion together with the Company's reports on file with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the year ended December 31, 2016.

Introduction

We are a global manufacturer and distributor of products for commercial, industrial and consumer markets. We are principally engaged in four reportable segments: Packaging, Aerospace, Energy and Engineered Components. Key Factors and Risks Affecting Our Reported Results. Our businesses and results of operations depend upon general economic conditions and we serve some customers in cyclical industries that are highly competitive and are themselves significantly impacted by changes in economic conditions. There has been low overall economic growth, particularly in the United States, and global economic conditions have been relatively stable over the past couple of years.

The most significant external factor impacting us recently is the impact of lower oil prices, which began to decline in the fourth quarter of 2014, and since have remained at low levels. This decline has most directly impacted the Arrow Engine business, which serves the upstream oil and natural gas markets at the well site, within our Engineered Components reportable segment. Arrow Engine has experienced a more than 75% decline in net sales from pre-2015 levels as a result of the low oil-related activity and end-market demand. Net sales were slightly higher in the first half of 2017 compared with the first half of 2016. While oil prices have fluctuated in recent months, they remain at low levels. We expect net sales to remain at a low level compared with historical levels until the price of oil increases and remains higher over a sustained period where our customers decide to increase their activity levels and related well-site investments. In response to the reduced demand, Arrow Engine has lowered its cost structure over the past two years to align with current demand levels, and allowed it to attain approximately break-even operating profit during full year 2016 and the first half of 2017.

Lower oil prices have also impacted our Energy reportable segment. Historically, a portion of this business has served the upstream market, in addition to primarily serving petrochemical facilities and oil refineries in the downstream oil and gas markets. There have been minimal upstream sales in our Energy reportable segment over the past 18 to 24 months. In addition to the impact of lower oil prices, there has been a shift over the past few years in our Energy reportable segment from historical demand and activity, both in the United States and internationally. Petrochemical plants and refinery customers deferred shutdown activity, and we experienced decreases in engineering and construction ("E&C") customer activity. Our sales and margin levels over this period have declined significantly due to the mix of product sales and inefficiencies that resulted from the shift in activity levels. The current lower oil prices have continued to place further pressure on the top-line and predictability of customer order patterns. Given these factors, we have been realigning the business and its fixed cost structure with the current business environment, aggressively closing and consolidating facilities and seeking alternate lower-cost sources for input costs, including exits of our Wolverhampton, United Kingdom and Reynosa, Mexico facilities announced during the first quarter of 2017. We are now realizing the benefit of the cost savings and operational efficiencies associated with leveraging the new lower fixed cost structure and other initiatives, as evidenced by our improvement in operating profit. We will continue to evaluate the cost structure and physical footprint of the business.

The other significant external factor impacting our financial results over the past two years is supply chain disruption within our Aerospace reportable segment. In 2015 and 2016, our two largest Aerospace distribution customers reduced their investment in on-hand inventory levels of fastener products, and their purchases of our products. This trend has moderated in the first half of 2017, as year-over-year sales are higher to these customers. While this has impacted our net sales, it also had a significant impact on prior year margin levels, as certain of these products historically commanded higher profit margins. In addition to the impact of distribution customer sales, in the first half

of 2016, we also experienced lower sales, and significantly lower profit margins, as a result of production and scheduling challenges in one of our Aerospace fastener facilities, significantly lower fixed cost absorption and inefficiencies as we adjusted to the changing demand levels, and integration costs associated with our machined components facility acquisition. We established plans to address these matters, and have been executing against those plans, as evidenced by improved operating profit margins in the first half of 2017 compared to the first half of 2016, as well as on a sequential basis from the first quarter of 2017 to the second quarter of 2017.

Each year, our businesses target cost savings from continuous improvement and productivity initiatives in an effort to lower input costs or improve throughput and yield rates with a goal of at least covering inflationary and market cost increases. In addition, we continuously review our costs to ensure alignment between current demand and cost structure.

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Critical factors affecting our ability to succeed include: our ability to create organic growth through product development, cross selling and extending product-line offerings, and our ability to quickly and cost-effectively introduce new products; our ability to acquire and integrate companies or products that supplement existing product lines, add new distribution channels, expand our geographic coverage or enable better absorption of overhead costs; our ability to manage our cost structure more efficiently via supply base management, internal sourcing and/or purchasing of materials, selective outsourcing and/or purchasing of support functions, working capital management, and greater leverage of our administrative functions. If we are unable to do any of the foregoing successfully, our financial condition and results of operations could be materially and adversely impacted.

Our business does not experience significant seasonal fluctuation, other than our fourth quarter, which has tended to be the lowest net sales quarter of the year given holiday shutdowns in certain customers or other customers deferring capital spending to the new year. We do not consider sales order backlog to be a material factor in our business. A growing portion of our sales is derived from international sources, which exposes us to certain risks, including currency risks.

We are sensitive to price movements in our raw materials supply base. Our largest material purchases are for steel, aluminum, polyethylene and other resins and utility-related inputs. Historically, we have experienced volatility in costs of steel and resin and have worked with our suppliers to manage costs and disruptions in supply. We also utilize pricing programs to pass increased steel, aluminum and resin costs to customers. Although we may experience delays in our ability to implement price increases, we have been generally able to recover such increased costs. We may experience disruptions in supply in the future and may not be able to pass along higher costs associated with such disruptions to our customers in the form of price increases.

Certain of our businesses are sensitive to oil price movements. As noted earlier, our Arrow Engine business is most directly impacted by significant volatility in oil prices. Arrow Engine's pumpjack and other engine sales and related parts, which comprise a significant portion of the business, are impacted by oil and gas drilling levels, rig counts, well completion activities and commodity pricing. In addition, a portion of our Energy reportable segment serves upstream customers at oil well sites that have been impacted by lower oil prices. The majority of this segment provides parts for refineries and chemical plants, which may or may not decide to incur capital expenditures for preventive maintenance or capacity expansion activities, both of which require use of our gaskets and bolts, in times of fluctuating oil prices. Our Packaging reportable segment may be impacted by oil prices, as it is a significant driver of resin pricing, although we generally are able to maintain profit levels when oil prices change due to escalator/de-escalator clauses in contracts with many of our customers.

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## Segment Information and Supplemental Analysis

The following table summarizes financial information for our reportable segments for the three months ended June 30, 2017 and 2016 (dollars in thousands):

|  | Three months ended June 30, |                                       |   |           |                                       |   |
|--|-----------------------------|---------------------------------------|---|-----------|---------------------------------------|---|
|  | 2017                        | As a<br>Percentage<br>of Net<br>Sales |   | 2016      | As a<br>Percentage<br>of Net<br>Sales |   |
| Net Sales                                    |                             |                                       |   |           |                                       |   |
| Packaging                                    | \$88,740                    | 41.6                                  | % | \$88,110  | 43.3                                  | % |
| Aerospace                                    | 47,580                      | 22.3                                  | % | 44,090    | 21.7                                  | % |
| Energy                                       | 43,490                      | 20.4                                  | % | 39,950    | 19.7                                  | % |
| Engineered Components                        | 33,560                      | 15.7                                  | % | 31,170    | 15.3                                  | % |
| Total  | \$213,370                   | 100.0                                 | % | \$203,320 | 100.0                                 | % |
| Gross Profit                                 |                             |                                       |   |           |                                       |   |
| Packaging                                    | \$32,230                    | 36.3                                  | % | \$31,250  | 35.5                                  | % |
| Aerospace                                    | 12,350                      | 26.0                                  | % | 10,020    | 22.7                                  | % |
| Energy                                       | 7,990                       | 18.4                                  | % | 9,400     | 23.5                                  | % |
| Engineered Components                        | 6,840                       | 20.4                                  | % | 6,410     | 20.6                                  | % |
| Total  | \$59,410                    | 27.8                                  | % | \$57,080  | 28.1                                  | % |
| Selling, General and Administrative Expenses |                             |                                       |   |           |                                       |   |
| Packaging                                    | \$10,690                    | 12.0                                  | % | \$9,840   | 11.2                                  | % |
| Aerospace                                    | 5,420                       | 11.4                                  | % | 6,470     | 14.7                                  | % |
| Energy                                       | 7,880                       | 18.1                                  | % | 12,490    | 31.3                                  | % |
| Engineered Components                        | 2,130                       | 6.3                                   | % | 2,550     | 8.2                                   | % |
| Corporate expenses                           | 7,040                       | N/A                                   |   | 7,070     | N/A                                   |   |
| Total  | \$33,160                    | 15.5                                  | % | \$38,420  | 18.9                                  | % |
| Operating Profit (Loss)                      |                             |                                       |   |           |                                       |   |
| Packaging                                    | \$21,540                    | 24.3                                  | % | \$21,410  | 24.3                                  | % |
| Aerospace                                    | 6,930                       | 14.6                                  | % | 3,550     | 8.1                                   | % |
| Energy                                       | 110                         | 0.3                                   | % | (3,090)   | (7.7)                                 | % |
| Engineered Components                        | 4,710                       | 14.0                                  | % | 3,860     | 12.4                                  | % |
| Corporate expenses                           | (7,040)                     | N/A                                   |   | (7,070)   | N/A                                   |   |
| Total  | \$26,250                    | 12.3                                  | % | \$18,660  | 9.2                                   | % |
| Depreciation and Amortization                |                             |                                       |   |           |                                       |   |
| Packaging                                    | \$5,600                     | 6.3                                   | % | \$5,310   | 6.0                                   | % |
| Aerospace                                    | 3,630                       | 7.6                                   | % | 3,510     | 8.0                                   | % |
| Energy                                       | 2,010                       | 4.6                                   | % | 1,170     | 2.9                                   | % |
| Engineered Components                        | 940                         | 2.8                                   | % | 1,060     | 3.4                                   | % |
| Corporate expenses                           | 70                          | N/A                                   |   | 80        | N/A                                   |   |
| Total  | \$12,250                    | 5.7                                   | % | \$11,130  | 5.5                                   | % |

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The following table summarizes financial information for our reportable segments for the six months ended June 30, 2017 and 2016 (dollars in thousands):

|  | Six months ended June 30, |                                       |   |            |                                       |   |
|--|---------------------------|---------------------------------------|---|------------|---------------------------------------|---|
|  | 2017                      | As a<br>Percentage<br>of Net<br>Sales |   | 2016       | As a<br>Percentage<br>of Net<br>Sales |   |
| Net Sales                                    |                           |                                       |   |            |                                       |   |
| Packaging                                    | \$ 169,700                | 41.1                                  | % | \$ 168,220 | 41.4                                  | % |
| Aerospace                                    | 93,000                    | 22.5                                  | % | 84,590     | 20.8                                  | % |
| Energy                                       | 84,420                    | 20.4                                  | % | 84,700     | 20.9                                  | % |
| Engineered Components                        | 66,080                    | 16.0                                  | % | 68,690     | 16.9                                  | % |
| Total  | \$ 413,200                | 100.0                                 | % | \$ 406,200 | 100.0                                 | % |
| Gross Profit                                 |                           |                                       |   |            |                                       |   |
| Packaging                                    | \$ 57,890                 | 34.1                                  | % | \$ 60,120  | 35.7                                  | % |
| Aerospace                                    | 23,090                    | 24.8                                  | % | 19,650     | 23.2                                  | % |
| Energy                                       | 16,510                    | 19.6                                  | % | 18,800     | 22.2                                  | % |
| Engineered Components                        | 13,680                    | 20.7                                  | % | 14,430     | 21.0                                  | % |
| Total  | \$ 111,170                | 26.9                                  | % | \$ 113,000 | 27.8                                  | % |
| Selling, General and Administrative Expenses |                           |                                       |   |            |                                       |   |
| Packaging                                    | \$ 19,500                 | 11.5                                  | % | \$ 20,870  | 12.4                                  | % |
| Aerospace                                    | 11,160                    | 12.0                                  | % | 12,640     | 14.9                                  | % |
| Energy                                       | 20,300                    | 24.0                                  | % | 25,500     | 30.1                                  | % |
| Engineered Components                        | 3,990                     | 6.0                                   | % | 4,990      | 7.3                                   | % |
| Corporate expenses                           | 14,230                    | N/A                                   |   | 13,890     | N/A                                   |   |
| Total  | \$ 69,180                 | 16.7                                  | % | \$ 77,890  | 19.2                                  | % |
| Operating Profit (Loss)                      |                           |                                       |   |            |                                       |   |
| Packaging                                    | \$ 38,390                 | 22.6                                  | % | \$ 39,250  | 23.3                                  | % |
| Aerospace                                    | 11,930                    | 12.8                                  | % | 7,010      | 8.3                                   | % |
| Energy                                       | (3,790 )                  | (4.5 )                                | % | (6,700 )   | (7.9 )                                | % |
| Engineered Components                        | 9,690                     | 14.7                                  | % | 9,440      | 13.7                                  | % |
| Corporate expenses                           | (14,230 )                 | N/A                                   |   | (13,890 )  | N/A                                   |   |
| Total  | \$ 41,990                 | 10.2                                  | % | \$ 35,110  | 8.6                                   | % |
| Depreciation and Amortization                |                           |                                       |   |            |                                       |   |
| Packaging                                    | \$ 10,870                 | 6.4                                   | % | \$ 10,610  | 6.3                                   | % |
| Aerospace                                    | 7,230                     | 7.8                                   | % | 6,960      | 8.2                                   | % |
| Energy                                       | 2,950                     | 3.5                                   | % | 2,350      | 2.8                                   | % |
| Engineered Components                        | 1,860                     | 2.8                                   | % | 2,080      | 3.0                                   | % |
| Corporate expenses                           | 130                       | N/A                                   |   | 170        | N/A                                   |   |
| Total  | \$ 23,040                 | 5.6                                   | % | \$ 22,170  | 5.5                                   | % |

## Results of Operations

The principal factors impacting us during the three months ended June 30, 2017, compared with the three months ended June 30, 2016, were:

- the impact of improved throughput and productivity in our Aerospace reportable segment, enabling this segment to achieve higher sales levels in the three months ended June 30, 2017;
- the costs associated with exiting the facility in Reynosa, Mexico within our Energy reportable segment, under which we incurred approximately \$2.7 million of charges in the three months ended June 30, 2017;
-

the impact of continued low oil prices, primarily impacting sales and profit levels in our Engineered Components reportable segment; and  
the impact of a stronger U.S. dollar, primarily in our Packaging reportable segment.



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## Three Months Ended June 30, 2017 Compared with Three Months Ended June 30, 2016

Overall, net sales increased approximately \$10.1 million, or 4.9%, to \$213.4 million for the three months ended June 30, 2017, as compared with \$203.3 million in the three months ended June 30, 2016. Our Energy and Engineered Components reportable segments had a combined sales increase of approximately \$6.0 million, primarily as a result of increased customer demand and some market stabilization despite continued low oil prices. Sales within our Aerospace reportable segment increased approximately \$3.5 million, primarily due to increases in sales to distribution customers. In addition, excluding the effects of foreign currency exchange, sales within our Packaging reportable segment increased by approximately \$2.1 million primarily due to increased demand for our health, beauty and home care products in Europe and Asia, as well as increased demand for our food and beverage products. These increases were partially offset by approximately \$1.6 million of net unfavorable currency exchange, primarily in our Packaging reportable segment, as our reported results in U.S. dollars were negatively impacted as a result of the stronger U.S. dollar relative to foreign currencies.

Gross profit margin (gross profit as a percentage of sales) approximated 27.8% and 28.1% for the three months ended June 30, 2017 and 2016, respectively. Gross profit margin decreased primarily due to costs associated with exiting our facility in Reynosa, Mexico within our Energy reportable segment, partially offset by increased gross profit margin within our Aerospace reportable segment as a result of recent initiatives to improve production scheduling and manufacturing efficiencies. In addition, gross profit was impacted by approximately \$0.9 million of unfavorable currency exchange, as our reported results in U.S. dollars were negatively impacted as a result of the stronger U.S. dollar relative to foreign currencies.

Operating profit margin (operating profit as a percentage of sales) approximated 12.3% and 9.2% for the three months ended June 30, 2017 and 2016, respectively. Operating profit increased approximately \$7.6 million, or 40.7%, to \$26.3 million for the three months ended June 30, 2017, from \$18.7 million for the three months ended June 30, 2016. Operating profit and margin increased due to higher sales levels across all of our reportable segments, our initiatives to improve production scheduling and manufacturing efficiencies, primarily in our Aerospace reportable segment, and our footprint realignment activities within our Energy reportable segment.

Interest expense increased approximately \$0.1 million, to \$3.4 million for the three months ended June 30, 2017, as compared to \$3.3 million for the three months ended June 30, 2016. Our weighted average variable rate borrowings decreased to approximately \$394.0 million in the three months ended June 30, 2017, from approximately \$463.6 million in the three months ended June 30, 2016. The effective weighted average interest rate on our outstanding variable rate borrowings, including our credit agreement ("Credit Agreement") and accounts receivable facilities, increased to approximately 2.5% for three months ended June 30, 2017, from approximately 2.0% for the three months ended June 30, 2016.

Other income, net was approximately \$0.1 million for the three months ended June 30, 2017 and 2016, respectively, primarily due to gains on transactions denominated in foreign currencies partially offset by costs attributed to a reduction of certain indemnification assets related to uncertain tax liabilities.

The effective income tax rates for the three months ended June 30, 2017 and 2016 were 35.0% and 32.3%, respectively. The increase in the rate was primarily a result of losses at certain foreign subsidiaries where no tax benefit could be recorded, the year-over-year impact of recognizing certain tax benefits due to a lapse of a statutory limitation in the second quarter of 2016, and discrete tax expense recognized in the three months ended June 30, 2017. Net income increased by approximately \$4.4 million, to \$14.9 million for the three months ended June 30, 2017, compared to \$10.5 million for the three months ended June 30, 2016. The increase was primarily the result of a \$7.6 million increase in operating profit, partially offset by a \$3.0 million increase in income tax expense and a \$0.1 million increase in interest expense.

See below for a discussion of operating results by segment.

**Packaging.** Net sales increased approximately \$0.6 million, or 0.7%, to \$88.7 million in the three months ended June 30, 2017, as compared to \$88.1 million in the three months ended June 30, 2016. Sales of our health, beauty and home care products increased approximately \$1.3 million primarily due to higher demand in Europe and Asia. Additionally, sales of our food and beverage products increased approximately \$0.7 million and sales of our industrial closures increased approximately \$0.1 million. These increases were partially offset by approximately \$1.5 million of

unfavorable currency exchange, as our reported results in U.S. dollars were negatively impacted as a result of the stronger U.S. dollar relative to foreign currencies.

Packaging's gross profit increased approximately \$1.0 million to \$32.2 million, or 36.3% of sales, in the three months ended June 30, 2017, as compared to \$31.3 million, or 35.5% of sales, in the three months ended June 30, 2016.

Increases in gross profit due to the higher sales levels and lower material costs were partially offset by approximately \$0.9 million of unfavorable currency exchange, as our reported results in U.S. dollars were negatively impacted as a result of the stronger U.S. dollar relative to foreign currencies.

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Packaging's selling, general and administrative expenses increased approximately \$0.9 million to \$10.7 million, or 12.0% of sales, in the three months ended June 30, 2017, as compared to \$9.8 million, or 11.2% of sales, in the three months ended June 30, 2016, primarily due to an approximate \$1.1 million charge to reserve an outstanding accounts receivable amount for a European customer who filed for bankruptcy.

Packaging's operating profit increased approximately \$0.1 million to \$21.5 million, or 24.3% of sales, in the three months ended June 30, 2017, as compared to \$21.4 million, or 24.3% of sales, in the three months ended June 30, 2016, as the profit earned on higher sales levels and lower material costs was offset by a bad debt provision recorded in the second quarter of 2017 and approximately \$0.6 million of unfavorable currency exchange.

Aerospace. Net sales for the three months ended June 30, 2017 increased approximately \$3.5 million, or 7.9%, to \$47.6 million, as compared to \$44.1 million in the three months ended June 30, 2016. This segment continues to improve its production scheduling and manufacturing efficiencies, which enabled it to increase daily production rates and ship higher levels of net sales in 2017 as compared to 2016. Sales to our distribution customers increased approximately \$3.4 million, while sales to OE customers increased approximately \$0.1 million.

Gross profit within Aerospace increased approximately \$2.4 million to \$12.4 million, or 26.0% of sales, in the three months ended June 30, 2017, from \$10.0 million, or 22.7% of sales, in the three months ended June 30, 2016, primarily as a result of higher sales levels. In addition, in the second quarter of 2016, we incurred approximately \$1.0 million of additional costs to improve our manufacturing throughput, which did not recur in the second quarter of 2017.

Selling, general and administrative expenses decreased approximately \$1.1 million to \$5.4 million, or 11.4% of sales, in the three months ended June 30, 2017, as compared to \$6.5 million, or 14.7% of sales, in the three months ended June 30, 2016, primarily due to approximately \$0.6 million of lower estimated uncollectable accounts receivable expenses as a result of collection of previously reserved customer balances, as well as decreased spending in certain administrative support costs.

Operating profit within Aerospace increased approximately \$3.3 million to \$6.9 million, or 14.6% of sales, in the three months ended June 30, 2017, as compared to \$3.6 million, or 8.1% of sales, in the three months ended June 30, 2016. Operating profit improved primarily as a result of higher sales levels and continued improvement in production scheduling and manufacturing efficiencies, as well as lower selling, general and administrative expenses.

Energy. Net sales for the three months ended June 30, 2017 increased approximately \$3.5 million, or 8.9%, to \$43.5 million, as compared to \$40.0 million in the three months ended June 30, 2016. Sales increased by approximately \$5.2 million in North America, primarily due to increased customer demand and increasing our share of current year turnaround activity. The increase was partially offset by a decrease in net sales of approximately \$1.7 million in Europe, primarily due to exiting our facility in Wolverhampton, United Kingdom.

Gross profit within Energy decreased approximately \$1.4 million to \$8.0 million, or 18.4% of sales, in the three months ended June 30, 2017, as compared to \$9.4 million, or 23.5% of sales, in the three months ended June 30, 2016. During the second quarter of 2017, we incurred approximately \$2.7 million of costs associated with exiting our facility in Reynosa, Mexico, which included approximately \$1.5 million for estimated future unrecoverable lease obligations, net of estimated sublease recoveries, for the lease that expires in 2025, and approximately \$1.2 million of charges related to accelerated depreciation expense as a result of shortening the expected lives on certain machinery, equipment and leasehold improvement assets that the Company no longer used following the facility closure. The decrease was partially offset by an increase in gross profit in North America due to higher sales levels, savings achieved from ongoing footprint realignment initiatives and improvements in manufacturing efficiencies within our Houston, Texas manufacturing facility.

Selling, general and administrative expenses within Energy decreased approximately \$4.6 million to \$7.9 million, or 18.1% of sales, in the three months ended June 30, 2017, as compared to \$12.5 million, or 31.3% of sales, in the three months ended June 30, 2016. Selling, general and administrative expenses decreased by approximately \$3.0 million as a result of lower costs related to previously closed facilities in the second quarter of 2017 as compared with the second quarter of 2016, and by approximately \$0.3 million as a result of lower third-party professional fees. The remaining \$1.3 million decrease was primarily due to lower ongoing costs associated with the Company's current footprint following completion of significant realignment activities.

Operating profit within Energy increased approximately \$3.2 million to approximately \$0.1 million of profit, or 0.3% of sales, in the three months ended June 30, 2017, as compared to a loss of \$3.1 million, or 7.7% of sales, in the three months ended June 30, 2016, as a result of lower selling, general and administrative expenses related to prior footprint realignment activities, higher sales levels and improved manufacturing efficiencies, which more than offset the costs incurred associated with the closure of our Reynosa Mexico facility in the second quarter of 2017.

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Engineered Components. Net sales for the three months ended June 30, 2017 increased approximately \$2.4 million, or 7.7%, to \$33.6 million, as compared to \$31.2 million in the three months ended June 30, 2016. Sales of our engines and compression-related products increased by approximately \$1.7 million, as we experienced improved demand levels compared with prior year consistent with drilling activity in the United States and Canada and continued stabilization of oil prices. Sales of our industrial cylinders increased by approximately \$0.7 million, primarily due to increased demand for large high pressure gas cylinders in industrial applications.

Gross profit within Engineered Components increased approximately \$0.4 million to \$6.8 million, or 20.4% of sales, in the three months ended June 30, 2017, from \$6.4 million, or 20.6% of sales, in the three months ended June 30, 2016. Gross profit and related margin increased primarily as a result of higher sales levels and fixed cost leverage related to sales of oil-field engines and compression-related products.

Selling, general and administrative expenses decreased approximately \$0.5 million to \$2.1 million, or 6.3% of sales, in the three months ended June 30, 2017, as compared to \$2.6 million, or 8.2% of sales, in the three months ended June 30, 2016 primarily due to lowering our ongoing operating costs consistent with lower than historical demand levels.

Operating profit within Engineered Components increased approximately \$0.8 million to \$4.7 million, or 14.0% of sales, in the three months ended June 30, 2017, as compared to \$3.9 million, or 12.4% of sales, in the three months ended June 30, 2016. Operating profit increased primarily due to higher sales levels, while operating profit margin as a percentage of sales improved as a result of cost reduction actions taken to better align our cost structure with demand levels.

Corporate Expenses. Corporate expenses consist of the following (dollars in millions):

|                                     | Three<br>months<br>ended<br>June 30, |       |
|-------------------------------------|--------------------------------------|-------|
|                                     | 2017                                 | 2016  |
| Corporate operating expenses        | \$2.3                                | \$2.5 |
| Employee costs and related benefits | 4.7                                  | 4.6   |
| Corporate expenses                  | \$7.0                                | \$7.1 |

Corporate expenses decreased approximately \$0.1 million to \$7.0 million for the three months ended June 30, 2017, from \$7.1 million for the three months ended June 30, 2016. Corporate operating expenses decreased approximately \$0.2 million, partially offset by an increase in employee costs and related benefits of approximately \$0.1 million, primarily due to an increase in expense related to the timing and estimated attainment of our incentive compensation plans.

#### Six Months Ended June 30, 2017 Compared with Six Months Ended June 30, 2016

Overall, net sales increased approximately \$7.0 million, or 1.7%, to \$413.2 million for the six months ended June 30, 2017, as compared with \$406.2 million in the six months ended June 30, 2016. Sales within our Aerospace reportable segment increased approximately \$8.4 million, with increases in sales to distribution and OE customers, as a result of improved manufacturing throughput. In addition, excluding the effects of foreign currency exchange, sales within our Packaging reportable segment increased by approximately \$4.8 million primarily due to increased demand for our industrial closures in North America and Europe and for our health, beauty and home care products in Europe and Asia. These increases were partially offset by the year-over-year decrease of approximately \$2.6 million in our Engineered Components reportable segment, primarily as a result of industrial cylinder customers' consolidations. Our sales were also impacted by approximately \$3.5 million of net unfavorable currency exchange, primarily in our Packaging reportable segment, as our reported results in U.S. dollars were negatively impacted as a result of the stronger U.S. dollar relative to foreign currencies.

Gross profit margin (gross profit as a percentage of sales) approximated 26.9% and 27.8% for the six months ended June 30, 2017 and 2016, respectively. Gross profit margin decreased primarily due to costs associated with the consolidation of manufacturing facilities in India and to finalize the move to a new Mexico facility, both within our

Packaging reportable segment, as well as costs associated with the closure of the Reynosa, Mexico facility within our Energy reportable segment. In addition, gross profit decreased compared to the prior year period by approximately \$1.7 million as a result of unfavorable currency exchange, as our reported results in U.S. dollars were negatively impacted as a result of the stronger U.S. dollar relative to foreign currencies. These decreases were partially offset by improved manufacturing efficiency levels and reduced manufacturing spend, primarily within our Aerospace reportable segment.

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Operating profit margin (operating profit as a percentage of sales) approximated 10.2% and 8.6% for the six months ended June 30, 2017 and 2016, respectively. Operating profit increased approximately \$6.9 million, or 19.6%, to \$42.0 million for the six months ended June 30, 2017, compared to \$35.1 million for the six months ended June 30, 2016. Operating profit and margin increased as a result of higher sales levels in our Aerospace and Packaging reportable segments, our productivity initiatives to improve scheduling and throughput, particularly in our Aerospace reportable segment, and our footprint realignment activities within our Energy reportable segment. These factors were partially offset by the costs incurred in the first half of 2017 associated with footprint consolidation and relocation projects within our Packaging and Energy reportable segments.

Interest expense increased approximately \$0.2 million, to \$7.0 million, for the six months ended June 30, 2017, as compared to \$6.8 million for the six months ended June 30, 2016. The increase in interest expense was primarily due to an increase in our interest rates, which more than offset lower average borrowings. Our weighted average variable rate borrowings decreased to approximately \$404.0 million in the six months ended June 30, 2017, from approximately \$469.2 million in the six months ended June 30, 2016. However, the effective weighted average interest rate on our outstanding variable rate borrowings, including our Credit Agreement and accounts receivable facilities, increased to approximately 2.6% for the six months ended June 30, 2017, from approximately 2.0% for the six months ended June 30, 2016.

Other income (expense), net increased approximately \$0.7 million, to \$0.6 million of other expense, net for the six months ended June 30, 2017, from \$0.1 million of other income, net for the six months ended June 30, 2016, primarily due to an increase in losses on transactions denominated in foreign currencies.

The effective income tax rates for the six months ended June 30, 2017 and 2016 were 36.6% and 33.9%, respectively. The increase in the rate was primarily a result of losses at certain foreign subsidiaries where no tax benefit could be recorded, the year-over-year impact of recognizing certain tax benefits due to a lapse of a statutory limitation in the first six months of 2016, and a change in the Company's indefinite reinvestment assertion in undistributed foreign earnings in two of its foreign subsidiaries. These increases were partially offset by a discrete tax benefit related to stock compensation recognized in the six months ended June 30, 2017.

Net income from continuing operations increased by approximately \$3.0 million, to \$21.8 million for the six months ended June 30, 2017, compared to \$18.8 million for the six months ended June 30, 2016. The increase was primarily the result of a \$6.9 million increase in operating profit, partially offset by a \$3.0 million increase in income tax expense, a \$0.7 million increase in other expense, net and a \$0.2 million increase in interest expense.

See below for a discussion of operating results by segment.

**Packaging.** Net sales increased approximately \$1.5 million, or 0.9%, to \$169.7 million in the six months ended June 30, 2017, as compared to \$168.2 million in the six months ended June 30, 2016. Sales of our health, beauty and home care products increased approximately \$2.5 million primarily due to higher demand in Europe and Asia. Sales of our industrial closures increased approximately \$1.5 million due to higher demand in North America and Europe. Additionally, sales of our food and beverage products increased approximately \$0.8 million. These increases were partially offset by approximately \$3.3 million of unfavorable currency exchange, as our reported results in U.S. dollars were negatively impacted as a result of the stronger U.S. dollar relative to foreign currencies.

Packaging's gross profit decreased approximately \$2.2 million to \$57.9 million, or 34.1% of sales, in the six months ended June 30, 2017, as compared to \$60.1 million, or 35.7% of sales, in the six months ended June 30, 2016.

Although sales levels increased, gross profit decreased due to approximately \$1.4 million of costs to consolidate manufacturing facilities in India and to finalize the move to a new facility in Mexico in the first quarter of 2017. In addition, gross profit declined due to approximately \$1.7 million of unfavorable currency exchange, as our reported results in U.S. dollars were negatively impacted as a result of the stronger U.S. dollar relative to foreign currencies. Packaging's selling, general and administrative expenses decreased approximately \$1.4 million to \$19.5 million, or 11.5% of sales, in the six months ended June 30, 2017, as compared to \$20.9 million, or 12.4% of sales, in the six months ended June 30, 2016. The decrease was primarily due to higher costs incurred in the first quarter of 2016 in connection with re-organizing our go-to-market strategy based on global product categories, as well as generally lower go-forward spending levels resulting from this reorganization. The decrease was partially offset by an approximate \$1.1 million charge recorded in the second quarter of 2017 to reserve an outstanding accounts receivable amount for a

European customer who filed for bankruptcy.

Packaging's operating profit decreased approximately \$0.9 million to \$38.4 million, or 22.6% of sales, in the six months ended June 30, 2017, as compared to \$39.3 million, or 23.3% of sales, in the six months ended June 30, 2016. Although sales levels increased and selling, general and administrative expenses decreased, operating profit and related margin declined as a result of costs incurred to consolidate facilities in India and finalize the move to a new manufacturing facility in Mexico, as well as an approximate \$1.1 million charge recorded in the second quarter of 2017 to reserve an outstanding accounts receivable amount and approximately \$1.2 million of unfavorable currency exchange.



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Aerospace. Net sales for the six months ended June 30, 2017 increased approximately \$8.4 million, or 9.9%, to \$93.0 million, as compared to \$84.6 million in the six months ended June 30, 2016. This segment continues to improve its production scheduling and manufacturing efficiencies, which enabled it to increase daily production rates and ship higher levels of net sales in 2017 as compared to 2016. Sales to our distribution customers increased approximately \$6.6 million, as the order patterns continued to stabilize and increase in 2017 as compared to the lower and more volatile levels throughout 2016. Sales to our OE customers increased approximately \$1.6 million.

Gross profit within Aerospace increased approximately \$3.4 million to \$23.1 million, or 24.8% of sales, in the six months ended June 30, 2017, from \$19.7 million, or 23.2% of sales, in the six months ended June 30, 2016, primarily as a result of higher sales levels. In addition, in the first half of 2016, we incurred additional costs and experienced lower fixed cost absorption associated with production scheduling and manufacturing inefficiencies, primarily in our Commerce, CA facility. We have improved the efficiency levels during the first half of 2017 and reduced manufacturing spend levels despite higher demand level in this facility. These improvements were partially offset by higher costs due to manufacturing costs and inefficiencies at our standard fastener facility in Ottawa, KS.

Selling, general and administrative expenses decreased approximately \$1.5 million to \$11.2 million, or 12.0% of sales, in the six months ended June 30, 2017, as compared to \$12.6 million, or 14.9% of sales, in the six months ended June 30, 2016, primarily due to approximately \$0.8 million reduced expense to reserve for past due accounts receivable as a result of collection of previously reserved customer balances, approximately \$0.3 million of decreases in professional fees and decreased spending in certain administrative support costs.

Operating profit within Aerospace increased approximately \$4.9 million to \$11.9 million, or 12.8% of sales, in the six months ended June 30, 2017, as compared to \$7.0 million, or 8.3% of sales, in the six months ended June 30, 2016.

Operating profit improved primarily as a result of higher sales levels, continued improvement in production scheduling and manufacturing efficiencies and lower selling, general and administrative expenses.

Energy. Net sales for the six months ended June 30, 2017 decreased approximately \$0.3 million, or 0.3%, to \$84.4 million, as compared to \$84.7 million in the six months ended June 30, 2016. Sales increased approximately \$2.2 million in North America and \$0.5 million in Asia primarily due to increased customer demand and increasing our share of turnaround activity. These increases were more than offset by a decrease in net sales of approximately \$3.0 million in Europe, primarily due to exiting our facility in Wolverhampton, United Kingdom.

Gross profit within Energy decreased approximately \$2.3 million to \$16.5 million, or 19.6% of sales, in the six months ended June 30, 2017, as compared to \$18.8 million, or 22.2% of sales, in the six months ended June 30, 2016. During the second quarter of 2017, we incurred approximately \$2.7 million of costs associated with exiting our facility in Reynosa, Mexico, which included approximately \$1.5 million for estimated net future unrecoverable lease obligations for the lease that expires in 2025, and approximately \$1.2 million of charges related to accelerated depreciation expense on certain machinery, equipment and leasehold improvement assets that the Company no longer used following the facility closure. The decrease was partially offset by an increase in gross profit in North America due to higher sales levels, savings achieved from ongoing footprint realignment initiatives and improvements in manufacturing efficiencies within our Houston, Texas manufacturing facility.

Selling, general and administrative expenses within Energy decreased approximately \$5.2 million to \$20.3 million, or 24.0% of sales, in the six months ended June 30, 2017, as compared to \$25.5 million, or 30.1% of sales, in the six months ended June 30, 2016. Selling, general and administrative expenses decreased by approximately \$2.0 million as a result of lower costs related to previously closed facilities in the first half of 2017 as compared to the first half of 2016, approximately \$1.0 million as a result of an increase in reserves for past due accounts receivable in the first half of 2016 that did not repeat in the first half of 2017, and by approximately \$0.8 million as a result of lower third-party professional fees. The remaining \$1.4 million decrease was primarily due to lower ongoing costs associated with the Company's current operating footprint following completion of significant realignment activities.

Overall, operating loss within Energy decreased approximately \$2.9 million to a \$3.8 million loss, or 4.5% of sales, in the six months ended June 30, 2017, as compared to a \$6.7 million loss, or 7.9% of sales, in the six months ended June 30, 2016, as a result of lower selling, general and administrative expenses related to prior footprint realignment activities, improved manufacturing efficiencies and lower bad debt expense, which more than offset the costs incurred associated with the closure of our Reynosa, Mexico facility.



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Engineered Components. Net sales for the six months ended June 30, 2017 decreased approximately \$2.6 million, or 3.8%, to \$66.1 million, as compared to \$68.7 million in the six months ended June 30, 2016. Sales of our industrial cylinders decreased by approximately \$3.7 million, primarily due to the impact of certain of our large customers consolidating operations and lowering their current sales demand. Sales of our oil-field engines and compression-related products increased by approximately \$1.1 million primarily due to increases in drilling activity in the United States and Canada and the continued stabilization of oil prices.

Gross profit within Engineered Components decreased approximately \$0.7 million to \$13.7 million, or 20.7% of sales, in the six months ended June 30, 2017, from \$14.4 million, or 21.0% of sales, in the six months ended June 30, 2016.

Gross profit from sales of our industrial cylinders decreased approximately \$1.5 million as a result of lower sales in the U.S. industrial packaged gas market. Gross profit from sales of our engines and compression-related products increased approximately \$0.8 million due to higher sales levels and leveraging our lower fixed cost structure.

Selling, general and administrative expenses decreased approximately \$1.0 million to \$4.0 million, or 6.0% of sales, in the six months ended June 30, 2017, as compared to \$5.0 million, or 7.3% of sales, in the six months ended June 30, 2016 primarily due to lowering our ongoing operating costs consistent with lower than historical demand levels.

Operating profit within Engineered Components increased approximately \$0.3 million to \$9.7 million, or 14.7% of sales, in the six months ended June 30, 2017, as compared to operating profit of \$9.4 million, or 13.7% of sales, in the six months ended June 30, 2016. Operating profit and related margin improved primarily due to increased sales levels of our oil-field engines and compression-related products and better leveraging of our lower fixed cost structure.

Corporate Expenses. Corporate expenses consist of the following (dollars in millions):

|                                     | Six months<br>ended June<br>30, |        |
|-------------------------------------|---------------------------------|--------|
|                                     | 2017                            | 2016   |
| Corporate operating expenses        | \$4.7                           | \$4.4  |
| Employee costs and related benefits | 9.5                             | 9.5    |
| Corporate expenses                  | \$14.2                          | \$13.9 |

Corporate expenses increased approximately \$0.3 million to \$14.2 million for the six months ended June 30, 2017, from \$13.9 million for the six months ended June 30, 2016 primarily due to a favorable property tax assessment settlement of approximately \$0.4 million for a former business unit during 2016 that did not repeat in 2017.

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## Liquidity and Capital Resources

## Cash Flows

Cash flows provided by operating activities were approximately \$49.6 million for the six months ended June 30, 2017, as compared to approximately \$32.9 million for the six months ended June 30, 2016. Significant changes in cash flows provided by operating activities and the reasons for such changes were as follows:

For the six months ended June 30, 2017, the Company generated approximately \$53.9 million of cash, based on the reported net income of approximately \$21.8 million and after considering the effects of non-cash items related to losses on dispositions of assets, depreciation, amortization, changes in deferred income taxes, stock-based compensation and other operating activities. For the six months ended June 30, 2016, the Company generated approximately \$46.5 million in cash flows based on the reported net income of approximately \$18.8 million and after considering the effects of similar non-cash items.

Increases in accounts receivable resulted in a use of cash of approximately \$11.5 million and \$3.7 million for the six months ended June 30, 2017 and 2016, respectively. The increased use of cash for each of the six month periods is due primarily to the timing of sales and collection of cash within the periods. Days sales outstanding of receivables decreased by three days as of June 30, 2017 as compared to June 30, 2016, primarily as a result of our increased focus on collections activity.

For the six months ended June 30, 2017, we reduced our investment in inventory by approximately \$2.9 million, primarily as a result of our footprint consolidation and relocation projects and our increased focus on working capital management, as we did not need to make significant investments in additional inventory despite the increase in sales. For the six months ended June 30, 2016, we reduced our investment in inventory by approximately \$1.1 million. Decreases in prepaid expenses and other assets resulted in a cash source of approximately \$6.3 million and \$10.7 million for the six months ended June 30, 2017 and 2016, respectively, primarily as a result of the timing of payments made for income taxes and certain operating expenses.

Decreases in accounts payable and accrued liabilities resulted in a cash use of approximately \$1.9 million and \$21.7 million for the six months ended June 30, 2017 and 2016, respectively. The change in cash used for accounts payable and accrued liabilities is primarily a result of higher levels of purchases in 2017, as well as the timing of payments made to suppliers and the mix of vendors and related terms. There was no significant change in our days accounts payable on hand as of June 30, 2017 compared to June 30, 2016.

Net cash used for investing activities for the six months ended June 30, 2017 and 2016 was approximately \$15.1 million and \$12.8 million, respectively. During the first six months of 2017, we incurred approximately \$16.9 million in capital expenditures, as we have continued our investment in growth, capacity and productivity-related capital projects. Cash received from the disposition of property and equipment was approximately \$1.8 million. During the first six months of 2016, we incurred approximately \$13.0 million in capital expenditures and received cash from the disposition of property and equipment of approximately \$0.1 million.

Net cash used for financing activities for the six months ended June 30, 2017 and 2016 was approximately \$32.5 million and \$15.9 million, respectively. During the first six months of 2017, we made net repayments of approximately \$24.9 million on our revolving credit and accounts receivable facilities, and repaid approximately \$6.9 million on our term loan. We also used a net cash amount of approximately \$0.5 million related to our stock compensation arrangements. During the first six months of 2016, we made net repayments of approximately \$8.5 million on our revolving credit and accounts receivable facilities, and repaid approximately \$7.0 million on our term loan. We also used a net cash amount of approximately \$0.7 million related to our stock compensation arrangements.

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Our Debt and Other Commitments

We are party to a Credit Agreement, consisting of a \$500.0 million senior secured revolving credit facility, which permits borrowings denominated in specific foreign currencies ("Foreign Currency Loans"), subject to a \$75.0 million sub limit, and a \$275.0 million senior secured term loan A facility ("Term Loan A Facility"). The Credit Agreement matures on June 30, 2020 and is subject to interest at London Interbank Offered Rates ("LIBOR") plus 1.625%. The interest rate spread is based upon the leverage ratio, as defined, as of the most recent determination date.

At June 30, 2017, approximately \$250.9 million was outstanding on the Term Loan A Facility and approximately \$47.7 million was outstanding on the revolving credit facility. The Credit Agreement allows issuance of letters of credit, not to exceed \$40.0 million in aggregate, against revolving credit facility commitments, of which approximately \$16.3 million was outstanding at June 30, 2017.

The Credit Agreement also provides for incremental term loan facility and/or revolving credit commitments, not to exceed the greater of \$300.0 million and an amount such that, after giving effect to the making of such commitments and the incurrence of any other indebtedness substantially simultaneously with the making of such commitments, the senior secured net leverage ratio, as defined in the Credit Agreement, is no greater than 2.50 to 1.00. The terms and conditions of any incremental term loan and/or revolving credit facility commitments must be no more favorable than the existing credit facility.

We may be required to prepay a portion of our Term Loan A Facility in an amount equal to a percentage of our excess cash flow, as defined, which such percentage will be based on our leverage ratio, as defined. As of June 30, 2017, no amounts are due under this provision.

Amounts drawn under our revolving credit facility fluctuate daily based upon our working capital and other ordinary course needs. Availability under our revolving credit facility depends upon, among other things, compliance with our Credit Agreement's financial covenants. Our Credit Agreement contains various negative and affirmative covenants and other requirements affecting us and our subsidiaries, including restrictions on incurrence of debt, liens, mergers, investments, loans, advances, guarantee obligations, acquisitions, asset dispositions, sale-leaseback transactions, hedging agreements, dividends and other restricted payments, transactions with affiliates, restrictive agreements and amendments to charters, bylaws, and other material documents. The terms of our Credit Agreement require us and our subsidiaries to meet certain restrictive financial covenants and ratios computed quarterly, including a maximum leverage ratio (total consolidated indebtedness plus outstanding amounts under the accounts receivable securitization facility over consolidated EBITDA, as defined) and a minimum interest expense coverage ratio (consolidated EBITDA, as defined, over cash interest expense, as defined). Our permitted leverage ratio under the Credit Agreement is 3.50 to 1.00 as of June 30, 2017. If we were to complete an acquisition which qualifies for a Covenant Holiday Period, as defined in our Credit Agreement, then our permitted leverage ratio cannot exceed 4.00 to 1.00 during that period. Our actual leverage ratio was 2.34 to 1.00 at June 30, 2017. Our permitted interest expense coverage ratio under the Credit Agreement is 3.00 to 1.00 as of June 30, 2017. Our actual interest expense coverage ratio was 12.12 to 1.00 at June 30, 2017. At June 30, 2017, we were in compliance with our financial covenants.

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The following is a reconciliation of net income, as reported, which is a GAAP measure of our operating results, to Consolidated Bank EBITDA, as defined in our Credit Agreement, for the twelve months ended June 30, 2017 (dollars in thousands). We present Consolidated Bank EBITDA to show our performance under our financial covenants.

|   | Twelve<br>Months<br>Ended<br>June 30,<br>2017 |
|---|---|
| Net loss  | \$(36,740 )                                   |
| Bank stipulated adjustments:  |   |
| Interest expense  | 13,940  |
| Depreciation and amortization   | 45,730  |
| Extraordinary non-cash charges  | 98,900  |
| Non-cash compensation expense <sup>(1)</sup>                                    | 6,140   |
| Other non-cash expenses or losses   | 13,190  |
| Non-recurring expenses or costs relating to cost saving projects <sup>(2)</sup> | 10,330  |
| Acquisition integration costs <sup>(3)</sup>                                    | 350   |
| Consolidated Bank EBITDA, as defined  | \$ 151,840                                    |

|  | June 30,<br>2017 |
|--|------------------|
| Total Consolidated Indebtedness, as defined <sup>(4)</sup> | \$ 354,720       |
| Consolidated Bank EBITDA, as defined                       | 151,840          |
| Actual leverage ratio                                      | 2.34 x           |
| Covenant requirement                                       | 3.50 x           |

|  | Twelve<br>Months<br>Ended<br>June 30,<br>2017 |
|--|---|
| Interest expense   | \$ 13,940                                     |
| Bank stipulated adjustments:                                     |   |
| Non-cash amounts attributable to amortization of financing costs | (1,410 )                                      |
| Total Consolidated Cash Interest Expense, as defined             | \$ 12,530                                     |

|  | June 30,<br>2017 |
|--|------------------|
| Consolidated Bank EBITDA, as defined                 | \$ 151,840       |
| Total Consolidated Cash Interest Expense, as defined | 12,530           |
| Actual interest expense coverage ratio               | 12.12 x          |
| Covenant requirement                                 | 3.00 x           |

(1) Non-cash compensation expenses resulting from the grant of restricted shares and units of common stock and common stock options.

(2) Non-recurring costs and expenses relating to cost savings projects, including restructuring and severance expenses, not to exceed \$15.0 million in any fiscal year and \$40.0 million in aggregate, subsequent to June 30, 2015.

(3) Costs and expenses arising from the integration of any business acquired not to exceed \$15.0 million in any fiscal year and \$40.0 million in the aggregate.

(4) Includes \$4.0 million of acquisition deferred purchase price.

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Another important source of liquidity is our \$75.0 million accounts receivable facility, under which we have the ability to sell eligible accounts receivable to a third-party multi-seller receivables funding company. Our available liquidity under our accounts receivable facility has ranged from approximately \$49 million to \$66 million, depending on the level of our receivables outstanding at a given point in time during the year. We had approximately \$52.0 million and \$45.5 million outstanding under the facility as of June 30, 2017 and December 31, 2016, respectively, and approximately \$9.8 million and \$10.1 million available but not utilized as of June 30, 2017 and December 31, 2016, respectively. At June 30, 2017, we had approximately \$47.7 million outstanding under our revolving credit facility and had approximately \$436.0 million potentially available after giving effect to approximately \$16.3 million of letters of credit issued and outstanding. At December 31, 2016, we had approximately \$75.9 million outstanding under our revolving credit facility and had approximately \$408.2 million potentially available after giving effect to approximately \$15.9 million of letters of credit issued and outstanding. The letters of credit are used for a variety of purposes, including support of certain operating lease agreements, vendor payment terms and other subsidiary operating activities, and to meet various states' requirements to self-insure workers' compensation claims, including incurred but not reported claims. Including availability under our accounts receivable facility and after consideration of leverage restrictions contained in the Credit Agreement, as of June 30, 2017 and December 31, 2016, we had approximately \$176.7 million and \$126.5 million, respectively, of borrowing capacity available for general corporate purposes.

We rely upon our cash flow from operations and available liquidity under our revolving credit and accounts receivable facilities to fund our debt service obligations and other contractual commitments, working capital and capital expenditure requirements. At the end of each quarter, we use cash on hand from our domestic and foreign subsidiaries to pay down amounts outstanding under our revolving credit and accounts receivable facilities.

The combined weighted average monthly amounts outstanding on our Credit Agreement and accounts receivable facilities during the first six months of 2017 approximated \$404.0 million, compared to the weighted average monthly amounts outstanding during the first six months of 2016 of approximately \$469.2 million. The overall decrease is primarily due to cash generated and used to repay amounts outstanding on our revolving credit facilities.

Cash management related to our revolving credit and accounts receivable facilities is centralized. We monitor our cash position and available liquidity on a daily basis and forecast our cash needs on a weekly basis within the current quarter and on a monthly basis outside the current quarter over the remainder of the year. Our business and related cash forecasts are updated monthly. While the majority of our cash on hand as of June 30, 2017 is located in jurisdictions outside the U.S., given aggregate available funding under our revolving credit and accounts receivable facilities of \$176.7 million at June 30, 2017 (after consideration of the aforementioned leverage restrictions) and based on forecasted cash sources and requirements inherent in our business plans, we believe that our liquidity and capital resources, including anticipated cash flows from operations, will be sufficient to meet our debt service, capital expenditure and other short-term and long-term obligations for the foreseeable future.

Our exposure to interest rate risk results from the variable rates under our Credit Agreement. Borrowings under the Credit Agreement bear interest at various rates, as more fully described in Note 7, "Long-term Debt," to our consolidated financial statements included in Part I, Item 1 of this quarterly report on Form 10-Q. We use interest rate swap agreements to fix the LIBOR-based variable portion of the interest rates on our term loan facility. As of June 30, 2017, we had interest rate swap agreements in place that hedge a declining notional value of debt ranging from approximately \$238.4 million to approximately \$192.7 million, with established fixed interest rates in a range of 0.74% to 2.68%, with various expiration terms extending to June 30, 2020.

We are subject to variable interest rates on our term loan, revolving credit and accounts receivable facilities. At June 30, 2017, 1-Month LIBOR approximated 1.22%. Based on our variable rate-based borrowings outstanding at June 30, 2017, and after consideration of the interest rate swap agreement associated with our Term Loan A Facility, a 1% increase in the per annum interest rate would increase our interest expense by approximately \$1.1 million annually.

Principal payments required under the Credit Agreement for the Term Loan A Facility are \$3.4 million due each fiscal quarter from December 2015 through September 2018 and approximately \$5.2 million due each fiscal quarter from December 2018 through March 2020, with final payment of \$202.8 million due on June 30, 2020.



In addition to our long-term debt, we have other cash commitments related to leases. We account for these lease transactions as operating leases, and annual rent expense for continuing operations related thereto approximated \$17.4 million in 2016. We expect to continue to utilize leasing as a financing strategy in the future to meet capital expenditure needs and to reduce debt levels.

Market Risk

We conduct business in various locations throughout the world and are subject to market risk due to changes in the value of foreign currencies. The functional currencies of our foreign subsidiaries are primarily the local currency in the country of domicile. We manage these operating activities at the local level and revenues and costs are generally denominated in local currencies; however, results of operations and assets and liabilities reported in U.S. dollars will fluctuate with changes in exchange rates between such local currencies and the U.S. dollar.

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We have historically used derivative financial instruments to manage currency risks, albeit in immaterial notional contracts, as we explored the predictability of our procurement activities denominated in currencies other than the functional currency of our subsidiaries and the impact of currency rate volatility on our earnings.

We are also subject to interest risk as it relates to our long-term debt. We use interest rate swap agreements to fix the variable portion of our debt to manage this risk. See Note 8, "Derivative Instruments," included in Part 1, Item 1, "Notes to Unaudited Consolidated Financial Statements," within this quarterly report on Form 10-Q for additional information.

### Common Stock

TriMas is listed in the NASDAQ Global Select Market<sup>SM</sup>. Our stock trades under the symbol "TRS."

### Credit Rating

We and certain of our outstanding debt obligations are rated by Standard & Poor's and Moody's. On June 9, 2017, Moody's affirmed a rating of Ba3 to our senior secured credit facilities, as presented in Note 7, "Long-term Debt" included in Part I, Item 1, "Notes to Unaudited Consolidated Financial Statements" within this quarterly report on Form 10-Q. Moody's also affirmed a Ba3 to our Corporate Family Rating and maintained its outlook as stable. On June 23, 2017, Standard & Poor's affirmed a BB- corporate credit rating to our credit facilities and maintained its outlook as stable. If our credit ratings were to decline, our ability to access certain financial markets may become limited, our cost of borrowings may increase, the perception of us in the view of our customers, suppliers and security holders may worsen and as a result, we may be adversely affected.

### Outlook

The past few years have been a period of significant change for TriMas, with portfolio reshaping as part of spinning-off our former Cequent business in 2015, various acquisitions within our Packaging and Aerospace businesses and significant reductions in our fixed cost structure in response to challenging macroeconomic conditions. In addition, we underwent a CEO leadership transition in July 2016, and have a renewed focus on optimizing the financial performance of our current portfolio of businesses. We have also implemented a redefined TriMas Business Model that establishes the major tenants of how we now operate in 2017 and will in future years.

We remain cautiously optimistic about the possibility for growth in 2017, particularly focused on growth programs in our Packaging and Aerospace reportable segments, and have realized year-over-year growth in both of these segments during the first half of 2017. In addition, while uncertainty still exists with respect to the broader macroeconomic environment, there are signs of stabilization in certain of our key end markets, most notably within the Aerospace distribution channel, where year-over-year sales increased in the first half of 2017 compared to the first half of 2016, and increased quoting activity for upstream oil and gas-related business. There remains the potential that the new U.S. presidential administration might accelerate the U.S. industrial economy, which would benefit us given a majority of our sales and production is in the U.S. While these additional factors would be positive for TriMas, we are not counting on significant market improvement. Rather, we remain focused on managing internal projects that we control, including continued application of the TriMas Business Model within Energy and Aerospace to improve our manufacturing processes and product delivery, pruning our product portfolios to de-emphasize or no longer sell certain lower-margin products within certain regions, and seeking lower-cost sources for input costs, all while continuously assessing our manufacturing footprint and fixed cost structure.

### Impact of New Accounting Standards

See Note 2, "New Accounting Pronouncements," included in Part 1, Item 1, "Notes to Unaudited Consolidated Financial Statements," within this quarterly report on Form 10-Q.

### Critical Accounting Policies

Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, our evaluation of business and macroeconomic trends, and information from other outside sources, as appropriate.

During the quarter ended June 30, 2017, there were no material changes to the items that we disclosed as our critical accounting policies in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Annual Report on Form 10-K for the year ended December 31, 2016.



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In completing our 2016 assessment of goodwill and indefinite-lived intangible assets, the fair value of the Aerospace reporting unit equaled carrying value following our recognition of goodwill and intangible asset impairment charges in the fourth quarter of 2016. All other reporting units with goodwill had an implied fair value greater than carrying value by more than 89% in our last quantitative assessment. The amount of remaining goodwill attributable to the Aerospace reporting unit was approximately \$146.4 million as of each of June 30, 2017 and December 31, 2016. We have not identified any events or changes in circumstances that could reasonably be expected to have an other than temporary effect on the significant assumptions used in estimating the fair value of our Aerospace or other reporting units with goodwill.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, we are exposed to market risk associated with fluctuations in foreign currency exchange rates. We are also subject to interest risk as it relates to long-term debt. See Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," for details about our primary market risks, and the objectives and strategies used to manage these risks. Also see Note 7, "Long-term Debt," and Note 8, "Derivative Instruments," in Part I, Item 1, "Notes to Unaudited Consolidated Financial Statements," included within this quarterly report on Form 10-Q for additional information.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Evaluation of disclosure controls and procedures

As of June 30, 2017, an evaluation was carried out by management, with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) pursuant to Rule 13a-15 of the Exchange Act. The Company's disclosure controls and procedures are designed only to provide reasonable assurance that they will meet their objectives. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2017, the Company's disclosure controls and procedures are effective to provide reasonable assurance that they would meet their objectives.

Changes in internal control over financial reporting

There have been no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

TRIMAS CORPORATION

Item 1. Legal Proceedings

See Note 9, "Commitments and Contingencies," included in Part I, Item 1, "Notes to Unaudited Consolidated Financial Statements," within this quarterly report on Form 10-Q.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part 1, Item 1A., "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2016, which could materially affect our business, financial condition or future results. There have been no significant changes in our risk factors as disclosed in our 2016 Form 10-K.

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

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

At the Company's Annual Meeting of Stockholders on May 16, 2017, the stockholders of the Company approved the TriMas Corporation 2017 Equity and Incentive Compensation Plan (the "2017 Plan"). The following description of the 2017 Plan is qualified in its entirety by reference to the 2017 Plan, which is filed as Exhibit 10.1 to this report and incorporated herein by reference.

In general, the 2017 Plan will be administered by the Compensation Committee (the "Compensation Committee") of the Company's Board of Directors (the "Board") (or its successor) or any other committee of the Board designated by the Board, as applicable. The Compensation Committee may from time to time delegate all or any part of its authority under the 2017 Plan to a subcommittee. The 2017 Plan will enable the Compensation Committee to provide equity and incentive compensation to (1) the Company's officers and other key employees (and those of its subsidiaries), including persons who have agreed to commence serving in such capacity within 90 days of the grant of the applicable award, (2) the Company's non-employee directors and (3) certain other individuals who provide employee-type services. Pursuant to the 2017 Plan, the Company may grant equity-based or cash compensation generally in form of stock options, appreciation rights, restricted stock, restricted stock units, performance shares, performance units, dividend equivalents, other stock-based awards and cash incentive awards upon terms and conditions as further described in the 2017 Plan. The 2017 Plan will permit the Company to grant awards that may be able to qualify as "qualified performance-based compensation" under Section 162(m) of the Internal Revenue Code of 1986, as amended ("Section 162(m)") and awards that are not intended to so qualify.

Subject to adjustment as described in the 2017 Plan, and subject to the 2017 Plan's share counting rules, a total of 2,000,000 shares of common stock are available for awards granted under the 2017 Plan. These shares may be shares of original issuance or treasury shares, or a combination of both. The aggregate number of shares available under the 2017 Plan will be reduced by one share of common stock for every one share subject to an award granted under the 2017 Plan. Shares underlying certain awards under the 2017 Plan that expire or are forfeited, cancelled or settled for cash (or are unearned) will again be available under the 2017 Plan, as further described in the 2017 Plan.

The 2017 Plan also provides that, subject to adjustment as described in the 2017 Plan:

• the aggregate number of shares of common stock actually issued or transferred upon the exercise of incentive stock options will not exceed 2,000,000 shares of common stock;

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no participant will be granted stock options and/or appreciation rights, in the aggregate, for more than 750,000 shares of common stock during any calendar year, except that such limit is multiplied by two for a participant's first year of service with the Company or any subsidiary;

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no participant will be granted awards of restricted stock, restricted stock units, performance shares and/or other stock-based awards that are intended to qualify as “qualified performance-based compensation” under Section 162(m) (“Qualified Performance-Based Awards”), in the aggregate, for more than 750,000 shares of common stock during any calendar year, except that such limit is multiplied by two for a participant’s first year of service with the Company or any subsidiary;

no participant in any calendar year will receive an award of performance units and/or certain other awards payable in cash (excluding cash incentive awards) that are Qualified Performance-Based Awards having an aggregate maximum value as of their respective grant dates in excess of \$4,000,000, except that such limit is multiplied by two for a participant’s first year of service with the Company or any subsidiary; and

generally, no non-employee director will be granted, in any period of one calendar year, awards under the 2017 Plan having an aggregate maximum value at the date of grant (calculating the value of any such awards based on the grant date fair value for financial reporting purposes), taken together with any cash fees payable to the non-employee director for the calendar year, in excess of \$500,000 (\$600,000 with respect to a non-executive chairperson), except that such limit may be increased to \$650,000 (\$750,000 with respect to a non-executive chairperson).

The 2017 Plan permits the Compensation Committee to make certain performance-based awards to participants under the 2017 Plan, which awards will be earned based upon the achievement of management objectives. The management objectives underlying each such award will be determined by the Compensation Committee based on one or more, or a combination, of the following metrics if the award is a Qualified Performance-Based Award:

Profits (e.g., gross profit, gross profit growth, operating income, earnings before or after deduction for all or any portion of interest, taxes, depreciation or amortization, net income (before or after taxes), consolidated net income, net earnings, net sales, cost of sales, basic or diluted earnings per share (before or after taxes), residual or economic earnings, net operating profit (before or after taxes), or economic profit);

Cash Flow (e.g., actual or adjusted earnings before or after interest, taxes, depreciation and/or amortization (including EBIT and EBITDA), free cash flow, free cash flow with or without specific capital expenditure target or range, including or excluding divestments and/or acquisitions, operating cash flow, total cash flow, cash flow in excess of cost of capital or residual cash flow, or cash flow return on investment);

Returns (e.g., profits or cash flow returns on: assets, investment, capital, invested capital, net capital employed, equity, or sales);

Working Capital (e.g., working capital targets, working capital divided by sales, days’ sales outstanding, days’ sales inventory, or days’ sales in payables);

Profit Margins (e.g., profits divided by revenues or gross margins and material margins divided by revenues);

Liquidity Measures (e.g., debt-to-capital, debt-to-EBITDA, or total debt ratio);

Sales Growth, Gross Margin Growth, Cost Initiative and Stock Price Metrics (e.g., revenue, net revenue, revenue growth, net revenue growth, revenue growth outside the United States, gross margin and gross margin growth, material margin and material margin growth, stock price appreciation, total return to stockholders, sales and administrative costs divided by sales, or sales and administrative costs divided by profits); and

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Strategic Initiative Key Deliverable Metrics consisting of one or more of the following: product development; strategic partnering; research and development; vitality index; market penetration; market share; geographic business expansion goals; expense targets or cost reduction goals; general and administrative expense savings; selling, general and administrative expenses; objective measures of client/customer satisfaction; employee satisfaction; employee retention; management of employment practices and employee benefits; supervision of litigation and information technology; productivity ratios; economic value added (or another measure of profitability that considers the cost of capital employed); product quality; sales of new products; or goals relating to acquisitions or divestitures of subsidiaries, affiliates and joint ventures.

The Board generally will be able to amend the 2017 Plan, subject to stockholder approval in certain circumstances as described in the 2017 Plan.

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Item 6. Exhibits

Exhibits Index:

- 3.1(a) Fourth Amended and Restated Certificate of Incorporation of TriMas Corporation.
  - 3.2(b) Third Amended and Restated By-laws of TriMas Corporation.
  - 10.1 TriMas Corporation 2017 Equity and Incentive Compensation Plan.
  - 10.2 Amendment No. 8, effective as of April 21, 2017, to the Amended and Restated Receivables Transfer Agreement.
  - 10.3 Sixth Amended and Restated Fee Letter, dated as of April 21, 2017, among Wells Fargo Bank, National Association, as Administrative Agent, TSPC, Inc., as Transferor, TriMas Corporation, as Collection Agent, TriMas Company LLC, as Guarantor, and the persons from time to time party thereto as Purchasers.
  - 31.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 31.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - 101.INS XBRL Instance Document.
  - 101.SCHXBRL Taxonomy Extension Schema Document.
  - 101.CALXBRL Taxonomy Extension Calculation Linkbase Document.
  - 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
  - 101.LABXBRL Taxonomy Extension Label Linkbase Document.
  - 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.
- (a) Incorporated by reference to the Exhibits filed with our Quarterly Report on Form 10-Q filed on August 3, 2007 (File No. 001-10716).
- (b) Incorporated by reference to the Exhibits filed with our Current Report on Form 8-K filed on December 18, 2015 (File No. 001-10716).

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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.

TRIMAS CORPORATION  
(Registrant)

/s/ ROBERT J. ZALUPSKI

Date: July 27, 2017      Robert J. Zalupski  
By: Chief Financial Officer