

PARK OHIO HOLDINGS CORP

Form 10-Q

November 10, 2008

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, 2008
- 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 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):

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

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, 2008:
11,022,171.

The Exhibit Index is located on page 25.

PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

INDEX

| | Page |
|---|--|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| <u>Item 1.</u> | <u>Financial Statements</u> 3 |
| | <u>Consolidated balance sheets September 30, 2008 and December 31, 2007</u> 3 |
| | <u>Consolidated statements of operations Three and nine months ended September 30, 2008 and 2007</u> 4 |
| | <u>Consolidated statement of shareholders equity Nine months ended September 30, 2008</u> 5 |
| | <u>Consolidated statements of cash flows Nine months ended September 30, 2008 and 2007</u> 6 |
| | <u>Notes to consolidated financial statements September 30, 2008</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 |
| <u>PART II. OTHER INFORMATION</u> | |
| <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 |
| <u>SIGNATURE</u> | 24 |
| <u>EXHIBIT INDEX</u> | 25 |
| <u>EX-10.1</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**

| | (Unaudited) | |
|--|-------------------------------|---------------------|
| | September 30, | December 31, |
| | 2008 | 2007 |
| | (Dollars in thousands) | |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 28,992 | \$ 14,512 |
| Accounts receivable, less allowances for doubtful accounts of \$3,026 at September 30, 2008 and \$3,724 at December 31, 2007 | 185,697 | 172,357 |
| Inventories | 236,581 | 215,409 |
| Deferred tax assets | 21,897 | 21,897 |
| Unbilled contract revenue | 21,014 | 24,817 |
| Other current assets | 13,593 | 15,232 |
| Total Current Assets | 507,774 | 464,224 |
| Property, Plant and Equipment | 250,679 | 266,222 |
| Less accumulated depreciation | 156,285 | 160,665 |
| | 94,394 | 105,557 |
| Other Assets | | |
| Goodwill | 100,683 | 100,997 |
| Net assets held for sale | -0- | 3,330 |
| Other | 104,272 | 95,081 |
| | \$ 807,123 | \$ 769,189 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current Liabilities | | |
| Trade accounts payable | \$ 136,045 | \$ 121,875 |
| Accrued expenses | 75,046 | 67,007 |
| Current portion of long-term debt | 8,063 | 2,362 |
| Current portion of other postretirement benefits | 2,041 | 2,041 |
| Total Current Liabilities | 221,195 | 193,285 |
| Long-Term Liabilities, less current portion | | |
| 8.375% Senior Subordinated Notes due 2014 | 210,000 | 210,000 |

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

| | | |
|---|------------|------------|
| Revolving credit | 160,200 | 145,400 |
| Other long-term debt | 2,114 | 2,287 |
| Deferred tax liability | 22,722 | 22,722 |
| Other postretirement benefits and other long-term liabilities | 23,770 | 24,017 |
| | 418,806 | 404,426 |
| Shareholders' Equity | | |
| Capital stock, par value \$1 a share: | | |
| Serial Preferred Stock | -0- | -0- |
| Common Stock | 12,199 | 12,233 |
| Additional paid-in capital | 63,663 | 61,956 |
| Retained earnings | 90,913 | 90,782 |
| Treasury stock, at cost | (14,421) | (11,255) |
| Accumulated other comprehensive income | 14,768 | 17,762 |
| | 167,122 | 171,478 |
| | \$ 807,123 | \$ 769,189 |

Note: The balance sheet at December 31, 2007 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)**

| | Three Months Ended | | Nine Months Ended | |
|--|--|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| | (Amounts in thousands, except per share data) | | | |
| Net sales | \$ 266,148 | \$ 269,104 | \$ 819,178 | \$ 823,626 |
| Cost of products sold | 226,759 | 226,880 | 697,361 | 700,413 |
| Gross profit | 39,389 | 42,224 | 121,817 | 123,213 |
| Selling, general and administrative expenses | 28,799 | 24,187 | 82,755 | 74,537 |
| Impairment charges | 17,480 | -0- | 17,480 | -0- |
| Gain on sale of assets held for sale | -0- | -0- | -0- | (2,299) |
| Operating income (loss) | (6,890) | 18,037 | 21,582 | 50,975 |
| Interest expense | 6,775 | 7,993 | 20,672 | 24,286 |
| Income (loss) before income taxes | (13,665) | 10,044 | 910 | 26,689 |
| Income taxes (benefit) | (4,597) | 3,816 | 779 | 9,408 |
| Net income (loss) | \$ (9,068) | \$ 6,228 | \$ 131 | \$ 17,281 |
| Amounts per common share: | | | | |
| Basic | \$ (.82) | \$.56 | \$.01 | \$ 1.56 |
| Diluted | \$ (.82) | \$.53 | \$.01 | \$ 1.48 |
| Common shares used in the computation: | | | | |
| Basic | 11,006 | 11,127 | 11,081 | 11,079 |
| Diluted | 11,006 | 11,707 | 11,606 | 11,641 |

See notes to consolidated financial statements.

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

| | Common Stock | Additional Paid-In Capital | Retained Earnings (Dollars in thousands) | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total |
|---|-------------------------|---|---|---------------------------|--|--------------|
| Balance at January 1, 2008 | \$ 12,233 | \$ 61,956 | \$ 90,782 | \$ (11,255) | \$ 17,762 | \$ 171,478 |
| Comprehensive income: | | | | | | |
| Net income | | | 131 | | | 131 |
| Foreign currency translation adjustment | | | | | (3,160) | (3,160) |
| Unrealized gain on marketable securities, net of tax | | | | | 44 | 44 |
| Pension and postretirement benefit adjustments, net of tax | | | | | 122 | 122 |
| Restricted stock awards | 23 | (23) | | | | -0- |
| Comprehensive income (loss) | | | | | | (2,863) |
| Amortization of restricted stock | | 1,299 | | | | 1,299 |
| Restricted stock exchanged for restricted share units | (62) | 62 | | | | -0- |
| Purchase of treasury stock | | | | (3,166) | | (3,166) |
| Exercise of stock options (4,803 shares) | 5 | 5 | | | | 10 |
| Share-based compensation | | 364 | | | | 364 |
| Balance at September 30, 2008 | \$ 12,199 | \$ 63,663 | \$ 90,913 | \$ (14,421) | \$ 14,768 | \$ 167,122 |

See notes to consolidated financial statements.

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

| | Nine Months Ended September 30, 2008 2007 | |
|--|---|------------------|
| | (Dollars in thousands) | |
| OPERATING ACTIVITIES | | |
| Net income | \$ 131 | \$ 17,281 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 16,081 | 16,019 |
| Share-based compensation expense | 1,663 | 1,504 |
| Gain on sale of assets held for sale | -0- | (2,299) |
| Impairment charges | 17,480 | -0- |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (13,340) | (15,751) |
| Inventories and other current assets | (17,950) | (540) |
| Accounts payable and accrued expenses | 22,210 | (12,696) |
| Other | (15,429) | 4,592 |
| Net Cash Provided by Operating Activities | 10,846 | 8,110 |
| INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment, net | (15,756) | (14,292) |
| Purchases of marketable securities | (533) | -0- |
| Sales of marketable securities | 2,751 | -0- |
| Proceeds from sale of assets held for sale | -0- | 4,365 |
| Net Cash Used by Investing Activities | (13,538) | (9,927) |
| FINANCING ACTIVITIES | | |
| Proceeds from debt, net | 20,328 | (311) |
| Purchase of treasury stock | (3,166) | (910) |
| Exercise of stock options | 10 | 279 |
| Net Cash Provided (Used) by Financing Activities | 17,172 | (942) |
| Increase (decrease) in Cash and Cash Equivalents | 14,480 | (2,759) |
| Cash and Cash Equivalents at Beginning of Period | 14,512 | 21,637 |
| Cash and Cash Equivalents at End of Period | \$ 28,992 | \$ 18,878 |
| Taxes paid | \$ 5,826 | \$ 4,386 |
| Interest paid | 15,236 | 18,048 |

See notes to consolidated financial statements.

Table of Contents**PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****September 30, 2008****(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, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. 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, 2007.

NOTE B Segments

The Company operates through three segments: Supply Technologies, Aluminum Products and Manufactured Products. Supply Technologies provides our customers with Total Supply Managementtm services for a broad range of high-volume, specialty production components. Total Supply Managementtm 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:

| | Three Months Ended | | Nine Months Ended | |
|-----------------------|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Net sales: | | | | |
| Supply Technologies | \$ 131,668 | \$ 134,066 | \$ 399,452 | \$ 403,956 |
| Aluminum Products | 35,784 | 41,188 | 120,304 | 131,838 |
| Manufactured Products | 98,696 | 93,850 | 299,422 | 287,832 |
| | \$ 266,148 | \$ 269,104 | \$ 819,178 | \$ 823,626 |

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

| | | | | |
|------------------------------------|-------------|-----------|-----------|-----------|
| Income (loss) before income taxes: | | | | |
| Supply Technologies | \$ 5,259 | \$ 8,288 | \$ 16,551 | \$ 20,420 |
| Aluminum Products | (17,557) | 1,131 | (18,674) | 3,285 |
| Manufactured Products | 10,062 | 11,619 | 37,703 | 35,292 |
| | (2,236) | 21,038 | 35,580 | 58,997 |
| Corporate costs | (4,654) | (3,001) | (13,998) | (8,022) |
| Interest expense | (6,775) | (7,993) | (20,672) | (24,286) |
| Income (loss) before income taxes | \$ (13,665) | \$ 10,044 | \$ 910 | \$ 26,689 |

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

| | September 30, 2008 | December 31, 2007 |
|--------------------------------------|-------------------------------|------------------------------|
| Identifiable assets were as follows: | | |
| Supply Technologies | \$ 394,568 | \$ 354,165 |
| Aluminum Products | 92,187 | 98,524 |
| Manufactured Products | 277,346 | 231,459 |
| General corporate | 43,022 | 85,041 |
| | \$ 807,123 | \$ 769,189 |

During the third quarter of 2008, the Company recorded \$18,059 of impairment charges associated with the recent volume declines and volatility in the automotive markets (See Note L). Below is a summary of these charges by segment.

| | Asset Impairment | Cost of Products Sold | Total |
|-----------------------|-----------------------------|--------------------------------------|------------------|
| Aluminum Products | \$ 13,189 | \$ 579 | \$ 13,768 |
| Manufactured Products | 4,291 | -0- | 4,291 |
| | \$ 17,480 | \$ 579 | \$ 18,059 |

NOTE C Recent Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (FAS 161). FAS 161 modifies existing requirements to include qualitative disclosures regarding the objectives and strategies for using derivatives, fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. The pronouncement also requires the cross-referencing of derivative disclosures within the financial statements and notes thereto. The requirements of FAS 161 are effective for the Company in 2009. The adoption of FAS 161 will not have an impact on the Company's financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (FAS 160). FAS 160 modifies the reporting for noncontrolling interests in the balance sheet and minority interest income (expense) in the income statement. The pronouncement also requires that increases and decreases in the noncontrolling ownership interest amount be accounted for as equity transactions. FAS 160 is required to be adopted prospectively, with limited exceptions,

effective for the Company in 2009. The Company is currently evaluating the effect the adoption of FAS 160 will have on its financial position, results of operations and related disclosures.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R, Business Combinations (FAS 141R). FAS 141R 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 pronouncement also requires that transaction costs be expensed as incurred, acquired research and development be capitalized as an indefinite-lived intangible asset and the requirements of Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities, be met at the acquisition date in order to accrue for a restructuring plan in purchase accounting. FAS 141R is required to be adopted prospectively effective for fiscal years beginning after December 15, 2008.

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

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The pronouncement also establishes presentation and disclosure requirements to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. FAS 159 is effective for fiscal years beginning after November 15, 2007. The Company did not elect to measure its financial instruments or any other items at fair value as permitted by FAS 159. Therefore, the adoption of FAS 159 did not impact the Company's financial position or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The provisions of FAS 157 apply under other accounting pronouncements that require or permit fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years for financial assets and liabilities, and for fiscal years beginning after November 15, 2008 for non-financial assets and liabilities. The adoption of FAS 157 for financial assets and liabilities did not have a material effect on the Company's financial position or results of operations.

As of September 30, 2008, the Company's financial assets subject to FAS 157 consisted of marketable equity securities and other investments totaling \$1,235 and \$7,261, respectively. The marketable securities are classified as having Level 1 inputs, as the fair value is based on quoted prices in active markets. The other investments are classified as having Level 2 inputs, as the fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly, including quoted prices for similar assets in active markets; quoted prices for identical or similar assets in markets that are not active; inputs other than quoted prices that are observable for the asset; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

NOTE D Inventories

The components of inventory consist of the following:

| | September 30, 2008 | December 31, 2007 |
|----------------------------|-------------------------------|------------------------------|
| Finished goods | \$ 137,308 | \$ 129,074 |
| Work in process | 30,052 | 26,249 |
| Raw materials and supplies | 69,221 | 60,086 |
| | \$ 236,581 | \$ 215,409 |

NOTE E Shareholders Equity

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

At September 30, 2008, 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 12,199,192 shares were issued, of which 11,168,971 were outstanding and 1,030,221 were treasury shares.

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

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

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| NUMERATOR | | | | |
| Net income (loss) | \$ (9,068) | \$ 6,228 | \$ 131 | \$ 17,281 |
| DENOMINATOR | | | | |
| Denominator for basic earnings per share weighted average shares | 11,006 | 11,127 | 11,081 | 11,079 |
| Effect of dilutive securities: | | | | |
| Employee stock options | (a) | 580 | 525 | 562 |
| Denominator for diluted earnings per share weighted average shares and assumed conversions | 11,006 | 11,707 | 11,606 | 11,641 |
| Amounts per common share: | | | | |
| Basic | \$ (.82) | \$.56 | \$.01 | \$ 1.56 |
| Diluted | \$ (.82) | \$.53 | \$.01 | \$ 1.48 |

(a) The addition of 539,000 shares in the three months ended September 30, 2008 would result in anti-dilution because the Company reported a net loss in that period.

Stock options on 47,000 shares were excluded in the three months ended September 2007 and 88,000 and 25,000 shares were excluded in the nine months ended September 30, 2008 and 2007, respectively, because they were anti-dilutive.

NOTE G Stock-Based Compensation

Total stock compensation expense recorded in the first nine months of 2008 and 2007 was \$1,663 and \$1,504, respectively. Total stock compensation expense recorded in the third quarter of 2008 and 2007 was \$560 and \$524, respectively. There were stock options for 15,000 shares awarded with an exercise price of \$13.40 per share during the three months ended September 30, 2008. 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 restricted stock awards during the three months and nine months ended September 30, 2008, respectively. As of September 30, 2008, there was \$3,273 of unrecognized compensation cost related to non-vested stock-based compensation, which is expected to be recognized over a weighted average period of 2.2 years.

On September 11, 2008, the Company delayed the vesting of 61,970 restricted shares of the Company's common stock held by two of the Company's officers. In lieu of vesting the restricted shares, the officers agreed to exchange 61,970 shares of restricted stock for 61,970 restricted stock units. The restricted stock units were fully vested and will be paid in shares of the Company's common stock either upon termination of employment with the Company or when the deduction by the Company for such payment would not be prohibited under Section 162(m) of the Internal Revenue Code.

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:

| | Pension Benefits | | | | Postretirement Benefits | | | |
|------------------------------------|---------------------------|-------------|--------------------------|-------------|--------------------------------|-------------|--------------------------|-------------|
| | Three Months Ended | | Nine Months Ended | | Three Months Ended | | Nine Months Ended | |
| | September 30, | | September 30, | | September 30, | | September 30, | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Service costs | \$ 108 | \$ 91 | \$ 324 | \$ 273 | \$ 43 | \$ 41 | \$ 129 | \$ 123 |
| Interest costs | 722 | 702 | 2,166 | 2,105 | 290 | 333 | 870 | 1,000 |
| Expected return on plan assets | (2,408) | (2,213) | (7,224) | (6,638) | -0- | -0- | -0- | -0- |
| Transition obligation | (12) | (2) | (36) | (6) | -0- | -0- | -0- | -0- |
| Amortization of prior service cost | 34 | 34 | 102 | 102 | (13) | (16) | (39) | (48) |
| Recognized net actuarial loss | (29) | -0- | (87) | -0- | 71 | 146 | 213 | 438 |
| Benefit (income) costs | \$ (1,585) | \$ (1,388) | \$ (4,755) | \$ (4,164) | \$ 391 | \$ 504 | \$ 1,173 | \$ 1,513 |

NOTE I Comprehensive Income (Loss)

Total comprehensive income (loss) was as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | September 30, 2008 | September 30, 2007 | September 30, 2008 | September 30, 2007 |
| Net income (loss) | \$ (9,068) | \$ 6,228 | \$ 131 | \$ 17,281 |
| Foreign currency translation | (4,775) | 3,755 | (3,160) | 7,001 |
| Unrealized loss on marketable securities, net of tax | 187 | -0- | 44 | -0- |
| Pension and post retirement benefit adjustments, net of tax | 40 | 59 | 122 | 178 |
| Total comprehensive income (loss) | \$ (13,616) | \$ 10,042 | \$ (2,863) | \$ 24,460 |

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

The components of accumulated comprehensive income at September 30, 2008 and December 31, 2007 are as follows:

| | September 30, 2008 | December 31, 2007 |
|--|-------------------------------|------------------------------|
| Foreign currency translation adjustment | \$ 9,552 | \$ 12,712 |
| Unrealized net losses on marketable securities, net of tax | (279) | (323) |
| Pension and postretirement benefit adjustments, net of tax | 5,495 | 5,373 |
| | \$ 14,768 | \$ 17,762 |

The pension and postretirement benefit liability amounts are net of deferred taxes of \$2,904 and \$2,834 at September 30, 2008 and December 31, 2007, respectively. Unrealized net losses on marketable securities are net of deferred taxes of \$160 and \$182 at September 30, 2008 and December 31, 2007, respectively. 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:

| | 2008 | 2007 |
|---|-------------|-------------|
| Balance at January 1 | \$ 5,799 | \$ 3,557 |
| Claims paid during the first nine months | (2,105) | (1,167) |
| Additional warranties issued during the first nine months | 3,506 | 3,312 |
| Balance at September 30 | \$ 7,200 | \$ 5,702 |

NOTE K Income Taxes

The effective income tax rate in the first nine months of 2008 and 2007 was 86% and 35%, respectively. The increase in the effective income tax rate is primarily due to lower income before taxes.

There have been no material changes to the balance of unrecognized tax benefits reported at December 31, 2007.

NOTE L Impairment Charges

Due to the recent volume declines and volatility in the automotive markets, the Company evaluated its long-lived assets in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144). The Company determined whether the carrying amount of its long-lived assets was recoverable by comparing the carrying amount to the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the assets. If the carrying value of the assets exceeded the expected cash flows, the Company estimated the fair value of these assets to determine whether an impairment existed. During the third quarter of 2008, based on the results of these tests, the Company recorded asset impairment charges of \$18,059, which were composed of \$579 of inventory impairment included in Cost of Products Sold and \$17,480 for impairment of property and equipment and other long-term assets. Below is a summary of these charges by segment.

| | Asset Impairment | Cost of Products Sold | Total |
|-----------------------|-----------------------------|--------------------------------------|--------------|
| Aluminum Products | \$ 13,189 | \$ 579 | \$ 13,768 |
| Manufactured Products | 4,291 | -0- | 4,291 |
| | \$ 17,480 | \$ 579 | \$ 18,059 |

NOTE M Goodwill

Subsequent to the end of the third quarter, the Company experienced a sharp decline in its stock price. The Company believes this decline was principally driven by circumstances that occurred subsequent to the end of the third quarter including, but not limited to, an extraordinary decline in the stock market as a whole and other factors specific to its stock price that the Company believes do not necessarily reflect changes in its business as of the end of the third quarter. However, due to the fact that the Company is required to use a hypothetical market participant's perspective when developing the assumptions to estimate fair value for its annual impairment tests, it is possible that the estimated fair value of its goodwill may be less than its carrying amounts when the Company performs its annual impairment tests during the fourth quarter. If so, the Company would be required to record an additional non-cash impairment charge during the fourth quarter.

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, 2008, and the related consolidated statements of operations for the three-month and nine-month periods ended September 30, 2008 and 2007, and the consolidated statement of shareholders' equity and cash flows for the nine-month period ended September 30, 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, 2007 and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended, not presented herein; and in our report dated March 13, 2008, 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, 2007, 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 7, 2008

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 Managementtm and diversified manufacturing business, operating in three segments: Supply Technologies, Aluminum Products and Manufactured Products. In November 2007, our Integrated Logistics Solutions (ILS) business changed its name to Supply Technologies to better reflect its breadth of services and focus on driving efficiencies throughout the total supply management process. Our Supply Technologies business provides our customers with Total Supply Managementtm, 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 Managementtm 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 steel, coatings, forging, foundry, heavy-duty truck, construction equipment, bottling, 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.

During the years 2004 through 2007, we reinforced our long-term availability and attractive pricing of funds by refinancing both of our major sources of borrowed funds: senior subordinated notes and our revolving credit facility. In November 2004, we sold \$210.0 million of 8.375% senior subordinated notes due 2014. We have amended our revolving credit facility, most recently in June 2007, to extend its maturity to December 2010, increase the credit limit to \$270.0 million subject to an asset-based formula, and provide lower interest rate levels.

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. See Note L to the consolidated financial statements included in this quarterly report on Form 10-Q.

Accounting Changes

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of

Table of Contents

FASB Statement No. 133 (FAS 133). FAS 133 modifies existing requirements to include qualitative disclosures regarding the objectives and strategies for using derivatives, fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. The pronouncement also requires the cross-referencing of derivative disclosures within the financial statements and notes thereto. The requirements of FAS 133 are effective for the Company in 2009. The adoption of FAS 133 will not have an impact on the Company's financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51 (FAS 160). FAS 160 modifies the reporting for noncontrolling interests in the balance sheet and minority interest income (expense) in the income statement. The pronouncement also requires that increases and decreases in the noncontrolling ownership interest amount be accounted for as equity transactions. FAS 160 is required to be adopted prospectively, with limited exceptions, effective for the Company in 2009. The Company is currently evaluating the effect the adoption of FAS 160 will have on its financial position, results of operations and related disclosures.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R, Business Combinations (FAS 141R). FAS 141R 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 pronouncement also requires that transaction costs be expensed as incurred, acquired research and development be capitalized as an indefinite-lived intangible asset and the requirements of Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities, be met at the acquisition date in order to accrue for a restructuring plan in purchase accounting. FAS 141R is required to be adopted prospectively effective for fiscal years beginning after December 15, 2008.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The pronouncement also establishes presentation and disclosure requirements to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. FAS 159 is effective for fiscal years beginning after November 15, 2007. The Company did not elect to measure its financial instruments or any other items at fair value as permitted by FAS 159.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The provisions of FAS 157 apply under other accounting pronouncements that require or permit fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years for financial assets and liabilities, and for fiscal years beginning after November 15, 2008 for non-financial assets and liabilities. The adoption of FAS 157 for financial assets and liabilities did not have a material effect on the Company's financial position or results of operations.

As of September 30, 2008, the Company's financial assets subject to FAS 157 consisted of marketable equity securities and other investments totaling \$1,235 and \$7,261, respectively. The marketable securities are classified as having Level 1 inputs, as the fair value is based on quoted prices in active markets. The other investments are classified as having Level 2 inputs, as the fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly, including quoted prices for similar assets in active markets; quoted prices for identical or similar assets in markets that are not active; inputs other than quoted prices that are observable for the asset; and inputs that are derived principally from or corroborated by observable market data by

correlation or other means.

Table of Contents**Results of Operations***Nine Months 2008 versus Nine Months 2007**Net Sales by Segment:*

| | Nine Months Ended September 30, | | | |
|------------------------|--|-------------|---------------|---------------------------|
| | 2008 | 2007 | Change | Percent Change |
| Supply Technologies | \$ 399.5 | \$ 404.0 | \$ (4.5) | (1)% |
| Aluminum Products | 120.3 | 131.8 | (11.5) | (9)% |
| Manufactured Products | 299.4 | 287.8 | 11.6 | 4% |
| Consolidated Net Sales | \$ 819.2 | \$ 823.6 | \$ (4.4) | (1)% |

Consolidated net sales were essentially flat in the first nine months of 2008 compared to the same period in 2007 as growth in the Manufactured Products segment nearly offset declines in Aluminum Products sales resulting from reduced automotive sales and Supply Technologies sales resulting from reduced sales to the heavy-duty truck market caused by the introduction of new environmental standards at the beginning of 2007. Supply Technologies sales decreased 1% primarily due to volume reductions in the heavy-duty truck industry, partially offset by the addition of new customers and increases in product range to existing customers. Aluminum Products sales decreased 9% as the general decline in auto industry sales volumes exceeded additional sales from new contracts starting production ramp-up. Manufactured Products sales increased 4% primarily in the induction, pipe threading equipment and forging businesses, due largely to worldwide strength in the steel, oil & gas, aerospace and rail industries. Approximately 20% of the Company's consolidated net sales are to the automotive markets. Net sales to the automotive markets as a percentage of net sales by segment were approximately 17%, 79% and 8% for the Supply Technologies, Aluminum Products and Manufactured Products Segments, respectively.

Cost of Products Sold & Gross Profit:

| | Nine Months Ended September 30, | | | |
|------------------------------------|--|-------------|---------------|---------------------------|
| | 2008 | 2007 | Change | Percent Change |
| Consolidated cost of products sold | \$ 697.4 | \$ 700.4 | \$ (3.0) | 0% |
| Consolidated gross profit | \$ 121.8 | \$ 123.2 | \$ (1.4) | (1)% |
| Gross Margin | 14.9% | 15.0% | | |

Cost of products sold were essentially flat in the first nine months of 2008 compared to the same period in 2007, while gross margin decreased to 14.9% in the first nine months of 2008 from 15.0% in the same period of 2007.

Supply Technologies gross margin decreased slightly, as the effect of reduced heavy-duty truck sales volume outweighed the margin benefit from new sales. Aluminum Products gross margin decreased primarily due to both the costs associated with starting up new contracts and reduced volume. Gross margin in the Manufactured Products segment was essentially the same in the first nine months of 2008 compared to the comparable period in 2007.

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

| | Nine Months Ended September 30, | | | |
|----------------------------|--|-------------|---------------|---------------------------|
| | 2008 | 2007 | Change | Percent Change |
| Consolidated SG&A expenses | \$ 82.8 | \$ 74.5 | \$ 8.3 | 11% |
| SG&A percent of sales | 10.1% | 9.0% | | |

Table of Contents

Consolidated SG&A expenses increased 11% in the first nine months of 2008 compared to the same period in 2007, representing a 1.1 percentage point increase in SG&A expenses as a percent of sales. SG&A expenses increased in the first nine months of 2008 compared to the same period in 2007 primarily due to higher professional fees in the Supply Technologies and Manufactured Products segments, expenses related to the new office building and other one-time charges at the corporate office consisting of losses on the sales of securities, severance costs and legal and professional fees, partially offset by a \$.6 million increase in net pension credits.

Interest Expense:

| | Nine Months Ended September 30, | | Change | Percent Change |
|--------------------------------|--|-------------|---------------|---------------------------|
| | 2008 | 2007 | | |
| Interest expense | \$ 20.7 | \$ 24.3 | \$ (3.6) | (15)% |
| Average outstanding borrowings | \$ 385.7 | \$ 387.6 | \$ (1.9) | (1)% |
| Average borrowing rate | 7.15% | 8.35% | (120) | basis points |

Interest expense decreased \$3.6 million in the first nine months of 2008 compared to the same period of 2007, primarily due to lower average outstanding borrowings and a lower average borrowing rate during the first nine months of 2008. The decrease in average borrowings in the first nine months of 2008 resulted primarily from increased cash flow, partially offset by increased working capital. The lower average borrowing rate in the first nine months of 2008 was due primarily to decreased interest rates under our revolving credit facility compared to the same period in 2007.

Impairment Charges

During the third quarter of 2008, the Company recorded asset impairment charges associated with the recent volume declines and volatility in the automotive markets. Charges of \$17.5 million were for impairment of property and equipment and other long-term assets.

Income Tax:

The provision for income taxes was \$.8 million in the first nine months of 2008, an 86% effective income tax rate, compared to income taxes of \$9.4 million provided in the corresponding period of 2007, a 35% effective income tax rate. We estimate that the effective tax rate for full-year 2008 will be approximately 38%.

Results of Operations***Third Quarter 2008 versus Third Quarter 2007******Net Sales by Segment:***

| | Three Months Ended September 30, | | Change | Percent Change |
|--|---|-------------|---------------|---------------------------|
| | 2008 | 2007 | | |

| | | | | |
|------------------------|----------|----------|----------|-------|
| Supply Technologies | \$ 131.7 | \$ 134.1 | \$ (2.4) | (2)% |
| Aluminum Products | 35.8 | 41.2 | (5.4) | (13)% |
| Manufactured Products | 98.6 | 93.8 | 4.8 | 5% |
| Consolidated Net Sales | \$ 266.1 | \$ 269.1 | \$ (3.0) | (1)% |

Consolidated net sales were essentially the same in the third quarter of 2008 compared to the same quarter in 2007 as growth in the Manufactured Products segment nearly offset declines in the Supply Technologies and Aluminum Products segments. Supply Technologies sales decreased 2% primarily due to reduced sales to the heavy-duty truck market nearly offset by the addition of new customers and increases in product range to existing customers. Aluminum Products sales decreased 13% as the sales volume from new contracts starting production

Table of Contents

ramp-up was offset by the end of production of other parts and the general decline in auto industry sales volumes. Manufactured Products sales increased 5% primarily in the induction equipment business and the pipe threading equipment and forging businesses, due largely to worldwide strength in the steel, oil & gas, aerospace and rail industries.

Cost of Products Sold & Gross Profit:

| | Three Months Ended September 30, | | | |
|------------------------------------|---|-------------|---------------|---------------------------|
| | 2008 | 2007 | Change | Percent Change |
| Consolidated cost of products sold | \$ 226.8 | \$ 226.9 | \$ (.1) | 0% |
| Consolidated gross profit | \$ 39.4 | \$ 42.2 | \$ (2.8) | 7% |
| Gross Margin | 14.8% | 15.7% | | |

Cost of products sold was flat in the third quarter of 2008 compared to the same quarter in 2007, while gross margin decreased to 14.8% in the third quarter of 2008 from 15.7% in the same quarter of 2007.

Supply Technologies gross margin decreased primarily from product mix. Aluminum Products gross margin decreased primarily due to the costs associated with starting up new contracts and delays in new contract volume ramp-ups. Gross margin in the Manufactured Products segment increased primarily from increased parts and service sales in the capital equipment business which have a higher gross margin.

SG&A Expenses:

| | Three Months Ended September 30, | | | |
|----------------------------|---|-------------|---------------|---------------------------|
| | 2008 | 2007 | Change | Percent Change |
| Consolidated SG&A expenses | \$ 28.8 | \$ 24.2 | \$ 4.6 | 19% |
| SG&A percent of sales | 10.8% | 9.0% | | |

Consolidated SG&A expenses increased 19% in the third quarter of 2008 compared to the same quarter in 2007, representing an increase in SG&A expenses as a percent of sales of 1.8%. SG&A increased in the third quarter of 2008 compared to the same quarter in 2007 primarily due to higher professional fees in the Supply Technologies and Manufactured Products segments, expenses related to the new office building and other one-time charges at the corporate office consisting of losses on the sales of securities, severance costs and legal and professional fees, partially offset by a \$.2 million increase in net pension credits.

Interest Expense:**Three Months**

| | Ended | | | |
|--------------------------------|----------------------|-------------|---------------|-----------------------|
| | September 30, | | | |
| | 2008 | 2007 | Change | Percent Change |
| Interest expense | \$ 6.8 | \$ 8.0 | \$ (1.2) | (15)% |
| Average outstanding borrowings | \$ 388.6 | \$ 384.4 | \$ 4.2 | 1% |
| Average borrowing rate | 7.00% | 8.32% | (132) | basis points |

Interest expense decreased \$1.2 million in the third quarter of 2008 compared to the same period of 2007, due to a lower average borrowing rate during the third quarter of 2008 partially offset by higher average outstanding borrowings. The increase in average borrowings in the third quarter of 2008 resulted from increased working capital. The lower average borrowing rate in the third quarter of 2008 was due primarily to decreased interest rates under our revolving credit facility compared to the same period in 2007.

Table of Contents

Impairment Changes

During the third quarter of 2008, the Company recorded asset impairment charges associated with the recent volume declines and volatility in the automotive markets. Charges of \$17.5 million were for impairment of property and equipment and other long-term assets.

Income Tax:

The benefit for income taxes was \$4.6 million in the third quarter of 2008, a 34% effective income tax rate, compared to a provision for income taxes of \$3.8 million provided in the corresponding quarter of 2007, a 38% effective income tax rate.

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 our assets in the United States, Canada and the United Kingdom. Borrowings from this revolving credit facility will be 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, 2008, the Company had \$160.2 million outstanding under the revolving credit facility and approximately \$76.4 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. 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. 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 our ability to replace, in a timely manner, maturing liabilities and access the capital necessary to grow and maintain our business. Accordingly, we may be forced to delay raising capital or pay unattractive interest rates, which could increase our interest expense, decrease our profitability and significantly reduce our 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.

At September 30, 2008, the Company was in compliance with the debt service coverage ratio covenant and other covenants contained in the revolving credit facility.

The ratio of current assets to current liabilities was 2.30 at September 30, 2008 versus 2.40 at December 31, 2007. Working capital increased by \$16.5 million to \$286.6 million at September 30, 2008 from \$270.1 million at December 31, 2007.

During the first nine months of 2008, the Company provided \$10.8 million from operating activities compared to \$8.1 million in the same period of 2007. The increase in operating cash provision of \$2.7 million was primarily the

result of a larger increase in accounts payable and accrued expenses in the first nine months of 2008 compared to the same period of 2007 (an increase of \$22.2 million compared to a decrease of \$12.7 million, respectively), primarily due to an increase in advance billings in the first nine months of 2008 of \$6.1 million versus a reduction in advance billings in the first nine months of 2007 of \$7.3 million and to improvements in the timing of payments of accounts payable. This difference, plus a decrease in net income of \$17.2 million, was offset by non-cash impairment charges of \$17.5 million and a larger increase in accounts receivable, inventories and other current assets in the first nine months of 2008 compared to the same period of 2007 (an increase of

Table of Contents

\$31.3 million compared to an increase of \$16.3 million, respectively), due to an inventory increase in the Manufactured Products Segment and a receivable increase at the Supply Technologies and Aluminum Products Segments. In the first nine months of 2008, the Company also used cash of \$15.8 million for capital expenditures. These activities, plus cash interest and tax payments of \$21.1 million, \$3.2 million of cash paid to purchase the Company's common stock, and a net increase in borrowing of \$20.3 million, resulted in an increase in cash of \$14.5 million in the first nine months of 2008.

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, 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, 2008, 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.

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 "will", "believes", "anticipates", "plans", "expects", "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 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, tax rates and adverse impacts to us, 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 our revolving credit agreement and the indenture governing our senior subordinated notes; disruptions, uncertainty 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; 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.

Table of Contents

Review By Independent Registered Public Accounting Firm

The consolidated financial statements at September 30, 2008, and for the three-month and nine-month periods ended September 30, 2008 and 2007, 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 \$160.2 million at September 30, 2008. A 100 basis point increase in the interest rate would have resulted in an increase in interest expense of approximately \$1.2 million during the nine-month period ended September 30, 2008.

Our foreign subsidiaries generally conduct business in local currencies. During the first nine months of 2008, we recorded an unfavorable foreign currency translation adjustment of \$3.2 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.

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 September 30, 2008, 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.

There have been no changes in our internal control over financial reporting that occurred during the third quarter of 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

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, 2008, we were a co-defendant in approximately 365 cases asserting claims on behalf of approximately 8,400 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 21 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.

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, 2007.

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

| Period | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May yet be Purchased Under the Plans or Programs(1) |
|--|---|---|---|---|
| July 1, 2008 through July 31, 2008 | | \$ | -0- | 753,155 |
| August 1, 2008 through August 31, 2008 | 291(2) | \$ 21.29 | -0- | 753,155 |
| September 1, 2008 through September 30, 2008 | 9,888(2) | \$ 20.00 | -0- | 753,155 |
| Total: | 10,179 | \$ 20.04 | -0- | 753,155 |

(1) The Company has a share repurchase program, which it announced on September 27, 2006, whereby the Company may repurchase up to 1.0 million shares of its common stock. The Company did not purchase shares under this program during the quarter ended September 30, 2008.

(2) Consists 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 4. Submission of Matters to a Vote of Security Holders

None.

Item 6. Exhibits

The following exhibits are included herein:

10.1

Separation agreement with Richard P. Elliott, former Vice President and Chief Financial Officer,
dated as of July 17, 2008

- 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 10, 2008

Table of Contents

EXHIBIT INDEX

QUARTERLY REPORT ON FORM 10-Q
PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES
FOR THE QUARTER ENDED SEPTEMBER 30, 2008

Exhibit

- 10.1 Separation agreement with Richard P. Elliott, former Vice President and Chief Financial Officer, dated as of July 17, 2008
- 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