

PARK OHIO HOLDINGS CORP

Form 10-Q

November 09, 2009

**Table of Contents**

**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 September 30, 2009**
- 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 0-3134**

**Park-Ohio Holdings Corp.**  
*(Exact name of registrant as specified in its charter)*

**Ohio**  
*(State or other jurisdiction of  
incorporation or organization)*

**34-1867219**  
*(I.R.S. Employer  
Identification No.)*

**6065 Parkland Boulevard, Cleveland, Ohio**  
*(Address of principal executive offices)*

**44124**  
*(Zip Code)*

**440/947-2000**  
**(Registrant's telephone number, including area code)**

**Park-Ohio Holdings Corp. is a successor issuer to Park-Ohio Industries, Inc.**

Indicate by check mark whether the registrant:

- (1) Has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports) and
- (2) Has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such

files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Number of shares outstanding of registrant's Common Stock, par value \$1.00 per share, as of October 31, 2009: 11,750,012.

The Exhibit Index is located on page 25.

---

**PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES**

**INDEX**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u> <u>Financial Statements</u>	3
<u>Consolidated balance sheets    September 30, 2009 and December 31, 2008</u>	3
<u>Consolidated statements of operations    Three and nine months ended September 30, 2009 and 2008</u>	4
<u>Consolidated statement of shareholders' equity    Nine months ended September 30, 2009</u>	5
<u>Consolidated statements of cash flows    Nine months ended September 30, 2009 and 2008</u>	6
<u>Notes to consolidated financial statements    September 30, 2009</u>	7
<u>Report of independent registered public accounting firm</u>	13
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
<u>Item 4.</u> <u>Controls and Procedures</u>	21
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1.</u> <u>Legal Proceedings</u>	22
<u>Item 1A.</u> <u>Risk Factors</u>	23
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
<u>Item 4.</u> <u>Submission of Matters to a Vote of Security Holders</u>	23
<u>Item 6.</u> <u>Exhibits</u>	23
<b><u>SIGNATURE</u></b>	24
<b><u>EXHIBIT INDEX</u></b>	25
<u>EX-4.1</u>	
<u>EX-15</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32</u>	

**Table of Contents****PART I. Financial Information****ITEM 1. *Financial Statements*****PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	<b>(Unaudited)</b>	
	<b>September 30,</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
	<b>(Dollars in thousands)</b>	
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 19,377	\$ 17,825
Accounts receivable, less allowances for doubtful accounts of \$6,792 at September 30, 2009 and \$3,044 at December 31, 2008	122,851	165,779
Inventories	199,171	228,817
Deferred tax assets	9,446	9,446
Unbilled contract revenue	9,151	25,602
Other current assets	9,113	12,818
Total Current Assets	369,109	460,287
Property, Plant and Equipment	253,724	248,474
Less accumulated depreciation	170,514	157,832
	83,210	90,642
Other Assets		
Goodwill	4,206	4,109
Other	65,424	64,182
	\$ 521,949	\$ 619,220
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current Liabilities		
Trade accounts payable	\$ 76,165	\$ 121,995
Accrued expenses	52,556	74,351
Current portion of long-term debt	2,369	8,778
Current portion of other postretirement benefits	2,290	2,290
Total Current Liabilities	133,380	207,414
Long-Term Liabilities, less current portion		
8.375% Senior Subordinated Notes due 2014	188,770	198,985
Revolving credit	147,800	164,600

Edgar Filing: PARK OHIO HOLDINGS CORP - Form 10-Q

Other long-term debt	6,051	2,283
Deferred tax liability	9,090	9,090
Other postretirement benefits and other long-term liabilities	23,580	24,093
	375,291	399,051
Shareholders' Equity		
Capital stock, par value \$1 a share:		
Serial Preferred Stock	-0-	-0-
Common Stock	13,224	12,237
Additional paid-in capital	65,774	64,212
Retained deficit	(34,435)	(29,021)
Treasury stock, at cost	(17,192)	(17,192)
Accumulated other comprehensive loss	(14,093)	(17,481)
	13,278	12,755
	\$ 521,949	\$ 619,220

Note: The balance sheet at December 31, 2008 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See notes to consolidated financial statements.

Table of Contents**PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(Amounts in thousands, except per share data)</b>			
Net sales	\$ 168,597	\$ 266,148	\$ 513,252	\$ 819,178
Cost of products sold	145,938	226,759	437,402	697,361
Gross profit	22,659	39,389	75,850	121,817
Selling, general and administrative expenses	21,701	28,799	66,538	82,755
Impairment charges	-0-	17,480	-0-	17,480
Gain on purchase of 8.375% senior subordinated notes	(2,011)	-0-	(5,108)	-0-
Operating income (loss)	2,969	(6,890)	14,420	21,582
Interest expense	5,897	6,775	17,996	20,672
Income (loss) before income taxes	(2,928)	(13,665)	(3,576)	910
Income taxes (benefit)	296	(4,597)	1,838	779
Net income (loss)	\$ (3,224)	\$ (9,068)	\$ (5,414)	\$ 131
Amounts per common share:				
Basic	\$ (.29)	\$ (.82)	\$ (.50)	\$ .01
Diluted	\$ (.29)	\$ (.82)	\$ (.50)	\$ .01
Common shares used in the computation:				
Basic	11,011	11,006	10,931	11,081
Diluted	11,011	11,006	10,931	11,606

See notes to consolidated financial statements.

Table of Contents**PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY (UNAUDITED)**

	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Retained Earnings (Deficit) (Dollars in thousands)</b>	<b>Treasury Stock</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total</b>
Balance at January 1, 2009	\$ 12,237	\$ 64,212	\$ (29,021)	\$ (17,192)	\$ (17,481)	\$ 12,755
Comprehensive loss:						
Net loss			(5,414)			(5,414)
Foreign currency translation adjustment					1,893	1,893
Unrealized loss on marketable securities, net of tax					413	413
Pension and post retirement benefit adjustments, net of tax					1,082	1,082
Comprehensive loss						(2,026)
Amortization of restricted stock		1,570				1,570
Exercise of stock options (360,000 shares)	360	328				688
Restricted stock awards	627	(627)				-0-
Share-based compensation		291				291
Balance at September 30, 2009	\$ 13,224	\$ 65,774	\$ (34,435)	\$ (17,192)	\$ (14,093)	\$ 13,278

See notes to consolidated financial statements.



**Table of Contents****PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	<b>Nine Months Ended September 30, 2009                      2008</b>	
	<b>(Dollars in thousands)</b>	
<b>OPERATING ACTIVITIES</b>		
Net (loss) income	\$ (5,414)	\$ 131
Adjustments to reconcile net (loss) income to net cash used by operating activities:		
Depreciation and amortization	14,121	16,081
Impairment charges	-0-	17,480
Share-based compensation expense	1,861	1,663
Gain on purchase of 8.375% senior subordinated notes	(5,107)	-0-
Changes in operating assets and liabilities:		
Accounts receivable	42,928	(13,340)
Inventories and other current assets	49,000	(17,950)
Accounts payable and accrued expenses	(67,625)	22,210
Other	(560)	(15,429)
Net Cash Provided by Operating Activities	29,204	10,846
<b>INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment, net	(4,594)	(15,756)
Purchases of marketable securities	(62)	(533)
Sales of marketable securities	865	2,751
Net Cash Used by Investing Activities	(3,791)	(13,538)
<b>FINANCING ACTIVITIES</b>		
(Payments on) proceeds from long-term debt, net	(2,641)	5,528
(Payments on) proceeds from revolving credit, net	(16,800)	14,800
Purchase of treasury stock	-0-	(3,166)
Purchase of 8.375% senior subordinated notes	(5,108)	-0-
Exercise of stock options	688	10
Net Cash (Used) Provided by Financing Activities	(23,861)	17,172
Increase in Cash and Cash Equivalents	1,552	14,480
Cash and Cash Equivalents at Beginning of Period	17,825	14,512
Cash and Cash Equivalents at End of Period	\$ 19,377	\$ 28,992
Taxes paid	\$ 2,577	\$ 5,826
Interest paid	12,506	15,236

See notes to consolidated financial statements.



Table of Contents**PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****September 30, 2009****(Dollar amounts in thousands, except per share data)****NOTE A Basis of Presentation**

The consolidated financial statements include the accounts of Park-Ohio Holdings Corp. and its subsidiaries (the Company ). All significant intercompany transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

The Company evaluated subsequent events through November 9, 2009, the date these financial statements were issued.

**NOTE B Segments**

The Company operates through three segments: Supply Technologies, Aluminum Products and Manufactured Products. Supply Technologies provides our customers with Total Supply Management™ services for a broad range of high-volume, specialty production components. Total Supply Management™ manages the efficiencies of every aspect of supplying production parts and materials to our customers manufacturing floors, from strategic planning to program implementation and includes such services as engineering and design support, part usage and cost analysis, supplier selection, quality assurance, bar coding, product packaging and tracking, just-in-time and point-of-use delivery, electronic billing services and ongoing technical support. Aluminum Products manufactures cast aluminum components for the automotive, agricultural equipment, construction equipment, heavy-duty truck and marine equipment industries. Aluminum Products also provides value-added services such as design and engineering, machining and assembly. Manufactured Products operates a diverse group of niche manufacturing businesses that design and manufacture a broad range of high quality products engineered for specific customer applications.

Results by business segment were as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net sales:				
Supply Technologies	\$ 82,464	\$ 131,668	\$ 242,879	\$ 399,452

Edgar Filing: PARK OHIO HOLDINGS CORP - Form 10-Q

Aluminum products	31,663	35,784	75,656	120,304
Manufactured products	54,470	98,696	194,717	299,422
	\$ 168,597	\$ 266,148	\$ 513,252	\$ 819,178
Income (loss) before income taxes:				
Supply Technologies	\$ 2,078	\$ 5,259	\$ 5,509	\$ 16,551
Aluminum products	(1,337)	(17,557)	(6,793)	(18,674)
Manufactured products	3,413	10,062	20,498	37,703
	4,154	(2,236)	19,214	35,580
Corporate costs	(1,185)	(4,654)	(4,794)	(13,998)
Interest expense	(5,897)	(6,775)	(17,996)	(20,672)
Income (loss) before income taxes	\$ (2,928)	\$ (13,665)	\$ (3,576)	\$ 910

**Table of Contents****PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
Identifiable assets were as follows:		
Supply Technologies	\$ 229,483	\$ 256,161
Aluminum products	68,304	87,215
Manufactured products	220,561	242,057
General corporate	3,601	33,787
	<b>\$ 521,949</b>	<b>\$ 619,220</b>

**NOTE C Recent Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles . The statement makes the Accounting Standards Codification ( ASC ) the single source of authoritative U.S. accounting and reporting standards, but it does not change U.S. GAAP. The Company adopted the statement as of September 30, 2009. Accordingly, the financial statements for the interim period ending September 30, 2009 and the financial statements for future interim and annual periods will reflect the ASC references. The statement has no impact on the Company s results of operations, financial condition or liquidity.

In December 2007, the FASB issued new guidance that modifies the accounting for business combinations by requiring that acquired assets and assumed liabilities be recorded at fair value, contingent consideration arrangements be recorded at fair value on the date of the acquisition and preacquisition contingencies will generally be accounted for in purchase accounting at fair value. The new guidance was adopted prospectively by the Company, effective January 1, 2009.

In December 2008, the FASB issued new guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. The guidance addresses disclosures related to the categories of plan assets and fair value measurements of plan assets. The new guidance was adopted by the Company effective January 1, 2009 and had no effect on its consolidated financial position or results of operations.

In April 2009, the FASB issued new guidance that if an entity determines that the level of activity for an asset or liability has significantly decreased and that a transaction is not orderly, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transaction or quoted prices may be necessary to estimate fair value. This new guidance is to be applied prospectively and is effective for interim and annual periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The Company adopted this guidance for its quarter ended June 30, 2009. There was no impact on the consolidated financial statements. In April 2009, the FASB issued guidance that requires that publicly traded companies include the fair value disclosures in their interim financial statements. This guidance is effective for interim reporting periods ending after June 15, 2009. The Company adopted this guidance at June 30, 2009. At September 30, 2009, the approximate fair value of the 8.375% Senior Subordinated Notes due 2014 was \$151,016 based on Level 1 inputs. The Company had other

investments having Level 2 inputs totaling \$6,389.

In May 2009, the FASB issued guidance that addresses the types and timing of events that should be reported in the financial statements for events occurring between the balance sheet date and the date the financial statements are issued or available to be issued. This guidance was effective for the Company on June 30, 2009. The adoption of this guidance did not impact the Company's consolidated financial position or results of operations. Refer to Note A for information on subsequent events.

Table of Contents**PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****NOTE D Inventories**

The components of inventory consist of the following:

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
Finished goods	\$ 102,778	\$ 129,939
Work in process	29,365	29,648
Raw materials and supplies	67,028	69,230
	<b>\$ 199,171</b>	<b>\$ 228,817</b>

**NOTE E Shareholders Equity**

At September 30, 2009, capital stock consisted of (i) Serial Preferred Stock, of which 632,470 shares were authorized and none were issued, and (ii) Common Stock, of which 40,000,000 shares were authorized and 13,223,842 shares were issued, of which 11,780,318 were outstanding and 1,443,524 were treasury shares.

**NOTE F Net Income Per Common Share**

The following table sets forth the computation of basic and diluted earnings per share:

	<b>Three Months Ended September 30, 2009</b>		<b>Nine Months Ended September 30, 2009</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>NUMERATOR</b>				
Net income (loss)	\$ (3,224)	\$ (9,068)	\$ (5,414)	\$ 131
<b>DENOMINATOR</b>				
Denominator for basic earnings per share weighted average shares	11,011	11,006	10,931	11,081
Effect of dilutive securities:				
Employee stock options(a)	(a)	(a)	(a)	525
Denominator for diluted earnings per share weighted average shares and assumed conversions	11,011	11,006	10,931	11,606

Amounts per common share:

Edgar Filing: PARK OHIO HOLDINGS CORP - Form 10-Q

Basic	\$	(.29)	\$	(.82)	\$	(.50)	\$	.01
Diluted	\$	(.29)	\$	(.82)	\$	(.50)	\$	.01

- (a) No employee stock options were added for this period as the addition of 358,000 shares in the nine months ended September 30, 2009 and 478,000 and 539,000 shares in the three months ended September 30, 2009 and 2008, respectively would result in anti-dilution because the Company reported a net loss in that period.

Basic earnings per common share is computed as net income available to common shareholders divided by the weighted average basic shares outstanding. Diluted earnings per common share is computed as net income available to common shareholders divided by the weighted average diluted shares outstanding.

Pursuant to FASB guidance on Earnings Per Share, when a loss is reported the denominator of diluted earnings per share cannot be adjusted for the dilutive impact of stock options and awards because doing so will result in anti-dilution. Therefore, for the nine months and three months ended September 30, 2009, basic weighted-average shares outstanding are used in calculating diluted earnings per share.



**Table of Contents****PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

Outstanding stock options with exercise prices greater than the average price of the common shares are anti-dilutive and are not included in the computation of diluted earnings per share. Stock options on 88,000 shares were excluded in the nine months ended September 30, 2008 because they were anti-dilutive.

**NOTE G Stock-Based Compensation**

Total stock compensation expense recorded in the first nine months of 2009 and 2008 was \$1,861 and \$1,663, respectively. Total stock compensation expense recorded in the third quarter of 2009 and 2008 was \$658 and \$560, respectively. There were 624,450 shares of restricted stock awarded during the nine months ended September 30, 2009 at prices ranging from \$3.18 to \$3.74 per share, of which 34,950 shares were awarded in the three months ended September 30, 2009. There were no stock options awarded during the nine months ended September 30, 2009. There were stock options for 80,000 shares awarded with an average exercise price of \$15.20 per share during the nine months ended September 30, 2008. There were 7,500 and 23,500 shares of restricted stock awarded during the three months and nine months ended September 30, 2008, respectively. As of September 30, 2009, there was \$3,019 of unrecognized compensation cost related to non-vested stock-based compensation, which is expected to be recognized over a weighted average period of 1.95 years.

**NOTE H Pension Plans and Other Postretirement Benefits**

The components of net periodic benefit cost recognized during interim periods was as follows:

	<b>Pension Benefits</b>				<b>Postretirement Benefits</b>			
	<b>Three Months Ended September 30, 2009</b>		<b>Nine Months Ended September 30, 2008</b>		<b>Three Months Ended September 30, 2009</b>		<b>Nine Months Ended September 30, 2008</b>	
Service costs	\$ 123	\$ 108	\$ 369	\$ 324	\$ 24	\$ 43	\$ 72	\$ 129
Interest costs	694	722	2,082	2,166	296	290	888	870
Expected return on plan assets	(1,758)	(2,408)	(5,275)	(7,224)	-0-	-0-	-0-	-0-
Transition obligation	(10)	(12)	(30)	(36)	-0-	-0-	-0-	-0-
Amortization of prior service cost	32	34	96	102	-0-	(13)	-0-	(39)
Recognized net actuarial loss	231	(29)	693	(87)	119	71	357	213
Benefit (income) costs	\$ (688)	\$ (1,585)	\$ (2,065)	\$ (4,755)	\$ 439	\$ 391	\$ 1,317	\$ 1,173

During March 2009, the Company suspended indefinitely its voluntary contribution to its 401(k) defined contribution plan covering substantially all U.S. employees.



Table of Contents**PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****NOTE I Comprehensive Income**

Total comprehensive income (loss) was as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net income (loss)	\$ (3,224)	\$ (9,068)	\$ (5,414)	\$ 131
Foreign currency translation	2,245	(4,775)	1,893	(3,160)
Unrealized loss on marketable securities, net of tax	-0-	187	413	44
Pension and post retirement benefit adjustments, net of tax	373	40	1,082	122
Total comprehensive loss	\$ (606)	\$ (13,616)	\$ (2,026)	\$ (2,863)

The components of accumulated comprehensive loss at September 30, 2009 and December 31, 2008 are as follows:

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
Foreign currency translation adjustment	\$ 5,875	\$ 3,982
Unrealized net losses on marketable securities, net of tax	-0-	(413)
Pension and postretirement benefit adjustments, net of tax	(19,968)	(21,050)
	\$ (14,093)	\$ (17,481)

**NOTE J Accrued Warranty Costs**

The Company estimates the amount of warranty claims on sold products that may be incurred based on current and historical data. The actual warranty expense could differ from the estimates made by the Company based on product performance. The following table presents the changes in the Company's product warranty liability:

	<b>2009</b>	<b>2008</b>
Balance at January 1	\$ 5,402	\$ 5,799
Claims paid during the year	(2,456)	(2,105)
Additional warranties issued during the first nine months	1,312	3,506

Balance at September 30	\$ 4,258	\$ 7,200
-------------------------	----------	----------

**NOTE K Income Taxes**

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

The 2009 annual effective income tax rate is estimated to be approximately (159)% and is significantly different from the 35% United States federal statutory rate primarily due to anticipated losses in the United States for which the Company will record no tax benefit and anticipated income earned in jurisdictions outside of the United States.

The effective income tax rate in the first nine months of 2009 and 2008 was (51)% and 86%, respectively. The primary reason for the variance in the effective income tax rate is because the Company anticipates full-year 2009

**Table of Contents****PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

losses in the United States with no tax benefit at September 30, 2009 and full-year 2008 income in the United States at September 30, 2008.

There have been no material changes to the balance of unrecognized tax benefits reported at December 31, 2008.

**NOTE L Restructuring**

In 2008, due to volume declines and volatility in the automotive markets along with the general economic downturn, the Company evaluated its long-lived assets in accordance with related accounting guidance. Based on the results of these tests, the Company recorded asset impairment charges. In addition, the Company made a decision to exit its relationship with its largest customer, Navistar, effective December 31, 2008, which along with the general economic downturn, resulted in either the closure, downsizing or consolidation of eight facilities in its distribution network. As a result, the Company recorded asset impairment charges of \$30,875, which were composed of \$5,544 of inventory impairment included in Cost of Products Sold, \$1,758 a loss on disposition of a foreign subsidiary, \$564 of severance costs (80 employees) and \$23,009 for impairment of property and equipment and other long-term assets. The Company expects the restructuring activities to be completed by the end of 2009.

The following table summarizes the activity associated with severance costs at September 30, 2009 and for the nine-month period then ended:

Balance at December 31, 2008	\$ 545
Cash payments made in 2009	(404)
Balance at September 30, 2009	\$ 141

**NOTE M Contingencies**

During the second quarter of 2009, Chrysler's U.S. operations and General Motors' U.S. operations filed for bankruptcy protection under Chapter 11 of the United States Code. The Company has collected substantially all amounts that were due from Chrysler and General Motors as of the dates of the respective bankruptcy filings. As such, there was no charge to earnings in the first nine months of 2009 as a result of these customer bankruptcies. Chrysler and General Motors have subsequently emerged from bankruptcy and while we have no reserves related to these amounts, we remain focused on the continual management of this credit risk.

On May 27, 2009, Metaldyne Corporation filed for bankruptcy protection under Chapter 11 of the United States Code. The account receivable from Metaldyne at the time of the bankruptcy filing was \$4,200. The impact of this bankruptcy was reviewed by management and, accordingly, the Company recorded a \$2,000 charge to reserve for the collection of this account receivable during the second quarter of 2009. An additional charge of \$2,200 was recorded in the third quarter of 2009 when Metaldyne announced it had completed the sale of substantially all of its assets to MD Investors Corporation, effectively making no payments to the unsecured creditors, including Park-Ohio.



**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders  
Park-Ohio Holdings Corp.

We have reviewed the accompanying consolidated balance sheet of Park-Ohio Holdings Corp. and subsidiaries as of September 30, 2009, and the related consolidated statements of operations for the three-month and nine-month periods ended September 30, 2009 and 2008, and the consolidated statement of shareholders' equity for the nine-month period ended September 30, 2009 and cash flows for the nine-month period ended September 30, 2009 and 2008. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based upon our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Park-Ohio Holdings Corp. and subsidiaries as of December 31, 2008 and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended, not presented herein; and in our report dated March 12, 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2008, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Cleveland, Ohio  
November 9, 2009

**Table of Contents**

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

Our consolidated financial statements include the accounts of Park-Ohio Holdings Corp. and its subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

**Executive Overview**

We are an industrial Total Supply Management<sup>™</sup> and diversified manufacturing business, operating in three segments: Supply Technologies, Aluminum Products and Manufactured Products. Our Supply Technologies business provides our customers with Total Supply Management<sup>™</sup>, a proactive solutions approach that manages the efficiencies of every aspect of supplying production parts and materials to our customers' manufacturing floors, from strategic planning to program implementation. Total Supply Management<sup>™</sup> includes such services as engineering and design support, part usage and cost analysis, supplier selection, quality assurance, bar coding, product packaging and tracking, just-in-time and point-of-use delivery, electronic billing services and ongoing technical support. The principal customers of Supply Technologies are in the heavy-duty truck, automotive and vehicle parts, electrical distribution and controls, consumer electronics, power sports/fitness equipment, HVAC, agricultural and construction equipment, semiconductor equipment, plumbing, aerospace and defense, and appliance industries. Aluminum Products casts and machines aluminum engine, transmission, brake, suspension and other components such as front engine covers, cooling modules, pump housings, clutch retainers/pistons, control arms, knuckles, master cylinders, pinion housings, oil pans and flywheel spacers for automotive, agricultural equipment, construction equipment, heavy-duty truck and marine equipment original equipment manufacturers (OEMs), primarily on a sole-source basis. Aluminum Products also provides value-added services such as design and engineering and assembly. Manufactured Products operates a diverse group of niche manufacturing businesses that design and manufacture a broad range of highly-engineered products including induction heating and melting systems, pipe threading systems, industrial oven systems, injection molded rubber components, and forged and machined products. Manufactured Products also produces and provides services and spare parts for the equipment it manufactures. The principal customers of Manufactured Products are OEMs, sub-assemblers and end users in the ferrous and non-ferrous metals, silicon, coatings, forging, foundry, heavy-duty truck, construction equipment, automotive, oil and gas, rail and locomotive manufacturing and aerospace and defense industries. Sales, earnings and other relevant financial data for these three segments are provided in Note B to the Consolidated Financial Statements.

The domestic and international automotive markets were significantly impacted in 2008, which adversely affected our business units serving those markets. During the third quarter of 2008, the Company recorded asset impairment charges associated with the recent volume declines and volatility in the automotive markets. The charges were composed of \$.6 million of inventory impairment included in Cost of Products Sold and \$17.5 million for impairment of property and equipment and other long-term assets.

During the fourth quarter of 2008, the Company recorded a non-cash goodwill impairment charge of \$95.8 million and restructuring and asset impairment charges of \$13.4 million associated with the decision to exit its relationship with its largest customer, Navistar, along with the general economic downturn. The charges were composed of \$5.0 million of inventory impairment included in Cost of Products Sold and \$8.4 million for impairment of property and equipment, loss on disposal of a foreign subsidiary and severance costs. Impairment charges were offset by a gain of \$.6 million recorded in the Aluminum Products segment relating to the sale of certain facilities that were previously written off.

Approximately 20% of the Company's consolidated net sales were to the automotive markets in 2008. The recent deterioration in the global economy and global credit markets continues to negatively impact the automotive markets. General Motors, Ford and Chrysler have encountered severe financial difficulty, which ultimately resulted in the bankruptcy of Chrysler and General Motors and could result in bankruptcy for more automobile manufacturers and



their suppliers such as the recent bankruptcy of Metaldyne, which, in turn, would adversely affect the financial condition of the Company's automobile OEM customers. For the remainder of 2009, the Company expects that its business, results of operations and financial condition will continue to be negatively impacted by the performance of the automotive markets.

**Table of Contents**

**Accounting Changes**

In June 2009, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles . The statement makes the Accounting Standards Codification ( ASC ) the single source of authoritative U.S. accounting and reporting standards, but it does not change U.S. GAAP. The Company adopted the statement as of September 30, 2009. Accordingly, the financial statements for the interim period ending September 30, 2009, and the financial statements for future interim and annual periods will reflect the ASC references. The statement has no impact on the Company s results of operations, financial condition or liquidity.

In December 2007, the FASB issued new guidance that modifies the accounting for business combinations by requiring that acquired assets and assumed liabilities be recorded at fair value, contingent consideration arrangements be recorded at fair value on the date of the acquisition and preacquisition contingencies will generally be accounted for in purchase accounting at fair value. The new guidance was adopted prospectively by the Company, effective January 1, 2009.

In December 2008, the FASB issued new guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. The guidance addresses disclosures related to the categories of plan assets and fair value measurements of plan assets. The new guidance was adopted by the Company effective January 1, 2009 and had no effect on its consolidated financial position or results of operations.

In April 2009, the FASB issued new guidance that if an entity determines that the level of activity for an asset or liability has significantly decreased and that a transaction is not orderly, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transaction or quoted prices may be necessary to estimate fair value. This new guidance is to be applied prospectively and is effective for interim and annual periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The Company adopted this guidance for its quarter ended June 30, 2009. There was no impact on the consolidated financial statements. In April 2009, the FASB issued guidance which requires that publicly traded companies include the fair value disclosures in their interim financial statements. This guidance is effective for interim reporting periods ending after June 15, 2009. The Company adopted this guidance at June 30, 2009. At September 30, 2009, the approximate fair value of Park-Ohio-Industries, Inc. 8.375% senior subordinated notes due 2014 was \$151.0 million based on Level 1 inputs. The Company had other investments having Level 2 inputs totaling \$6.4 million.

In May 2009, the FASB issued guidance which addresses the types and timing of events that should be reported in the financial statements for events occurring between the balance sheet date and the date the financial statements are issued or available to be issued. This guidance was effective for the Company on June 30, 2009. The adoption of this guidance did not impact the Company s consolidated financial position or results of operations. Refer to Note A to the consolidated financial statements for information on subsequent events.

**Results of Operations**

*Nine Months 2009 versus Nine Months 2008*

*Net Sales by Segment:*

<b>Nine Months Ended September 30,</b>	<b>Percent</b>
--	----------------

	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>Change</b>
			<b>(Dollars in millions)</b>	
Supply Technologies	\$ 242.9	\$ 399.5	\$ (156.6)	(39)%
Aluminum Products	75.7	120.3	(44.6)	(37)%
Manufactured Products	194.7	299.4	(104.7)	(35)%
Consolidated Net Sales	\$ 513.3	\$ 819.2	\$ (305.9)	(37)%

Net sales declined \$305.9 million to \$513.3 million in the first nine months of 2009 compared to \$819.2 million in the same period in 2008 as the Company experienced volume declines in each segment resulting from the

**Table of Contents**

challenging global economic downturn. Supply Technologies sales decreased 39% primarily due to volume reductions in the heavy duty truck industry, of which \$60.4 million resulted from the Company's decision to exit its relationship with its largest customer in the fourth quarter of 2008. The remaining sales reductions were due to the overall reduction in demand from customers in most end-markets. Aluminum Products sales decreased 37% as the general decline in auto industry sales volumes exceeded additional sales from new contracts starting production ramp-up. Manufactured Products sales decreased 35% from the declining business environment in each of its business reporting units.

***Cost of Products Sold & Gross Profit:***

	<b>Nine Months Ended September 30, 2009</b>			<b>2008</b>	<b>Change</b>	<b>Percent Change</b>
	<b>(Dollars in millions)</b>					
Consolidated cost of products sold	\$ 437.4	\$ 697.4	\$ (260.0)			(37)%
Consolidated gross profit	\$ 75.9	\$ 121.8	\$ (45.9)			(38)%
Gross Margin	14.8%	14.9%				

Cost of products sold decreased \$260.0 million in the first nine months of 2009 to \$437.4 million compared to \$697.4 million in the same period in 2008 primarily due to the reduction in sales volume, while gross margin remained constant in the first nine months of 2009 compared to the same period in 2008.

Supply Technologies gross margin remained unchanged from the prior year, as increased product profitability improvements were offset by volume declines. Aluminum Products gross margin increased primarily due to cost cutting measures, a plant closure and improved efficiencies at another plant location. Gross margin in the Manufactured Products segment decreased primarily due to lower volume in the forged and machine products business unit.

***Selling, General & Administrative (SG&A) Expenses:***

	<b>Nine Months Ended September 30, 2009</b>			<b>2008</b>	<b>Change</b>	<b>Percent Change</b>
	<b>(Dollars in millions)</b>					
Consolidated SG&A expenses	\$ 66.5	\$ 82.8	\$ (16.3)			(20)%
SG&A percent of sales	13.0%	10.1%				

Consolidated SG&A expenses decreased 20% in the first nine months of 2009 compared to the same period in 2008, representing a 290 basis point increase in SG&A expenses as a percent of sales. SG&A expenses decreased in the first nine months of 2009 compared to the same period in 2008 primarily due to employee workforce reductions, salary cuts, suspension of the Company's voluntary contribution to its 401(k) defined contribution plan, less business travel

and a reduction in volume of business offset by a reduction in pension income. SG&A expenses benefited in the first nine months of 2009 from a reduction of \$2.8 million resulting from a second quarter change in our vacation benefit, which is now earned throughout the calendar year rather than earned in full at the beginning of the year, but was offset by a \$4.2 million charge for a reserve for an account receivable from a customer in bankruptcy.

***Gain on Purchase of 8.375% Senior Subordinated Notes:***

During the first nine months of 2009, the Company recorded a gain of \$5.1 million on the purchase of \$10.215 million principal amount of Park-Ohio Industries, Inc. 8.375% senior subordinated notes due 2014.

**Table of Contents*****Interest Expense:***

	<b>Nine Months Ended September 30,</b>			<b>Percent Change</b>
	<b>2009</b>	<b>2008</b>	<b>Change</b>	
	<b>(Dollars in millions)</b>			
Interest expense	\$ 18.0	\$ 20.7	\$ (2.7)	(13)%
Average outstanding borrowings	\$ 371.2	\$ 385.7	\$ (14.5)	(4)%
Average borrowing rate	6.46%	7.15%	(69)	basis points

Interest expense decreased \$2.7 million in the first nine months of 2009 compared to the same period of 2008, primarily due to lower average outstanding borrowings and a lower average borrowing rate during the first nine months of 2009. The decrease in average borrowings in the first nine months of 2009 resulted primarily from the reduction in working capital requirements. The lower average borrowing rate in the first nine months of 2009 was due primarily to decreased interest rates under our revolving credit facility compared to the same period in 2008.

***Income Tax:***

The provision for income taxes was \$1.8 million in the first nine months of 2009, a (51)% effective income tax rate, compared to income taxes of \$.8 million provided in the corresponding period of 2008, an 86% effective income tax rate. We estimate that the effective tax rate for full-year 2009 will be approximately (159)% and is significantly different from the 35% United States federal statutory rate primarily due to anticipated losses in the United States for which the Company will record no tax benefit and anticipated income earned in jurisdictions outside the United States.

**Results of Operations*****Third Quarter 2009 versus Third Quarter 2008******Net Sales by Segment:***

	<b>Three Months Ended September 30,</b>			<b>Percent Change</b>
	<b>2009</b>	<b>2008</b>	<b>Change</b>	
	<b>(Dollars in millions)</b>			
Supply Technologies	\$ 82.5	\$ 131.7	\$ (49.2)	(37)%
Aluminum Products	31.6	35.8	(4.2)	(12)%
Manufactured Products	54.5	98.6	(44.1)	(45)%
Consolidated Net Sales	\$ 168.6	\$ 266.1	\$ (97.5)	(37)%

Consolidated net sales declined \$97.5 million in the third quarter of 2009 to \$168.6 million compared to \$266.1 million in the same quarter of 2008 as the Company experienced volume declines in each segment resulting from the challenging global economic downturn. Supply Technologies sales decreased 37% primarily due to volume reductions in the heavy-duty truck industry, of which \$22.0 million resulted from the Company's decision to exit its relationship with its largest customer in the fourth quarter of 2008. The remaining sales reduction was due to the overall reduction in demand. Aluminum Products sales decreased 12% as the general decline in auto industry sales volumes exceeded sales from new contracts starting production. Manufactured Products sales decreased 45% from the declining business environment.

**Table of Contents*****Cost of Products Sold & Gross Profit:***

	<b>Three Months Ended September 30, 2009</b>			<b>2008</b>	<b>Change</b>	<b>Percent Change</b>
	<b>(Dollars in millions)</b>					
Consolidated cost of products sold	\$ 145.9	\$ 226.8	\$ (80.9)			(36)%
Consolidated gross profit	\$ 22.7	\$ 39.4	\$ (16.7)			(42)%
Gross Margin	13.5%	14.8%				

Cost of products sold decreased \$80.9 million to \$145.9 million in the third quarter of 2009 compared to \$226.8 million for the same quarter of 2008, primarily due to the reduction in sales volume, while gross margin decreased to 13.5% in the third quarter of 2009 from 14.8% in the same quarter of 2008.

Gross margins remained unchanged in the Supply Technologies segment resulting from cost cutting initiatives and business restructuring activities undertaken in the fourth quarter of 2008 and first quarter of 2009 offset by the effect of lower product sales volume. Aluminum Products gross margin improved primarily due to cost cutting measures and improved efficiencies. Manufactured Products segment gross margins decreased due to lower margins in the forged and machine and capital equipment business units offset by improvement in the rubber products business unit.

***SG&A Expenses:***

	<b>Three Months Ended September 30, 2009</b>			<b>2008</b>	<b>Change</b>	<b>Percent Change</b>
	<b>(Dollars in millions)</b>					
Consolidated SG&A expenses	\$ 21.7	\$ 28.8	\$ (7.1)			(25)%
SG&A percent of sales	12.9%	10.8%				

Consolidated SG&A expenses decreased 25% in the third quarter of 2009 compared to the same quarter in 2008, representing an increase in SG&A expenses as a percent of sales of 210 basis points from 10.8% to 12.9%. SG&A expenses decreased in the third quarter of 2009 compared to the same quarter in 2008 primarily due to workforce reductions, salary cuts, suspension of the Company's voluntary contribution to its 401(k) defined contribution plan and a reduction in volume of business offset by a reduction in pension income. SG&A expenses for the third quarter of 2009 benefited from a reduction of \$.7 million resulting from a second quarter change in our vacation benefit, which is now earned throughout the calendar year rather than earned in full at the beginning of the year, and a \$2.2 million charge for a reserve for an account receivable from a customer in bankruptcy.

***Gain on Purchase of 8.375% Senior Subordinated Notes:***



During the third quarter of 2009, the Company recorded a gain of \$2.0 million on the purchase of \$4.09 million principal amount of Park-Ohio Industries, Inc. 8.375% senior subordinated notes due 2014.

***Interest Expense:***

	<b>Three Months Ended September 30, 2009      2008</b>			<b>Change</b>	<b>Percent Change</b>
	<b>(Dollars in millions)</b>				
Interest expense	\$ 5.9	\$ 6.8	\$ (.9)	(13)%	
Average outstanding borrowings	\$ 357.1	\$ 388.6	\$ (31.5)	(8)%	
Average borrowing rate	6.61%	7.00%	(39)	basis points	

## **Table of Contents**

Interest expense decreased \$.9 million in the third quarter of 2009 compared to the same period of 2008, primarily due to lower average outstanding borrowings and a lower average borrowing rate during the third quarter of 2009. The decrease in average borrowings in the third quarter of 2009 resulted primarily from a reduction in working capital requirements. The lower average borrowing rate in the third quarter of 2009 was due primarily to decreased interest rates under our revolving credit facility compared to the same period in 2008.

### ***Income Tax:***

The provision for income taxes was \$.3 million in the third quarter of 2009, a (10)% effective income tax rate, compared to income tax benefit of \$4.6 million provided in the corresponding quarter of 2008, a 34% effective income tax rate. We estimate that the effective tax rate for full-year 2009 will be approximately (159)% and is higher than the 35% United States federal statutory rate primarily due to anticipated losses in the United States for which the Company will record no tax benefit and anticipated income earned in jurisdictions outside the United States.

### **Liquidity and Sources of Capital**

Our liquidity needs are primarily for working capital and capital expenditures. Our primary sources of liquidity have been funds provided by operations and funds available from existing bank credit arrangements and the sale of our senior subordinated notes. In 2003, we entered into a revolving credit facility with a group of banks which, as subsequently amended, matures at December 31, 2010 and provides for availability of up to \$270 million subject to an asset-based formula. The revolving credit facility is secured by substantially all of our assets in the United States, Canada and the United Kingdom. Borrowings from this revolving credit facility is used for general corporate purposes.

Amounts borrowed under the revolving credit facility may be borrowed at the Company's election at either (i) LIBOR plus .75% to 1.75% or (ii) the bank's prime lending rate. The LIBOR-based interest rate is dependent on the Company's debt service coverage ratio, as defined in the revolving credit facility. Under the revolving credit facility, a detailed borrowing base formula provides borrowing availability to the Company based on percentages of eligible accounts receivable, inventory and fixed assets. As of September 30, 2009, the Company had \$147.8 million borrowed under the revolving credit facility, \$9.4 million outstanding primarily for standby letters of credit, and approximately \$33.7 million of unused borrowing availability.

Current financial resources (working capital and available bank borrowing arrangements) and anticipated funds from operations are expected to be adequate to meet current cash requirements for at least the next twelve months. The future availability of bank borrowings under the revolving credit facility is based on the Company's ability to meet a debt service ratio covenant, which could be materially impacted by negative economic trends. Failure to meet the debt service ratio could materially impact the availability and interest rate of future borrowings.

At September 30, 2009, the Company's debt service coverage ratio was 1.5, and, therefore, it was in compliance with the debt service coverage ratio covenant contained in the revolving credit facility. The Company was also in compliance with the other covenants contained in the revolving credit facility as of September 30, 2009. The debt service coverage ratio is calculated at the end of each fiscal quarter and is based on the most recently ended four fiscal quarters of consolidated EBITDA minus cash taxes paid, minus unfunded capital expenditures, plus cash tax refunds to consolidated debt charges which are consolidated cash interest expense plus scheduled principal payments on indebtedness plus scheduled reductions in our fixed asset borrowing base as defined in the revolving credit facility. The debt service coverage ratio must be greater than 1.0 and not less than 1.1 for any two consecutive fiscal quarters. While we expect to remain in compliance throughout the remainder of 2009, further declines in demand in the automotive industry and in sales volumes in 2009 could adversely impact our ability to remain in compliance with certain of these financial covenants. Additionally, to the extent our customers are adversely affected by the declines in

demand in the automotive industry or the economy in general, they may not be able to pay their accounts payable to us on a timely basis or at all, which would make the accounts receivable ineligible for purposes of the revolving credit facility and could reduce our borrowing base and our ability to borrow under such facility.

## **Table of Contents**

The Company may from time to time seek to retire or purchase its outstanding debt through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. It may also repurchase shares of its outstanding common stock. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Disruptions, uncertainty or volatility in the credit markets may adversely impact the availability of credit already arranged and the availability and cost of credit in the future. These market conditions may limit the Company's ability to replace, in a timely manner, maturing liabilities and access the capital necessary to grow and maintain its business. Accordingly, the Company may be forced to delay raising capital, issue shorter tenors than the Company prefers or pay unattractive interest rates, which could increase its interest expense, decrease its profitability and significantly reduce its financial flexibility. There can be no assurances that government responses to the disruptions in the financial markets will stabilize the markets or increase liquidity and the availability of credit.

The ratio of current assets to current liabilities was 2.77 at September 30, 2009 versus 2.22 at December 31, 2008. Working capital decreased by \$17.2 million to \$235.7 million at September 30, 2009 from \$252.9 million at December 31, 2008.

During the first nine months of 2009, the Company provided \$29.2 million from operating activities compared to providing \$10.8 million in the same period of 2008. The increase in operating cash provision of \$18.4 million was primarily the result of a reduction in accounts receivable and inventories and other current assets of \$91.9 million, offset by a reduction in accounts payable and accrued expenses in the first nine months of 2009, compared to an increase in accounts receivable and inventories and other current assets of \$31.2 million, offset by an increase in accounts payable and accrued expenses of \$22.2 million, during the same period of 2008 primarily due to reductions in raw material purchases due to lower business volume and timing of payments of accounts payable. This difference, plus a change from net income of \$.1 million in the first nine months of 2008 to a net loss of \$5.4 million in the first nine months of 2009 resulted in an increase in the cash provided from operations. In the first nine months of 2009, the Company also used cash of \$4.6 million for capital expenditures and \$5.1 million to purchase \$10.21 million principal amount of its 8.375% Senior Subordinated Notes due 2014. These activities, plus cash interest and tax payments of \$15.1 million, a decrease in borrowing of \$19.4 million and proceeds from the exercise of stock options of \$.7 million, resulted in an increase in cash of \$1.6 million in the first nine months of 2009.

We do not have off-balance sheet arrangements, financing or other relationships with unconsolidated entities or other persons. There are occasions whereupon we enter into forward contracts on foreign currencies, primarily the euro and British Pound Sterling, purely for the purpose of hedging exposure to changes in the value of accounts receivable in those currencies against the U.S. dollar. At September 30, 2009, none were outstanding. We currently have no other derivative instruments.

## **Seasonality; Variability of Operating Results**

Our results of operations are typically stronger in the first six months than the last six months of each calendar year due to plant maintenance scheduled in the third quarter to coincide with customer plant shutdowns and due to holidays in the fourth quarter.

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

**Forward-Looking Statements**

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

## **Table of Contents**

statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance and achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These uncertainties and other factors include such things as: general business conditions and competitive factors, including pricing pressures and product innovation; demand for our products and services; raw material availability and pricing; changes in our relationships with customers and suppliers; the financial condition of our customers, including the impact of any bankruptcies; our ability to successfully integrate recent and future acquisitions into existing operations; changes in general domestic economic conditions such as inflation rates, interest rates, and tax rates; adverse impacts to us, our suppliers and customers from acts of terrorism or hostilities; our ability to meet various covenants, including financial covenants, contained in our revolving credit agreement and the indenture governing our senior subordinated notes; increasingly stringent domestic and foreign governmental regulations, including those affecting the environment; inherent uncertainties involved in assessing our potential liability for environmental remediation-related activities; the outcome of pending and future litigation and other claims; dependence on the automotive and heavy-duty truck industries, which are highly cyclical; dependence on key management; and dependence on information systems. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law. In light of these and other uncertainties, the inclusion of a forward-looking statement herein should not be regarded as a representation by us that our plans and objectives will be achieved.

### **Review By Independent Registered Public Accounting Firm**

The consolidated financial statements at September 30, 2009, and for the three-month and nine-month periods ended September 30, 2009 and 2008, have been reviewed, prior to filing, by Ernst & Young LLP, our independent registered public accounting firm, and their report is included herein.

### **Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

We are exposed to market risk including changes in interest rates. We are subject to interest rate risk on borrowings under our floating rate revolving credit agreement, which consisted of borrowings of \$147.8 million at September 30, 2009. A 100 basis point increase in the interest rate would have resulted in an increase in interest expense of approximately \$1.1 million during the nine-month period ended September 30, 2009.

Our foreign subsidiaries generally conduct business in local currencies. During the first nine months of 2009, we recorded a favorable foreign currency translation adjustment of \$1.9 million related to net assets located outside the United States. This foreign currency translation adjustment resulted primarily from the weakening of the U.S. dollar. Our foreign operations are also subject to other customary risks of operating in a global environment, such as unstable political situations, the effect of local laws and taxes, tariff increases and regulations and requirements for export licenses, the potential imposition of trade or foreign exchange restrictions and transportation delays.

The Company periodically enters into forward contracts on foreign currencies, primarily the euro and the British Pound Sterling, purely for the purpose of hedging exposure to changes in the value of accounts receivable in those currencies against the U.S. dollar. At September 30, 2009, there were no such currency hedge contracts outstanding. The Company currently uses no other derivative instruments.

### **Item 4. *Controls and Procedures***

Under the supervision of and with the participation of our management, including our chief executive officer and chief financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures

Edgar Filing: PARK OHIO HOLDINGS CORP - Form 10-Q

(as defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this quarterly report.

Based on that evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of the period covered by this quarterly report, our disclosure controls and procedures were effective.

**Table of Contents**

There have been no changes in our internal control over financial reporting that occurred during the third quarter of 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II**

**OTHER INFORMATION**

**Item 1. *Legal Proceedings***

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

At September 30, 2009, we were a co-defendant in approximately 260 cases asserting claims on behalf of approximately 1,260 plaintiffs alleging personal injury as a result of exposure to asbestos. These asbestos cases generally relate to production and sale of asbestos-containing products and allege various theories of liability, including negligence, gross negligence and strict liability and seek compensatory and, in some cases, punitive damages.

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

There are only four asbestos cases, involving 23 plaintiffs, that plead specified damages. In each of the four cases, the plaintiff is seeking compensatory and punitive damages based on a variety of potentially alternative causes of action. In three cases, the plaintiff has alleged compensatory damages in the amount of \$3.0 million for four separate causes of action and \$1.0 million for another cause of action and punitive damages in the amount of \$10.0 million. In the other case, the plaintiff has alleged compensatory damages in the amount of \$20.0 million for three separate causes of action and \$5.0 million for another cause of action and punitive damages in the amount of \$20.0 million.

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



alleged are not attributed to individual defendants. Additionally, we do not believe that the amounts claimed in any of the asbestos cases are meaningful indicators of our potential exposure because the amounts claimed typically bear no relation to the extent of the plaintiff's injury, if any.

**Table of Contents**

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

**Item 1A. Risk Factors**

Except for the following additional risk factor, there have been no material changes in the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

*The current global financial crisis may have significant effects on our customers that would result in our inability to borrow or to meet our debt service coverage ratio in our revolving credit facility.*

As of September 30, 2009, we were in compliance with our debt service coverage ratio covenant and other covenants contained in our revolving credit facility. While we expect to remain in compliance throughout 2009, further declines in demand in the automotive industry and in sales volumes could adversely impact our ability to remain in compliance with certain of these financial covenants. Additionally, to the extent our customers are adversely affected by the declines in demand in the automotive industry or the economy in general, they may not be able to pay their accounts payable to us on a timely basis or at all, which would make the accounts receivable ineligible for purposes of the revolving credit facility and could reduce our borrowing base and our ability to borrow.

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

The Company has a share repurchase program whereby the Company may repurchase up to 1.0 million shares of its common stock. There were no purchases under this program during the quarter ended September 30, 2009.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 6. Exhibits**

The following exhibits are included herein:

- 4.1 Second Amended and Restated Credit Agreement, dated June 20, 2007, among Park-Ohio Industries, Inc., the other loan parties thereto, the lenders thereto and JP Morgan Chase Bank, N.A. (successor by merger to Bank One, NA), as agent
- 15 Letter re: unaudited interim financial information
- 31.1 Principal Executive Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Principal Financial Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification requirement under Section 906 of the Sarbanes-Oxley Act of 2002

**Table of Contents**

**SIGNATURE**

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

PARK-OHIO HOLDINGS CORP.

(Registrant)

By /s/ Jeffrey L. Rutherford

Name: Jeffrey L. Rutherford

Title: Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

Date: November 9, 2009

**Table of Contents**

**EXHIBIT INDEX  
QUARTERLY REPORT ON FORM 10-Q  
PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES  
FOR THE QUARTER ENDED SEPTEMBER 30, 2009**

**Exhibit**

- 4.1 Second Amended and Restated Credit Agreement, dated June 20, 2007, among Park-Ohio Industries, Inc., the other loan parties thereto, the lenders thereto and JP Morgan Chase Bank, N.A. (successor by merger to Bank One, NA), as agent
- 15 Letter re: unaudited interim financial information
- 31.1 Principal Executive Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Principal Financial Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification requirement under Section 906 of the Sarbanes-Oxley Act of 2002