

PARK OHIO HOLDINGS CORP

Form 10-Q

May 10, 2010

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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 March 31, 2010**
- 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)*  
**6065 Parkland Boulevard, Cleveland, Ohio**  
*(Address of principal executive offices)*

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

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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 April 30, 2010: 11,774,420.

The Exhibit Index is located on page 23.

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

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

	<b>(Unaudited)</b>	
	<b>March 31,</b>	<b>December 31,</b>
	<b>2010</b>	<b>2009</b>
	<b>(Dollars in thousands)</b>	
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 28,134	\$ 23,098
Accounts receivable, less allowances for doubtful accounts of \$8,571 at March 31, 2010 and \$8,388 at December 31, 2009	120,048	104,643
Inventories	173,290	182,116
Deferred tax assets	8,104	8,104
Unbilled contract revenue	20,570	19,411
Other current assets	10,529	12,700
Total Current Assets	360,675	350,072
Property, Plant and Equipment	245,857	245,240
Less accumulated depreciation	172,482	168,609
	73,375	76,631
Other Assets		
Goodwill	3,983	4,155
Other	77,224	71,410
	\$ 515,257	\$ 502,268
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current Liabilities		
Trade accounts payable	\$ 86,600	\$ 75,083
Accrued expenses	45,286	39,150
Current portion of long-term debt	10,748	10,894
Current portion of other postretirement benefits	2,197	2,197
Total Current Liabilities	144,831	127,324
Long-Term Liabilities, less current portion		
8.375% Senior Subordinated Notes due 2014	183,835	183,835
Revolving credit facility	130,400	134,600

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Other long-term debt	4,563	4,668
Deferred tax liability	7,200	7,200
Other postretirement benefits and other long-term liabilities	21,272	21,831
	347,270	352,134
Shareholders' Equity		
Capital stock, par value \$1 a share:		
Serial Preferred Stock	-0-	-0-
Common Stock	13,287	13,274
Additional paid-in capital	66,772	66,323
Retained deficit	(32,164)	(34,230)
Treasury stock, at cost	(17,793)	(17,443)
Accumulated other comprehensive (loss)	(6,946)	(5,114)
	23,156	22,810
	\$ 515,257	\$ 502,268

Note: The balance sheet at December 31, 2009 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 March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Amounts in thousands, except per share data)</b>	
Net sales	\$ 191,701	\$ 181,250
Cost of products sold	162,363	157,388
Gross profit	29,338	23,862
Selling, general and administrative expenses	20,968	22,621
Operating income	8,370	1,241
Interest expense	5,436	5,971
Income (loss) before income taxes	2,934	(4,730)
Income taxes	868	732
Net income (loss)	\$ 2,066	\$ (5,462)
Amounts per common share:		
Basic	\$ .19	\$ (.50)
Diluted	\$ .18	\$ (.50)
Common shares used in the computation:		
Basic	11,108	10,950
Diluted	11,647	10,950

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 Deficit (Dollars in thousands)</b>	<b>Treasury Stock</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total</b>
Balance at January 1, 2010	\$ 13,274	\$ 66,323	\$ (34,230)	\$ (17,443)	\$ (5,114)	\$ 22,810
Comprehensive income:						
Net income			2,066			2,066
Foreign currency translation adjustment					(2,027)	(2,027)
Pension and post retirement benefit adjustments, net of tax					195	195
Comprehensive income						234
Amortization of restricted stock		383				383
Restricted share units exchanged for restricted stock	13	(13)				-0-
Purchase of treasury stock (36,113 shares)				(350)		(350)
Share-based compensation		79				79
Balance at March 31, 2010	\$ 13,287	\$ 66,772	\$ (32,164)	\$ (17,793)	\$ (6,946)	\$ 23,156

See notes to consolidated financial statements.



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

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Dollars in thousands)</b>	
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 2,066	\$ (5,462)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	4,168	5,229
Share-based compensation expense	462	514
Changes in operating assets and liabilities:		
Accounts receivable	(15,405)	33,042
Inventories and other current assets	9,838	7,436
Accounts payable and accrued expenses	17,653	(43,330)
Other	(4,923)	(4,420)
Net Cash Provided (Used) by Operating Activities	13,859	(6,991)
<b>INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment, net	(217)	(1,335)
Purchases of marketable securities	-0-	(62)
Sales of marketable securities	-0-	865
Net Cash Used by Investing Activities	(217)	(532)
<b>FINANCING ACTIVITIES</b>		
(Payments) Proceeds on debt, net	(4,450)	3,175
Debt issue costs	(3,806)	-0-
Purchase of treasury stock	(350)	-0-
Exercise of stock options	-0-	688
Net Cash (Used) Provided by Financing Activities	(8,606)	3,863
Increase (Decrease) in Cash and Cash Equivalents	5,036	(3,660)
Cash and Cash Equivalents at Beginning of Period	23,098	17,825
Cash and Cash Equivalents at End of Period	\$ 28,134	\$ 14,165
Taxes paid	\$ 573	\$ 1,747
Interest paid	1,167	1,541

See notes to consolidated financial statements.

**Table of Contents****PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****March 31, 2010****(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 period ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. 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, 2009.

**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<sup>tm</sup> services for a broad range of high-volume, specialty production components. Total Supply Management<sup>tm</sup> manages the efficiencies of every aspect of supplying production parts and materials to our customers manufacturing floor, from strategic planning to program implementation, and includes such services as engineering and design support, part usage and cost analysis, supplier selection, quality assurance, bar coding, product packaging and tracking, just-in-time and point-of-use delivery, electronic billing services and ongoing technical support. Aluminum Products manufactures cast aluminum components for 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 March 31,</b>	
	<b>2010</b>	<b>2009</b>
Net sales:		
Supply Technologies	\$ 94,238	\$ 82,971
Aluminum Products	36,588	22,358
Manufactured Products	60,875	75,921
	<b>\$ 191,701</b>	<b>\$ 181,250</b>

Income (loss) before income taxes:		
Supply Technologies	\$ 4,484	\$ 546
Aluminum Products	1,936	(3,662)
Manufactured Products	4,933	7,712
	11,353	4,596
Corporate costs	(2,983)	(3,355)
Interest expense	(5,436)	(5,971)
	\$ 2,934	\$ (4,730)

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

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Identifiable assets were as follows:		
Supply Technologies	\$ 213,930	\$ 207,729
Aluminum Products	75,368	76,443
Manufactured Products	178,698	178,715
General corporate	47,261	39,381
	<b>\$ 515,257</b>	<b>\$ 502,268</b>

**NOTE C Recent Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board ( FASB ) issued guidance as codified in ASC 810-10, Consolidation of Variable Interest Entities (previously Statement of Financial Accounting Standards ( SFAS ) No. 167, Amendments to FASB Interpretation No. 46(R) ). This guidance is intended to improve financial reporting by providing additional guidance to companies involved with variable interest entities ( VIEs ) and by requiring additional disclosures about a company s involvement with variable interest entities. This guidance is generally effective for annual periods beginning after November 15, 2009 and for interim periods within that first annual reporting period. The adoption of this guidance did not have a material impact on the financial statements of the Company.

**NOTE D Inventories**

The components of inventory consist of the following:

	<b>March 31, 2010</b>	<b>December 31, 2008</b>
Finished goods	\$ 98,306	\$ 100,309
Work in process	24,315	26,778
Raw materials and supplies	50,669	55,029
	<b>\$ 173,290</b>	<b>\$ 182,116</b>

**NOTE E Shareholders Equity**

At March 31, 2010, capital stock consists 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 13,287,342 shares were issued, of which 11,777,260 were outstanding and 1,510,082 were treasury shares.

**Table of Contents****PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****NOTE F Net Income (Loss) Per Common Share**

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

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>NUMERATOR</b>		
Net income (loss)	\$ 2,066	\$ (5,462)
<b>DENOMINATOR</b>		
Denominator for basic earnings per share weighted average shares	11,108	10,950
Effect of dilutive securities:		
Employee stock options	539	-0-
Denominator for diluted earnings per share weighted average shares and assumed conversions	11,647	10,950
Amounts per common share:		
Basic	\$ .19	\$ (.50)
Diluted	\$ .18	\$ (.50)

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 ASC 260, 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 three months ended March 31, 2009, basic weighted-average shares outstanding are used in calculating diluted earnings per share.

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 earning per share. Stock options on 206,685 shares were excluded in the three months ended March 31, 2010 because they were anti-dilutive.

**NOTE G Stock-Based Compensation**

Total stock-based compensation expense recorded in the first three months of 2010 and 2009 was \$462 and \$514, respectively. There were no stock option or restricted stock awards during the first three months of 2010. There were an aggregate of 523,000 shares of restricted stock at \$3.49 per share and no stock option awards granted during the three months ended March 31, 2009. As of March 31, 2010, there was \$2,026 of unrecognized compensation cost related to non-vested stock-based compensation, which is expected to be recognized over a weighted average period of 1.7 years.



Table of Contents**PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****NOTE H Pension Plans and Other Postretirement Benefits**

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

	<b>Three Months Ended March 31,</b>			
	<b>Pension Benefits</b>		<b>Postretirement Benefits</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Service costs	\$ 81	\$ 123	\$ 9	\$ 24
Interest costs	643	694	248	296
Expected return on plan assets	(1,984)	(1,758)	-0-	-0-
Transition obligation	(10)	(10)	(24)	-0-
Amortization of prior service cost	15	32	-0-	-0-
Recognized net actuarial loss	82	231	107	119
Benefit (income) costs	\$ (1,173)	\$ (688)	\$ 340	\$ 439

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

**NOTE I Comprehensive Income (Loss)**

Total comprehensive income (loss) was as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Net income (loss)	\$ 2,066	\$ (5,462)
Foreign currency translation	(2,027)	(3,877)
Unrealized loss on marketable securities, net of tax	-0-	413
Pension and post retirement benefit adjustments, net of tax	195	(169)
Total comprehensive income (loss)	\$ 234	\$ (9,095)

The components of accumulated comprehensive loss at March 31, 2010 and December 31, 2009 are as follows:

**March 31,      December 31,**

	<b>2010</b>	<b>2009</b>
Foreign currency translation adjustment	\$ 4,923	\$ 6,950
Pension and postretirement benefit adjustments, net of tax	(11,869)	(12,064)
	\$ (6,946)	\$ (5,114)

The pension and postretirement benefit liability amounts are net of deferred taxes of \$1,179 at March 31, 2010 and December 31, 2009. No income taxes are provided on foreign currency translation adjustments as foreign earnings are considered permanently invested.



**Table of Contents****PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****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>2010</b>	<b>2009</b>
Balance at January 1	\$ 2,760	\$ 5,402
Claims paid during the quarter	(246)	(660)
Additional warranties issued during the quarter	73	325
Balance at March 31	\$ 2,587	\$ 5,067

**NOTE K Income Taxes**

The effective income tax rate in the first three months of 2010 and 2009 was 29.6% and (15.5%), respectively.

There have been no material changes to the balance of unrecognized tax benefits reported at December 31, 2009.

**NOTE L Fair Value Measurements**

The Company measures financial assets and liabilities at fair value in three levels of inputs. The three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is:

*Level 1* Valuations based on quoted prices for identical assets and liabilities in active markets.

*Level 2* Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

*Level 3* Valuations based on unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

The fair value of the 8.375% Subordinated Notes due 2014 is estimated based on a third party's bid price. The fair value approximated \$173,724 at March 31, 2010 and \$144,310 at December 31, 2009. The Company had other investments having Level 2 inputs totaling \$7,725.

**NOTE M Financing Arrangement**

The Company is a party to a credit and security agreement dated November 5, 2003, as amended (Credit Agreement), with a group of banks, under which it may borrow or issue standby letters of credit or commercial letters of credit. On March 8, 2010, the Credit Agreement was amended and restated to, among other things, extend its maturity date to

June 30, 2013 and reduce the loan commitment from \$270,000 to \$210,000, which includes a term loan A for \$28,000 that is secured by real estate and machinery and equipment and an unsecured term loan B for \$12,000. Amounts borrowed under the revolving credit facility may be borrowed at either (i) LIBOR plus 3% to 4% or (ii) the bank's prime lending rate plus 1%, at the Company's election. The LIBOR-based interest rate is dependent on the Company's debt service coverage ratio, as defined in the Credit Agreement. Under the Credit Agreement, a detailed borrowing base formula provides borrowing availability to the Company based on percentages of eligible accounts receivable and inventory. Interest on the term loan A is at either (i) LIBOR plus 4% to 5% or (ii) the bank's prime lending rate plus 2%, at the Company's election. Interest on the term loan B is at either (i) LIBOR plus 6% to 7% or (ii) the bank's prime lending rate plus 4.5%, at the Company's election. The term loan A is amortized based on a ten-year schedule with the balance due at maturity. The term loan B is amortized over a two-year period, plus 50% of debt service coverage excess capped at \$3,500.

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

Long-term debt consists of the following:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
8.375% senior subordinated notes due 2014	\$ 183,835	\$ 183,835
Revolving credit	97,000	101,200
Term loan A	28,000	28,000
Term loan B	12,000	12,000
Other	8,711	8,962
	329,546	333,997
Less current maturities	10,748	10,894
Total	\$ 318,798	\$ 323,103

**NOTE N Accounts Receivable**

During the first three months of 2010 and 2009, the Company sold approximately \$6,756 and \$5,176, respectively, of accounts receivable to mitigate accounts receivable concentration risk and to provide additional financing capacity and recorded a loss in the amount of \$21 and \$28, respectively in the Consolidated Statements of Operations. These losses represented implicit interest on the transactions.

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**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 March 31, 2010, and the related consolidated statements of operations and cash flows for the three-month periods ended March 31, 2010 and 2009 and the consolidated statement of shareholders' equity for the three-month period ended March 31, 2010. 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, 2009 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 15, 2010, 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, 2009, 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  
May 10, 2010

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### **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 floor, 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 pump housings, clutch retainers/pistons, control arms, knuckles, master cylinders, pinion housings, brake calipers, 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.

On March 8, 2010, we amended our revolving credit facility to, among other things, extend its maturity to June, 2013 and reduce the loan commitment from \$270.0 million to \$210.0 million, which amount includes the borrowing under a term loan A for \$28.0 million, that is secured by real estate and machinery and equipment, and an unsecured term loan B for \$12.0 million. See Note M to the Consolidated Financial Statements.

During the fourth quarter of 2009, the Company recorded \$7.0 million of asset impairment charges associated with general weakness in the economy including the railroad industry. The charges were composed of \$1.8 million of inventory impairment in Cost of Products Sold and \$5.2 million for impairment of property and equipment.

#### **Critical Accounting Policies**

Our critical accounting policies are described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and in the notes to our Consolidated Financial Statements for the year ended December 31, 2009 contained in our 2009 Annual Report on Form 10-K. Any new accounting policies or updates to existing accounting policies as a result of new accounting pronouncements have been discussed in the notes to our Consolidated Financial Statements in this Quarterly Report on Form 10-Q. The application of our critical accounting policies may require management to make judgments and estimates about the amounts reflected in the Consolidated Financial Statements. Management uses historical experience and all available information to make these estimates

and judgments, and different amounts could be reported using different assumptions and estimates.

**Table of Contents****Results of Operations*****Three Months 2010 versus Three Months 2009******Net Sales by Segment:***

	<b>Three Months Ended March 31,</b>			
	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>Percent Change</b>
Supply Technologies	\$ 94.2	\$ 83.0	\$ 11.2	13%
Aluminum Products	36.6	22.4	14.2	63%
Manufactured Products	60.9	75.9	(15.0)	(20)%
Consolidated Net Sales	\$ 191.7	\$ 181.3	\$ 10.4	6%

Net sales increased \$10.4 million to \$191.7 million in the first three months of 2010 compared to \$181.3 million in the same period in 2009 as the Company experienced volume increases in the Supply Technologies and Aluminum Products segments. Supply Technologies sales increased 13% primarily due to volume increases in the semi-conductor, power sports, HVAC, agricultural and construction equipment industries offset primarily by declines in the heavy duty truck, lawn and garden and automotive industries. Aluminum Products sales increased 63% as volumes increased to customers in the auto industry along with additional sales from new contracts. Manufactured Products sales decreased 20% primarily due to the declining business environment in the capital equipment and forged and machine business units offset by volume increases in the rubber products business unit.

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

	<b>Three Months Ended March 31,</b>			
	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>Percent Change</b>
Consolidated cost of products sold	\$ 162.4	\$ 157.4	\$ 5.0	3%
Consolidated gross profit	\$ 29.3	\$ 23.9	\$ 5.4	23%
Gross margin	15.3%	13.1%		

Cost of products sold increased \$5.0 million to \$162.4 million in the first three months of 2010 compared to \$157.4 million in the same period in 2009, while gross margin increased to 15.3% in the first three months of 2010 compared to 13.1% in the same period in 2009.

Supply Technologies and Aluminum Products gross margin increased resulting from volume increases. Gross margin in the Manufactured Products segment decreased primarily from reduced sales volume.

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

	<b>Three Months Ended March 31,</b>			
	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>Percent Change</b>
Consolidated SG&A expenses	\$ 21.0	\$ 22.6	\$ (1.6)	(7)%
SG&A percent	11.0%	12.5%		

Consolidated SG&A expenses decreased 7% in the first three months of 2010 compared to the same period in 2009, representing a 150 basis point decrease in SG&A expenses as a percent of sales. SG&A expenses decreased in the first three months of 2010 compared to the same period in 2009 primarily due to a reduction in salaries and benefits and by an increase in pension income.



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

	<b>Three Months Ended March 31,</b>		<b>Change</b>	<b>Percent Change</b>
	<b>2010</b>	<b>2009</b>		
Interest expense	\$ 5.4	\$ 6.0	\$ (.6)	(10)%
Average outstanding borrowings	\$ 379.2	\$ 381.1	\$ (1.9)	(1)%
Average borrowing rate	5.70%	6.30%	(60) basis points	

Interest expense decreased \$.6 million in the first three months of 2010 compared to the same period of 2009, primarily due to a lower average borrowing rate during the first three months of 2010. Average borrowings in the first three months of 2010 were slightly lower when compared to the same period in 2009. The lower average borrowing rate in the first three months of 2010 was due primarily to decreased interest rates under our revolving credit facility compared to the same period in 2009.

***Income Tax:***

The provision for income taxes was \$.9 million in the first three months of 2010, a 30% effective income tax rate, compared to income taxes of \$.7 million provided in the corresponding period of 2009, a (15)% effective income tax rate. We estimate that the effective tax rate for full-year 2010 will be approximately 23%.

**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 June 30, 2013 and provides for availability of up to \$170 million subject to an asset-based formula. We have the option to increase the availability under the revolving loan portion of the credit facility by \$25 million. The revolving credit facility is secured by substantially all our assets in the United States and Canada. Borrowings from this revolving credit facility will be used for general corporate purposes.

As of March 31, 2010, the Company had \$137.0 million outstanding under the revolving credit facility, and approximately \$35.9 million of unused borrowing availability.

On March 8, 2010, the revolving credit facility was amended and restated to, among other things, extend its maturity date to June 30, 2013, reduce the loan commitment from \$270.0 million to \$210.0 million, which amount includes a term loan A for \$28.0 million that is secured by real estate and machinery and equipment and an unsecured term loan B for \$12.0 million. Amounts borrowed under the revolving credit facility may be borrowed at either (i) LIBOR plus 3% to 4% or (ii) the bank's prime lending rate plus 1%, at the Company's election. 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 and inventory. Interest on the term loan A is at either (i) LIBOR plus 4% to 5% or (ii) the bank's prime lending rate plus 2%, at the Company's election. Interest on the term loan B is at either (i) LIBOR plus 6% to 7% or (ii) the bank's prime lending rate plus 4.5%, at the Company's election. The term loan A is amortized based on a ten-year schedule with the balance due at maturity. The term loan B is amortized over a two-year period, plus 50% of debt service coverage excess capped at \$3.5 million.

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 loan portion of the 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.

The Company may from time to time seek to retire or purchase its outstanding debt through cash purchases and/or exchanges for equity securities or in open market purchases, privately negotiated transactions or otherwise. It

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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.

At March 31, 2010, the Company's debt service coverage ratio was 2.1, 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 March 31, 2010. 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 term debt 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 2010, declines in demand in the automotive industry and in sales volumes in 2010 could adversely impact our ability to remain in compliance with certain of these financial covenants. Additionally, to the extent our customers are adversely affected by declines in 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.

The ratio of current assets to current liabilities was 2.49 at March 31, 2010 versus 2.75 at December 31, 2009. Working capital decreased by \$13.5 million to \$215.8 million at March 31, 2010 from \$222.7 million at December 31, 2009. Accounts receivable increased \$15.4 million to \$120.0 million at March 31, 2010 from \$104.6 million in 2009 primarily resulting from sales volume increases. Inventory decreased by \$8.8 million at March 31, 2010 to \$173.3 million from \$182.1 million at December 31, 2009 primarily resulting from planned reductions and sales volumes increases. Accrued expenses increased by \$6.2 million to \$45.3 million at March 31, 2010 from \$39.1 at December 31, 2009 primarily resulting from the terms of the payments of interest due on the Company's 8.375% Senior Subordinated Notes and accounts payable increased \$11.5 million to \$86.6 million at March 31, 2010 from \$75.1 million at December 31, 2009.

During the first three months of 2010, the Company provided \$13.9 million from operating activities compared to using \$7.0 million in the same period of 2009. The increase in the operating cash provision of \$20.9 million was primarily the result of net income of \$2.1 million in the first three months of 2010 compared to a net loss of \$5.5 million in the first three months of 2009, (a change of \$7.6 million), a decrease in operating assets and liabilities of \$7.2 million in the first three months of 2010 compared to an increase of \$7.3 million in the first three months of 2009 offset by a reduction of depreciation and amortization expense of \$1.1 million in the first three months of 2010 compared to the first three months of 2009. In the first three months of 2010, the Company used cash of \$.2 million for capital expenditures. These activities, plus cash interest and tax payments of \$1.7 million, a net reduction in borrowings of \$4.5 million, purchase of treasury stock of \$.4 million and debt issue costs of \$3.8 million resulted in an increase in cash of \$5.0 million in the first three months of 2010.

We do not have off-balance sheet arrangements, financing or other relationships with unconsolidated entities or other persons. There are occasions whereupon we enter into forward contracts on foreign currencies, purely for the purpose of hedging exposure to changes in the value of accounts receivable in those currencies against the U.S. dollar. At March 31, 2010, 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 scheduled plant maintenance 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.

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### **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 statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance and achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, but are not limited to the following: our substantial indebtedness; continuation of the current negative global economic environment; general business conditions and competitive factors, including pricing pressures and product innovation; demand for our products and services; raw material availability and pricing; component part availability and pricing; changes in our relationships with customers and suppliers; the financial condition of our customers, including the impact of any bankruptcies; our ability to successfully integrate recent and future acquisitions into existing operations; changes in general domestic economic conditions such as inflation rates, interest rates, tax rates, unemployment rates, higher labor and healthcare costs, recessions and changing government policies, laws and regulations, including the uncertainties related to the current global financial crisis; adverse impacts to us, our suppliers and customers from acts of terrorism or hostilities; our ability to meet various covenants, including financial covenants, contained in the agreements governing our indebtedness; disruptions, uncertainties or volatility in the credit markets that may limit our access to capital; 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; our dependence on the automotive and heavy-duty truck industries, which are highly cyclical; the dependence of the automotive industry on consumer spending, which could be lower due to the effects of the current financial crisis; our ability to negotiate contracts with labor unions; dependence on key management; dependence on information systems; and the other factors we describe under the Item 1A. Risk Factors included in the Company's annual report on Form 10-K for the year ended December 31, 2009. 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 March 31, 2010, and for the three-month periods ended March 31, 2010 and 2009, 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 Disclosure About Market Risk***

We are exposed to market risk including changes in interest rates. We are subject to interest rate risk on borrowings under our floating rate revolving credit agreement, which consisted of borrowings of \$137.0 million at March 31, 2010. A 100 basis point increase in the interest rate would have resulted in an increase in interest expense of approximately \$.3 million during the three-month period ended March 31, 2010.

Our foreign subsidiaries generally conduct business in local currencies. During the first quarter of 2010, we recorded an unfavorable foreign currency translation adjustment of \$2.0 million related to net assets located outside the United States. This foreign currency translation adjustment resulted primarily from the strengthening of the U.S. dollar. Our foreign operations are also subject to other customary risks of operating in a global environment, such as unstable political situations, the effect of local laws and taxes, tariff increases and regulations and requirements for export

licenses, the potential imposition of trade or foreign exchange restrictions and transportation delays.

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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. The Company currently uses no other derivative instruments. At March 31, 2010, there were no such currency hedge contracts outstanding.

**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 (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.

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**PART II**

**OTHER INFORMATION**

**Item 1. *Legal Proceedings***

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

At March 31, 2010, we were a co-defendant in approximately 290 cases asserting claims on behalf of approximately 1,200 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 five asbestos cases, involving 25 plaintiffs, that plead specified damages. In each of the five cases, the plaintiff is seeking compensatory and punitive damages based on a variety of potentially alternative causes of action. In three cases, the plaintiff has alleged compensatory damages in the amount of \$3.0 million for four separate causes of action and \$1.0 million for another cause of action and punitive damages in the amount of \$10.0 million. In the fourth case, the plaintiff has alleged against each named defendant, compensatory and punitive damages, each in the amount of \$10.0 million for seven separate causes of action. In the fifth case, the plaintiff has alleged compensatory damages in the amount of \$20.0 million for 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.

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.

**Table of Contents****Item 1A. Risk Factors**

There have been no material changes in the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

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

Set forth below is information regarding the Company's repurchases of its common stock during the first quarter ended March 31, 2010.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans(1)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Program
January 1 - January 31, 2010	-0-	\$ -0-	-0-	340,920
February 1 - February 28, 2010	-0-	-0-	-0-	340,920
March 1 - March 31, 2010	36,113(2)	9.68	-0-	340,920
	36,113	\$ 9.68	-0-	340,920

(1) In 2006, the Company announced a share repurchase program whereby the Company may repurchase up to 1.0 million shares of its common stock. During the first quarter of 2010, no shares were purchased as part of this program.

(2) Consist of shares of common stock the Company acquired from recipients of restricted stock awards at the time of vesting of such awards in order to settle recipient withholding tax liabilities.

**Item 6. Exhibits**

The following exhibits are included herein:

- 4.1 Third Amended and Restated Credit Agreement, dated March 8, 2010, among Park-Ohio Industries, Inc., RB&W Corporation of Canada, the Ex-Im Borrowers party thereto, the other loan parties thereto, the lenders party thereto and JP Morgan Chase Bank, N.A., as Administrative Agent, JP Morgan Chase Bank, N.A. Toronto Branch, as Canadian Agent, RBS Business Capital, as Syndication Agent, KeyBank National Association, as Co-Documentation Agent, JP Morgan Securities Inc., as Sole Lead Arranger, PNC Bank, National Association, as Joint Bookrunner and U.S. Bank National Association, as Co-Documentation Agent and Joint Bookrunner
- 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

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**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: May 10, 2010

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**EXHIBIT INDEX**

QUARTERLY REPORT ON FORM 10-Q  
PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES  
FOR THE QUARTER ENDED MARCH 31, 2010

**Exhibit**

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