

PARK OHIO HOLDINGS CORP

Form 10-Q

November 08, 2007

**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, 2007
- or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from            to

**Commission file number 0-3134**

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

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

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

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

**44124**  
*(Zip Code)*

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

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

Indicate by check mark whether the registrant:

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

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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, 2007: 11,454,155.

The Exhibit Index is located on page 26.

---

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

**INDEX**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u>	<u>Financial Statements</u> 3
	<u>Consolidated balance sheets September 30, 2007 and December 31, 2006</u> 3
	<u>Consolidated statements of income Three and nine months ended September 30, 2007 and 2006</u> 4
	<u>Consolidated statement of shareholders equity Nine months ended September 30, 2007</u> 5
	<u>Consolidated statements of cash flows Nine months ended September 30, 2007 and 2006</u> 6
	<u>Notes to consolidated financial statements September 30, 2007</u> 7
	<u>Report of independent registered public accounting firm</u> 14
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 15
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosure About Market Risk</u> 21
<u>Item 4.</u>	<u>Controls and Procedures</u> 22
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1.</u>	<u>Legal Proceedings</u> 23
<u>Item 1A.</u>	<u>Risk Factors</u> 24
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 24
<u>Item 6.</u>	<u>Exhibits</u> 24
<b><u>SIGNATURE</u></b>	25
<b><u>EXHIBIT INDEX</u></b>	26
<u>EX-15</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32</u>	

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

	<b>(Unaudited)</b>	
	<b>September 30,</b>	<b>December 31,</b>
	<b>2007</b>	<b>2006</b>
	<b>(Dollars in thousands)</b>	
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 18,878	\$ 21,637
Accounts receivable, less allowances for doubtful accounts of \$4,001 at September 30, 2007 and \$4,305 at December 31, 2006	197,644	181,893
Inventories	206,828	223,936
Deferred tax assets	34,142	34,142
Other current assets	41,866	24,218
Total Current Assets	499,358	485,826
Property, Plant and Equipment	260,177	248,065
Less accumulated depreciation	158,223	146,980
	101,954	101,085
Other Assets		
Goodwill	99,097	98,180
Net assets held for sale	4,112	6,959
Other	95,144	92,092
	\$ 799,665	\$ 784,142
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current Liabilities		
Trade accounts payable	\$ 118,734	\$ 132,864
Accrued expenses	80,089	78,655
Current portion of long-term liabilities	9,535	5,873
Total Current Liabilities	208,358	217,392
Long-Term Liabilities, less current portion		
8.375% Senior Subordinated Notes due 2014	210,000	210,000
Revolving credit	155,600	156,700
Other long-term debt	1,918	4,790
Deferred tax liability	32,089	32,089

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

Other postretirement benefits and other long-term liabilities	28,238	24,434
	427,845	428,013
Shareholders' Equity		
Capital stock, par value \$1 a share:		
Serial Preferred Stock	-0-	-0-
Common Stock	12,225	12,110
Additional paid-in capital	61,344	59,676
Retained earnings	86,866	70,193
Treasury stock, at cost	(9,976)	(9,066)
Accumulated other comprehensive income	13,003	5,824
	163,462	138,737
	\$ 799,665	\$ 784,142

Note: The balance sheet at December 31, 2006 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 INCOME (UNAUDITED)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(Amounts in thousands, except per share data)</b>			
Net sales	\$ 269,104	\$ 257,167	\$ 823,626	\$ 785,841
Cost of products sold	226,880	220,967	700,413	675,039
Gross profit	42,224	36,200	123,213	110,802
Selling, general and administrative expenses	24,187	22,444	74,537	66,372
Gain on sale of assets held for sale	-0-	-0-	(2,299)	-0-
Operating income	18,037	13,756	50,975	44,430
Interest expense	7,993	8,065	24,286	23,170
Income before income taxes	10,044	5,691	26,689	21,260
Income taxes	3,816	1,955	9,408	7,866
Net income	\$ 6,228	\$ 3,736	\$ 17,281	\$ 13,394
Amounts per common share:				
Basic	\$ .56	\$ .34	\$ 1.56	\$ 1.22
Diluted	\$ .53	\$ .33	\$ 1.48	\$ 1.17
Common shares used in the computation:				
Basic	11,127	11,007	11,079	10,987
Diluted	11,707	11,451	11,641	11,448

See notes to consolidated financial statements.

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

	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings (Dollars in thousands)</b>	<b>Treasury Stock</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Total</b>
Balance at January 1, 2007	\$ 12,110	\$ 59,676	\$ 70,193	\$ (9,066)	\$ 5,824	\$ 138,737
Adjustment relating to adoption of FIN 48			(608)			(608)
Comprehensive income:						
Net income			17,281			17,281
Foreign currency translation adjustment					7,001	7,001
Pension and postretirement benefit adjustments, net of tax					178	178
Comprehensive income						24,460
Restricted stock awards	16	(16)				-0-
Amortization of restricted stock		1,224				1,224
Purchase of treasury stock				(910)		(910)
Exercise of stock options (99,417 shares)	99	180				279
Share-based compensation		280				280
Balance at September 30, 2007	\$ 12,225	\$ 61,344	\$ 86,866	\$ (9,976)	\$ 13,003	\$ 163,462

See notes to consolidated financial statements.

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

	<b>Nine Months Ended September 30, 2007                      2006</b>	
	<b>(Dollars in thousands)</b>	
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 17,281	\$ 13,394
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	16,019	14,174
Share-based compensation expense	1,504	618
Gain on sale of assets held for sale	(2,299)	-0-
Changes in operating assets and liabilities:		
Accounts receivable	(15,751)	(30,145)
Inventories and other current assets	(540)	(38,605)
Accounts payable and accrued expenses	(12,696)	30,495
Other	4,592	(2,441)
 Net Cash Provided (Used) by Operating Activities	 8,110	 (12,510)
<b>INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment, net	(14,292)	(9,423)
Acquisitions, net of cash acquired	-0-	(3,219)
Proceeds from sale of assets held for sale	4,365	-0-
 Net Cash Used by Investing Activities	 (9,927)	 (12,642)
<b>FINANCING ACTIVITIES</b>		
Proceeds from debt, net	(311)	23,493
Purchase of treasury stock	(910)	(38)
Exercise of stock options	279	115
 Net Cash (Used) Provided by Financing Activities	 (942)	 23,570
 Decrease in Cash and Cash Equivalents	 (2,759)	 (1,582)
Cash and Cash Equivalents at Beginning of Period	21,637	18,696
 Cash and Cash Equivalents at End of Period	 \$ 18,878	 \$ 17,114
 Taxes paid	 \$ 4,386	 \$ 3,927
Interest paid	18,048	17,046

See notes to consolidated financial statements.

**Table of Contents****PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****September 30, 2007****(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, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. 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, 2006. Certain amounts in the prior years' financial statements have been reclassified to conform to the current year presentation.

**NOTE B Segments**

The Company operates through three segments: Integrated Logistics Solutions ( ILS ), Aluminum Products and Manufactured Products. ILS is a supply chain logistics provider of production components to large, multinational manufacturing companies, other manufacturers and distributors. In connection with the supply of such production components, ILS provides a variety of value-added, cost-effective supply chain management services. 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</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net sales:				
ILS	\$ 134,066	\$ 149,133	\$ 403,956	\$ 449,630
Aluminum products	41,188	33,274	131,838	120,889
Manufactured products	93,850	74,760	287,832	215,322
	\$ 269,104	\$ 257,167	\$ 823,626	\$ 785,841

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

Income before income taxes:				
ILS	\$ 8,288	\$ 8,796	\$ 20,420	\$ 29,449
Aluminum products	1,131	(118)	3,285	4,318
Manufactured products	11,619	8,148	35,292	19,942
	21,038	16,826	58,997	53,709
Corporate costs	(3,001)	(3,070)	(8,022)	(9,279)
Interest expense	(7,993)	(8,065)	(24,286)	(23,170)
	\$ 10,044	\$ 5,691	\$ 26,689	\$ 21,260

**Table of Contents**

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Identifiable assets were as follows:		
ILS	\$ 402,324	\$ 382,101
Aluminum products	110,770	98,041
Manufactured products	249,064	206,089
General corporate	37,507	97,911
	<b>\$ 799,665</b>	<b>\$ 784,142</b>

**NOTE C Recent Accounting Pronouncements**

On July 13, 2006, the Financial Accounting Standards Board ( FASB ) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS No. 109,

Accounting for Income Taxes, and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has a 50% or less likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company adopted the provisions of FIN 48 on January 1, 2007. The total amount of unrecognized tax benefits as of the date of adoption was \$4,691, all of which, if recognized, would affect the effective tax rate. As a result of the implementation of FIN 48, the Company recognized a \$608 increase in the liability for unrecognized tax benefits and a corresponding reduction to retained earnings.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. Upon adoption of FIN 48 on January 1, 2007, the Company increased its accrual for interest and penalties to \$479.

The Company does not believe it is reasonably possible that its unrecognized tax benefits will change significantly within twelve months of the date of adoption of FIN 48.

The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. The Company s tax years from 2004 to 2006 are subject to examination by the tax authorities. With few exceptions, the Company is no longer subject to U.S. federal, state, local or foreign examinations by tax authorities for years 2003 and prior.

In September 2006, the FASB issued FASB Staff Position ( FSP ) AUG AIR-1, Accounting for Planned Major Maintenance Activities ( FSP AUG AIR-1 ). FSP AUG AIR-1 prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods and is effective for the Company in 2007. The adoption of FSP AUG AIR-1 on January 1, 2007 did not have a material impact on the Company s financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value in GAAP and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements and is effective for the Company in 2008. The

Company is currently evaluating the impact of adopting this statement on the Company's financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 ( SFAS No. 159 ). SFAS No. 159 permits an entity to elect fair value as the initial and subsequent measurement attribute for many financial assets and liabilities. Entities electing the fair value option would be required to recognize changes in fair value in earnings. Entities electing the fair value option would also be required to distinguish, on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities

**Table of Contents**

measured using another measurement attribute. SFAS No. 159 is effective for the Company in 2008. The adjustment to reflect the difference between the fair value and the carrying amount would be accounted for as a cumulative-effect adjustment to retained earnings as of the date of initial adoption. The Company is currently evaluating the impact of adoption of SFAS No. 159 on the Company's financial position and results of operations.

**NOTE D Acquisitions**

In October 2006, the Company acquired all of the capital stock of NABS, Inc. ( NABS ) for \$21,201 in cash. NABS is a premier international supply chain manager of production components, providing services to high technology companies in the computer, electronics and consumer products industries. NABS has 19 operations across Europe, Asia, Mexico and the United States. The acquisition was funded with borrowings under the Company's revolving credit facility.

The purchase price and results of operations of NABS prior to its date of acquisition were not deemed significant as defined in Regulation S-X. The results of operations for NABS have been included since October 18, 2006. The allocation of the purchase price has been performed based on the assignments of fair values to assets acquired and liabilities assumed. The allocation of the purchase price is as follows:

Cash acquisition price, less cash acquired	\$ 20,053
Assets	
Accounts receivable	(11,460)
Inventories	(4,326)
Other current assets	(201)
Equipment	(365)
Intangible assets subject to amortization	(8,020)
Other assets	(724)
Liabilities	
Accounts payable	8,989
Accrued expenses and other current liabilities	3,904
Deferred tax liability	3,128
Goodwill	\$ 10,978

The Company has a plan for NABS integration activities. In accordance with FASB EITF Issue No. 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination, the Company recorded accruals for severance, exit and relocation costs in the purchase price allocation. A reconciliation of the beginning and ending accrual balances is as follows:

	<b>Severance and Personnel</b>	<b>Exit and Relocation</b>	<b>Total</b>
Balance at October 18, 2006	\$ -0-	\$ -0-	\$ -0-
Add: Accruals	650	250	900
Less: Payments	(136)	(46)	(182)

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

Balance at December 31, 2006		514		204		718
Add: Accruals		-0-		-0-		-0-
Less: Payments		(514)		(204)		(718)
Balance at September 30, 2007	\$	-0-	\$	-0-	\$	-0-

In January 2006, the Company completed the acquisition of all of the shares of Foundry Service GmbH ( Foundry Service ) for approximately \$3,219, which resulted in additional goodwill of \$2,313. The acquisition was funded with borrowings from foreign subsidiaries of the Company. The acquisition was not deemed significant as defined in Regulation S-X.

**Table of Contents**

In connection with the acquisition of the assets of Purchased Parts Group, Inc. ( PPG ) in July 2005, the Company, in accordance with FASB EITF Issue No. 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination, recorded accruals for severance, exit and relocation costs in the purchase price allocation. A reconciliation of the beginning and ending accrual balance is as follows:

	<b>Severance and Personnel</b>	<b>Exit and Relocation</b>	<b>Total</b>
Balance at June 30, 2005	\$ -0-	\$ -0-	\$ -0-
Add: Accruals	250	1,750	2,000
Less: Payments	(551)	(594)	(1,145)
Transfers	400	(400)	-0-
Balance at December 31, 2005	99	756	855
Less: Payments and adjustments	(43)	(417)	(460)
Transfers	(17)	17	-0-
Balance at December 31, 2006	39	356	395
Less: Payments	(39)	(356)	(395)
Balance at September 30, 2007	\$ -0-	\$ -0-	\$ -0-

**NOTE E Inventories**

The components of inventory consist of the following:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Finished goods	\$ 132,827	\$ 143,071
Work in process	16,119	42,405
Raw materials and supplies	57,882	38,460
	\$ 206,828	\$ 223,936

**NOTE F Shareholders Equity**

At September 30, 2007, 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 12,225,192 shares were issued, of which 11,454,155 were outstanding and 771,037 were treasury shares.

**NOTE G Net Income Per Common Share**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>NUMERATOR</b>				
Net income	\$ 6,228	\$ 3,736	\$ 17,281	\$ 13,394
<b>DENOMINATOR</b>				
Denominator for basic earnings per share	weighted average			
shares	11,127	11,007	11,079	10,987
Effect of dilutive securities:				
Employee stock options	580	444	562	461
Denominator for diluted earnings per share	weighted average			
shares and assumed conversions	11,707	11,451	11,641	11,448
Amounts per common share:				
Basic	\$ .56	\$ .34	\$ 1.56	\$ 1.22
Diluted	\$ .53	\$ .33	\$ 1.48	\$ 1.17

**Table of Contents**

Stock options on 47,000 and 104,000 shares were excluded in the three months ended September 30, 2007 and 2006, respectively, and 25,000 and 104,000 were excluded in the nine months ended September 30, 2007 and 2006, respectively, because they were anti-dilutive.

**NOTE H Stock-Based Compensation**

Total stock compensation expense recorded in the first nine months of 2007 and 2006 was \$1,504 and \$618, respectively. Total stock compensation expense recorded in the third quarter of 2007 and 2006 was \$524 and \$437, respectively. There were stock options for 62,500 shares awarded with exercise prices of \$20.00 to \$24.92 per share during the nine months ended September 30, 2007 of which 32,500 with an exercise price of \$24.92 were awarded in the three months ended September 30, 2007. There were 15,500 restricted stock awards during the three months and nine months ended September 30, 2007. As of September 30, 2007, there was \$4,657 of unrecognized compensation cost related to non-vested stock-based compensation, which is expected to be recognized over a weighted average period of 2.7 years.

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

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

	<b>Pension Benefits</b>				<b>Postretirement Benefits</b>			
	<b>Three Months Ended</b>		<b>Nine Months Ended</b>		<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Service costs	\$ 91	\$ 87	\$ 273	\$ 261	\$ 41	\$ 50	\$ 123	\$ 150
Interest costs	702	726	2,105	2,178	333	323	1,000	969
Expected return on plan assets	(2,213)	(2,078)	(6,638)	(6,234)	-0-	-0-	-0-	-0-
Transition obligation	(2)	(12)	(6)	(36)	-0-	-0-	-0-	-0-
Amortization of prior service cost	34	39	102	117	(16)	(16)	(48)	(48)
Recognized net actuarial loss	-0-	81	-0-	243	146	94	438	282
Benefit (income) costs	\$ (1,388)	\$ (1,157)	\$ (4,164)	\$ (3,471)	\$ 504	\$ 451	\$ 1,513	\$ 1,353

**NOTE J Comprehensive Income**

Total comprehensive income was as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net income	\$ 6,228	\$ 3,736	\$ 17,281	\$ 13,394

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

Foreign currency translation	3,755	99	7,001	2,682
Pension and postretirement benefits, net of tax	59	-0-	178	-0-
Total comprehensive income	\$ 10,042	\$ 3,835	\$ 24,460	\$ 16,076

**Table of Contents**

The components of accumulated comprehensive income at September 30, 2007 and December 31, 2006 are as follows:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Foreign currency translation adjustment	\$ 12,385	\$ 5,384
Pension and postretirement benefit adjustments, net of tax	618	440
	<b>\$ 13,003</b>	<b>\$ 5,824</b>

The pension and postretirement benefit liability amounts are net of deferred taxes of \$287 and \$404 at September 30, 2007 and December 31, 2006, respectively. No income taxes are provided on foreign currency translation adjustments as foreign earnings are considered permanently invested.

**NOTE K Restructuring Activities**

The Company responded to an earlier economic downturn by reducing costs in a variety of ways, including restructuring businesses and selling non-core manufacturing assets. These activities generated restructuring and asset impairment charges in 2001, 2002, 2003 and 2005, as the Company's restructuring efforts continued and evolved. For further details on the restructuring activities, see Note O to the audited financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

The accrued liability balance for severance and exit costs and related cash payments during the nine months ended September 30, 2007 consisted of:

Balance at December 31, 2006	\$ 284
Cash payments	(284)
Balance at September 30, 2007	\$ -0-

**NOTE L 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:

Balance at January 1, 2007	\$ 3,557
Claims paid during the year	(1,167)
Additional warranties issued during the year	3,312
Balance at September 30, 2007	\$ 5,702

**NOTE M Income Taxes**

Previously, a valuation allowance was recorded against deferred tax assets as a result of operating losses. The valuation allowance was adjusted in subsequent periods through 2006 and charged or credited to income or other comprehensive income as appropriate. In the fourth quarter of 2006, it was determined that it was more likely than not that the deferred tax assets would be realized and the remaining amount of valuation allowance was reversed to income in that period. Therefore, beginning with the first quarter of 2007, a tax expense has been recorded based on an estimated effective tax rate for all jurisdictions.

The income tax provision for the three months and nine months ended September 30, 2007 was calculated based on management's estimate of the annual effective tax rate of 35% compared with the effective tax rate of 34% for the three months and 37% for the nine months ended September 30, 2006.

On July 13, 2006, the FASB issued FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes, and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions

**Table of Contents**

taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has a 50% or less likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company adopted the provisions of FIN 48 on January 1, 2007. The total amount of unrecognized tax benefits as of the date of adoption was \$4,691, all of which, if recognized, would affect the effective tax rate. As a result of the implementation of FIN 48, the Company recognized a \$608 increase in the liability for unrecognized tax benefits and a corresponding reduction to retained earnings.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. Upon adoption of FIN 48 on January 1, 2007, the Company increased its accrual for interest and penalties to \$479.

The Company does not believe it is reasonably possible that its unrecognized tax benefits will change significantly within twelve months of the date of adoption.

The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. The Company's tax years from 2004 to 2006 are subject to examination by the tax authorities. With few exceptions, the Company is no longer subject to U.S. federal, state, local or foreign examinations by tax authorities for years 2003 and prior.

**NOTE N Financing Arrangements**

On June 20, 2007, Park-Ohio Industries, Inc., the other loan parties thereto, the lenders party thereto and JP Morgan Chase Bank, N.A. (successor by merger to Bank One, N.A.), as agent, entered into a Second Amended and Restated Credit Agreement (the Agreement). The Agreement, among other things, increases the availability under the credit facility from \$230 million to \$270 million, adds an uncommitted accordion feature which could increase future availability to \$290 million, and amends the borrowing base and pricing terms.

**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, 2007 and the related consolidated statements of income for the three-month and nine-month periods ended September 30, 2007 and 2006, the consolidated statement of shareholders' equity for the nine-month period ended September 30, 2007 and the consolidated statements of cash flows for the nine-month periods ended September 30, 2007 and 2006. 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.

As discussed in Note M to the consolidated financial statements, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109, effective January 1, 2007.

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, 2006 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 12, 2007, 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, 2006, 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 6, 2007

**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. Financial information for the three-month and nine-month periods ended September 30, 2007 is not directly comparable to the financial information for the same periods in 2006 primarily due to acquisitions.

**Executive Overview**

We are an industrial supply chain logistics and diversified manufacturing business, operating in three segments: ILS, Aluminum Products and Manufactured Products. ILS provides customers with integrated supply chain management services for a broad range of high-volume, specialty production components. ILS customers receive various value-added services, such as engineering and design services, 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 and ongoing technical support. The principal customers of ILS are in the heavy-duty truck, automotive and vehicle parts, electrical distribution and controls, power sports/fitness equipment, HVAC, aerospace and defense, electrical components, appliance and semiconductor equipment 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 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.

Sales grew in the first nine months of 2007 compared to the same period a year earlier, as growth in the Manufactured Products segment and new customers in the ILS and Aluminum Products segments exceeded declines in ILS sales to the heavy-duty truck market caused by the introduction of new environmental standards at the beginning of 2007. New customers in the ILS segment came both from the October, 2006 acquisition of NABS and from organic sales, while new sales in the Aluminum Products segment primarily reflect two new contracts ramping-up production. Consolidated net sales are expected to increase over the coming quarters as heavy-duty truck sales begin to recover from their temporary dip and as sales volumes in Aluminum Products increase.

Sales and operating income grew in 2006, continuing the trend of the prior year, as the domestic and international manufacturing economies continued to grow. Net sales increased 13% in 2006 compared to 2005, while operating income increased 10%. Net income declined in 2006 because the reversal of the Company's tax valuation allowance of \$7.3 million in 2005 was larger than the valuation allowance of \$5.0 million in 2006, and also due to higher interest expense. The tax valuation allowance was substantially eliminated by December 31, 2006, so no further reversals are expected to affect income in subsequent years. During 2005, net sales increased 15%, and operating income increased 9% as compared to 2004. 2005 operating income was reduced by \$1.8 million of restructuring charges (\$.8 million reflected in Cost of products sold and \$1.0 million in Restructuring and impairment charges).

During 2004, 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 bank revolving credit facility, most recently in June 2007, to extend its maturity to December 2010, increase the credit limit up to \$270.0 million subject to an asset-based formula, and provide lower interest rate levels.

In October 2006, we acquired all of the capital stock of NABS, Inc. for \$21.2 million in cash funded with borrowings under our revolving credit facility. NABS is a premier international supply chain manager of production

## **Table of Contents**

components, providing services to high technology companies in the computer, electronics, and consumer products industries. NABS had 14 international operations in China, India, Taiwan, Singapore, Ireland, Hungary, Scotland, and Mexico plus five locations in the United States.

In January 2006, we completed the acquisition of all of the capital stock of Foundry Service GmbH for approximately \$3.2 million in cash, which resulted in additional goodwill of \$2.3 million. The acquisition was funded with borrowings from foreign subsidiaries of the Company.

In December 2005, we acquired substantially all of the assets of Lectrotherm, which is primarily a provider of field service and spare parts for induction heating and melting systems, located in Canton, Ohio, for \$5.1 million cash funded with borrowings under our revolving credit facility. This acquisition augments our existing, high-margin aftermarket induction business.

In July 2005, we acquired substantially all the assets of PPG, a provider of supply chain management services for a broad range of production components for \$7.0 million cash funded with borrowings from our revolving credit facility, \$.5 million in a short-term note payable and the assumption of approximately \$13.3 million of trade liabilities. This acquisition added significantly to the customer and supplier bases, and expanded our geographic presence of our ILS segment.

## **Accounting Changes**

*SFAS No. 158* On December 31, 2006, the Company adopted SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans – an Amendment of FASB Statements No. 87, 88, 106 and 132(R)* ( *SFAS No. 158* ). SFAS No. 158 requires an employer that is a business entity and sponsors one or more single employer benefit plans to (1) recognize the funded status of the benefit in its statement of financial position, (2) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost, (3) measure defined benefit plan assets and obligations as of the date of the employer's fiscal year end statement of financial position and (4) disclose additional information in the notes to financial statements about certain effects on net periodic benefit costs for the next fiscal year that arise from delayed recognition of gains or losses, prior service costs or credits, and transition assets or obligations. See Note K of the Company's Annual Report on Form 10-K for the year ended December 31, 2006 for the impact of the adoption of SFAS No. 158 on the Company's financial statements.

*FIN 48* On July 13, 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* ( *FIN 48* ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*, and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company adopted the provisions of FIN 48 on January 1, 2007. The total amount of unrecognized tax benefits as of the date of adoption was \$4,691, all of which, if recognized, would affect the effective tax rate. As a result of the implementation of FIN 48, the Company recognized a \$608 increase in the liability for unrecognized tax benefits and a corresponding reduction to retained earnings.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. Upon adoption of FIN 48 on January 1, 2007, the Company increased its accrual for interest and penalties to \$479.

The Company does not believe it is reasonably possible that its unrecognized tax benefits will change significantly within twelve months of the date of adoption of FIN 48.

**Table of Contents**

The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. The Company's tax years from 2003 to 2006 are subject to examination by the tax authorities. With few exceptions, the Company is no longer subject to U.S. federal, state, local or foreign examinations by tax authorities for years before 2002.

**Results of Operations*****Nine Months 2007 versus Nine Months 2006******Net Sales by Segment:***

	<b>Nine Months Ended September 30, 2007</b>		<b>2006</b>	<b>Change</b>	<b>Percent Change</b>	<b>Acquired/ (Divested) Sales</b>
ILS	\$ 404.0	\$ 449.6	\$ (45.6)	(10)%	\$ 29.5	
Aluminum products	131.8	120.9	10.9	9%	0.0	
Manufactured products	287.8	215.3	72.5	34%	0.0	
Consolidated Net Sales	\$ 823.6	\$ 785.8	\$ 37.8	5%	\$ 29.5	

Net sales increased 5% in the first nine months of 2007 compared to the same period in 2006 as growth in the Manufactured Products segment and new customers in the ILS and Aluminum Products segments exceeded declines in ILS sales to the heavy-duty truck market caused by the introduction of new environmental standards at the beginning of 2007. ILS sales decreased 10% primarily due to volume reductions in the heavy-duty truck industry, partially offset by \$29.5 million of additional sales from the October 2006 acquisition of NABS, the addition of new customers and increases in product range to existing customers. Aluminum Products sales increased 9% as the sales volume from new contracts starting production ramp-up exceeded the end of production of other parts and the general decline in auto industry sales volumes. Manufactured Products sales increased 34% primarily in the induction, 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:***

	<b>Nine Months Ended September 30, 2007</b>		<b>2006</b>	<b>Change</b>	<b>Percent Change</b>
Consolidated cost of products sold	\$ 700.4	\$ 675.0	\$ 25.4	4%	
Consolidated gross profit	\$ 123.2	\$ 110.8	\$ 12.4	11%	
Gross Margin	15.0%	14.1%			

Cost of products sold increased 4% in the first nine months of 2007 compared to the same period in 2006, while gross margin increased to 15.0% in the first half of 2007 from 14.1% in the same period of 2006.

ILS gross margin increased slightly, as the margin benefit from sales from the NABS acquisition and new customers outweighed the effect of reduced heavy-duty truck sales volume. Aluminum Products gross margin decreased primarily due to the costs associated with starting up new contracts and slow ramp-ups of new contract volume. Gross margin in the Manufactured Products segment increased primarily due to increased sales volume.

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

	<b>Nine Months Ended September 30,</b>			
	<b>2007</b>	<b>2006</b>	<b>Change</b>	<b>Percent Change</b>
Consolidated SG&A expenses	\$ 74.5	\$ 66.4	\$ 8.1	12%
SG&A percent	9.0%	8.4%		

**Table of Contents**

Consolidated SG&A expenses increased 12% in the first nine months of 2007 compared to the same period in 2006, representing a .6% increase in SG&A expenses as a percent of sales. SG&A increased approximately \$4.8 million due to the acquisition of NABS. SG&A increased further in the first nine months of 2007 compared to the same period in 2006 primarily due to increased expenses related to stock options and restricted stock, the new office building, legal and professional fees and franchise taxes, partially offset by a \$.7 million increase in net pension credits, reflecting higher returns on pension plan assets.

**Interest Expense:**

	<b>Nine Months Ended September 30,</b>			
	<b>2007</b>	<b>2006</b>	<b>Change</b>	<b>Percent Change</b>
Interest expense	\$ 24.3	\$ 23.2	\$ 1.1	5%
Average outstanding borrowings	\$ 387.6	\$ 372.2	\$ 15.4	4%
Average borrowing rate	8.35%	8.30%	5	basis points

Interest expense increased \$1.1 million in the first nine months of 2007 compared to the same period of 2006, primarily due to higher average outstanding borrowings and a higher average borrowing rate during the first nine months of 2007. The increase in average borrowings in the first nine months of 2007 resulted primarily from higher working capital requirements and the purchase of NABS in October 2006. The higher average borrowing rate in the first nine months of 2007 was due primarily to increased interest rates under our revolving credit facility compared to the same period in 2006, which rates increased primarily as a result of actions by the Federal Reserve.

**Income Tax:**

The provision for income taxes was \$9.4 million in the first nine months of 2007, a 35% effective income tax rate, compared to income taxes of \$7.9 million provided in the corresponding period of 2006, a 37% effective income tax rate. We estimate that the effective tax rate for full-year 2007 will be approximately 35%.

Previously, a valuation allowance was recorded against deferred tax assets as a result of operating losses. The valuation allowance was adjusted in subsequent periods through 2006 and charged or credited to income or other comprehensive income as appropriate. In the fourth quarter of 2006, it was determined that it was more likely than not that the deferred tax assets would be realized and the remaining amount of valuation allowance was reversed to income in that period. Therefore, beginning with the first quarter of 2007, a tax expense has been recorded based on an estimated effective tax rate for all jurisdictions.

**Results of Operations****Third Quarter 2007 versus Third Quarter 2006****Net Sales by Segment:**

<b>Three Months Ended September 30,</b>	<b>Percent</b>	<b>Acquired/ (Divested)</b>
---	----------------	---------------------------------

	<b>2007</b>	<b>2006</b>	<b>Change</b>	<b>Change</b>	<b>Sales</b>
ILS	\$ 134.1	\$ 149.1	\$ (15.0)	(10)%	\$ 10.0
Aluminum products	41.2	33.3	7.9	24%	0.0
Manufactured products	93.8	74.8	19.0	25%	0.0
Consolidated Net Sales	\$ 269.1	\$ 257.2	\$ 11.9	5%	\$ 10.0

Net sales increased 5% in the third quarter of 2007 compared to the same quarter in 2006 as growth in the Manufactured Products segment and new customers in the ILS and Aluminum Products segments exceeded declines in ILS sales to the heavy-duty truck market caused by the introduction of new environmental standards at the beginning of 2007. ILS sales decreased 10% primarily due to volume reductions in the heavy-duty truck industry, partially offset by \$10.0 million of additional sales from the October 2006 acquisition of NABS, the

**Table of Contents**

addition of new customers and increases in product range to existing customers. Aluminum Products sales increased 24% as the sales volume from production ramp-ups of new contracts exceeded the end of production of other parts and the general decline in auto industry sales volumes. Manufactured Products sales increased 25% primarily in the induction, 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:***

	<b>Three Months Ended September 30,</b>			
	<b>2007</b>	<b>2006</b>	<b>Change</b>	<b>Percent Change</b>
Consolidated cost of products sold	\$ 226.9	\$ 221.0	\$ 5.9	3%
Consolidated gross profit	\$ 42.2	\$ 36.2	\$ 6.0	17%
Gross Margin	15.7%	14.1%		

Cost of products sold increased 3% in the third quarter of 2007 compared to the same quarter in 2006, while gross margin increased to 15.7% in the third quarter of 2007 from 14.1% in the same quarter of 2006.

ILS gross margin increased, as the margin benefit from sales from the NABS acquisition and new customers outweighed the effect of reduced heavy-duty truck sales volume. Aluminum Products gross margin increased, as the margin effect of higher sales volumes more than offset the costs associated with starting up new contracts. Gross margin in the Manufactured Products segment increased primarily due to increased sales volume.

***SG&A Expenses:***

	<b>Three Months Ended September 30,</b>			
	<b>2007</b>	<b>2006</b>	<b>Change</b>	<b>Percent Change</b>
Consolidated SG&A expenses	\$ 24.2	\$ 22.4	\$ 1.8	8%
SG&A percent	9.0%	8.7%		

Consolidated SG&A expenses increased 8% in the third quarter of 2007 compared to the same quarter in 2006, representing a .3% increase in SG&A expenses as a percent of sales. SG&A increased approximately \$1.5 million due to the acquisition of NABS. SG&A increased further in the third quarter of 2007 compared to the same quarter in 2006 primarily due to increased expenses related to stock options and restricted stock, the new relocation to a office building, and legal and professional fees, partially offset by a \$.2 million increase in net pension credits, reflecting higher returns on pension plan assets.

***Interest Expense:***

	<b>Three Months Ended September 30,</b>			
	<b>2007</b>	<b>2006</b>	<b>Change</b>	<b>Percent Change</b>
Interest expense	\$ 8.0	\$ 8.1	\$ (0.1)	(1)%
Average outstanding borrowings	\$ 384.4	\$ 379.6	\$ 4.8	1%
Average borrowing rate	8.32%	8.50%	(18)	basis points

Interest expense decreased \$0.1 million in the third quarter of 2007 compared to the same period of 2006, primarily due to a lower average borrowing rate during the third quarter of 2007, partially offset by higher average outstanding borrowings. The increase in average borrowings in the third quarter of 2007 resulted primarily from higher working capital requirements and the purchase of NABS in October 2006. The lower average borrowing rate in the third quarter of 2007 was due primarily to decreased interest rates under our revolving credit facility compared to the same period in 2006, which rates increased primarily as a result of actions by the Federal Reserve.

## **Table of Contents**

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

The provision for income taxes was \$3.8 million in the third quarter of 2007, a 38% effective income tax rate, compared to income taxes of \$2.0 million provided in the corresponding quarter of 2006, a 35% effective income tax rate. We estimate that the effective tax rate for full-year 2007 will be approximately 35%.

Previously, a valuation allowance was recorded against deferred tax assets as a result of operating losses. The valuation allowance was adjusted in subsequent periods through 2006 and charged or credited to income or other comprehensive income as appropriate. In the fourth quarter of 2006, it was determined that it was more likely than not that the deferred tax assets would be realized and the remaining amount of valuation allowance was reversed to income in that period. Therefore, beginning with the first quarter of 2007, a tax expense has been recorded based on an estimated effective tax rate for all jurisdictions.

### **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. On July 30, 2003, we entered into a revolving credit facility with a group of banks that provided for availability of up to \$165.0 million, subject to an asset-based formula. In 2004, 2005, 2006 and 2007, we amended our revolving credit facility to progressively increase the availability up to \$270.0 million, subject to an asset-based formula. The December 2004 amendment also extended the maturity from July 30, 2007 to December 31, 2010, while in May 2006 the revolving credit facility was amended to reduce the pricing applicable to LIBOR-based interest rates by 50 basis points. 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, 2007, the Company had \$155.6 million outstanding under the revolving credit facility and approximately \$89.2 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 coverage ratio covenant, which could be materially impacted by negative economic trends. Failure to meet the debt service coverage ratio could materially impact the availability and interest rate of future borrowings.

At September 30, 2007, 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 2.40 at September 30, 2007 versus 2.23 at December 31, 2006. Working capital increased by \$22.6 million to \$291.0 million at September 30, 2007 from \$268.4 million at December 31, 2006.

During the first nine months of 2007, the Company provided \$8.1 million from operating activities compared to using \$12.5 million in the same period of 2006. The increase in operating cash provision of \$20.6 million was primarily the result of a smaller increase in accounts receivable, inventories and other current assets in the first nine months of 2007

compared to the same period of 2006 (an increase of \$16.3 million compared to an increase of \$68.8 million, respectively), primarily as a result of a smaller increase in revenue. This difference, plus an increase in net income of \$3.9 million, more than offset the increased operating cash used by a reduction of \$12.7 million in accounts payable and accrued expenses in the first nine months of 2007 compared to an increase of \$30.5 million in the first nine months of 2006. In the first nine months of 2007, the Company also used cash of \$14.3 million for capital expenditures. These activities, plus cash interest and taxes payments of \$22.4 million, \$4.4 million of cash received for the sale of an asset held for sale and a net decrease in borrowing of \$.3 million, resulted in a decrease in cash of \$2.8 million in the first nine months of 2007.

## **Table of Contents**

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, 2007, no such currency hedge contracts 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 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 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, our suppliers and customers from acts of terrorism or hostilities; our ability to meet various covenants, including financial covenants, contained in our revolving credit agreement and the indenture governing our senior subordinated notes; increasingly stringent domestic and foreign governmental regulations, including those affecting the environment; inherent uncertainties involved in assessing our potential liability for environmental remediation-related activities; the outcome of pending and future litigation and other claims; dependence on the automotive and heavy-duty truck industries, which are highly cyclical; dependence on key management; and dependence on information systems. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law. In light of these and other uncertainties, the inclusion of a forward-looking statement herein should not be regarded as a representation by us that our plans and objectives will be achieved.

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

The consolidated financial statements at September 30, 2007, and for the three-month and nine-month periods ended September 30, 2007 and 2006, 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 \$155.6 million at September 30, 2007. 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, 2007.

**Table of Contents**

Our foreign subsidiaries generally conduct business in local currencies. During the first nine months of 2007, we recorded a favorable foreign currency translation adjustment of \$7.0 million related to net assets located outside the United States. This foreign currency translation adjustment resulted primarily from the weakening of the U.S. dollar in relation to the euro and Canadian 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, 2007, 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 second quarter of 2007 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, 2007, we were a co-defendant in approximately 385 cases asserting claims on behalf of approximately 8,500 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, 2006.

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

<b>Period</b>	<b>(a) Total Number of Shares (or Units)  Purchased</b>	<b>(b) Average Price Paid per Share (or Unit)</b>	<b>(c) Total Number of Shares (or Units)  Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May yet be Purchased Under the Plans or Programs(1)</b>
July 1, 2007 through July 31, 2007			0	1,000,000
August 1, 2007 through August 31, 2007			0	1,000,000
September 1, 2007 through September 30, 2007	32,802(2)	26.70	0	1,000,000
<b>Total:</b>	<b>32,802</b>	<b>\$ 26.70</b>	<b>0</b>	<b>1,000,000</b>

(1) The Company has a share repurchase program whereby the Company may repurchase up to 1.0 million shares of its common stock. No shares were purchased under this program during the quarter ended September 30, 2007.

(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 6. Exhibits**

The following exhibits are included herein:

- 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/ Richard P. Elliott

Name: Richard P. Elliott

Title: Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

Date: November 7, 2007

25

---

**Table of Contents**

**EXHIBIT INDEX  
QUARTERLY REPORT ON FORM 10-Q  
PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES  
FOR THE QUARTER ENDED SEPTEMBER 30, 2007**

**Exhibit**

- 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