

PARK OHIO HOLDINGS CORP

Form 10-Q

August 10, 2009

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended June 30, 2009**
- or**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from            to**

**Commission file number 0-3134**

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

**Ohio**  
*(State or other jurisdiction of  
incorporation or organization)*  
**6065 Parkland Boulevard, Cleveland, Ohio**  
*(Address of principal executive offices)*

**34-1867219**  
*(I.R.S. Employer  
Identification No.)*  
**44124**  
*(Zip Code)*

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

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

Indicate by check mark whether the registrant:

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

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

files). Yes  No

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

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

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

Number of shares outstanding of registrant's Common Stock, par value \$1.00 per share, as of July 31, 2009:  
11,732,118.

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>	
<b><u>Item 1.</u></b> Financial Statements	3
Consolidated balance sheets June 30, 2009 and December 31, 2008	3
Consolidated statements of operations Three and six months ended June 30, 2009 and 2008	4
Consolidated statement of shareholders equity Six months ended June 30, 2009	5
Consolidated statements of cash flows Six months ended June 30, 2009 and 2008	6
Notes to consolidated financial statements June 30, 2009	7
Report of independent registered public accounting firm	14
<b><u>Item 2.</u></b> Management's Discussion and Analysis of Financial Condition and Results of Operations	15
<b><u>Item 3.</u></b> Quantitative and Qualitative Disclosure About Market Risk	22
<b><u>Item 4.</u></b> Controls and Procedures	22
<b><u>PART II. OTHER INFORMATION</u></b>	
<b><u>Item 1.</u></b> Legal Proceedings	23
<b><u>Item 1A.</u></b> Risk Factors	24
<b><u>Item 2.</u></b> Unregistered Sales of Equity Securities and Use of Proceeds	24
<b><u>Item 4.</u></b> Submission of Matters to a Vote of Security Holders	24
<b><u>Item 6.</u></b> Exhibits	24
<b><u>SIGNATURE</u></b>	25
<b><u>EXHIBIT INDEX</u></b>	26
<b><u>EX-15</u></b>	
<b><u>EX-31.1</u></b>	
<b><u>EX-31.2</u></b>	
<b><u>EX-32</u></b>	

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

	(Unaudited)	
	June 30, 2009	December 31, 2008
	(Dollars in thousands)	
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 12,663	\$ 17,825
Accounts receivable, less allowances for doubtful accounts of \$5,056 at June 30, 2009 and \$3,044 at December 31, 2008	123,707	165,779
Inventories	216,444	228,817
Deferred tax assets	9,446	9,446
Unbilled contract revenue	11,783	25,602
Other current assets	8,070	12,818
Total Current Assets	382,113	460,287
Property, Plant and Equipment	251,288	248,474
Less accumulated depreciation	165,627	157,832
	85,661	90,642
Other Assets		
Goodwill	4,100	4,109
Other	65,977	64,182
	\$ 537,851	\$ 619,220
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current Liabilities		
Trade accounts payable	\$ 72,584	\$ 121,995
Accrued expenses	47,058	74,351
Current portion of long-term debt	2,323	8,778
Current portion of other postretirement benefits	2,290	2,290
Total Current Liabilities	124,255	207,414
Long-Term Liabilities, less current portion		
8.375% Senior Subordinated Notes due 2014	192,860	198,985
Revolving credit	168,100	164,600

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

Other long-term debt	6,827	2,283
Deferred tax liability	9,090	9,090
Other postretirement benefits and other long-term liabilities	23,492	24,093
	400,369	399,051
Shareholders' Equity		
Capital stock, par value \$1 a share:		
Serial Preferred Stock	-0-	-0-
Common Stock	13,189	12,237
Additional paid-in capital	65,152	64,212
Retained deficit	(31,211)	(29,021)
Treasury stock, at cost	(17,192)	(17,192)
Accumulated other comprehensive loss	(16,711)	(17,481)
	13,227	12,755
	\$ 537,851	\$ 619,220

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

See notes to consolidated financial statements.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(Amounts in thousands, except per share data)</b>			
Net sales	\$ 163,405	\$ 285,940	\$ 344,655	\$ 553,030
Cost of products sold	134,077	242,205	291,464	470,602
Gross profit	29,328	43,735	53,191	82,428
Selling, general and administrative expenses	22,214	28,012	44,836	53,957
Gain on purchase of 8.375% senior subordinated notes	(3,096)	-0-	(3,096)	-0-
Operating income	10,210	15,723	11,451	28,471
Interest expense	6,128	6,632	12,099	13,896
Income (loss) before income taxes	4,082	9,091	(648)	14,575
Income taxes	810	3,374	1,542	5,376
Net income (loss)	\$ 3,272	\$ 5,717	\$ (2,190)	\$ 9,199
Amounts per common share:				
Basic	\$ .30	\$ .52	\$ (.20)	\$ .83
Diluted	\$ .29	\$ .49	\$ (.20)	\$ .79
Common shares used in the computation:				
Basic	11,008	11,082	10,890	11,118
Diluted	11,282	11,597	10,890	11,644

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 (Loss)</b>	<b>Total</b>
Balance at January 1, 2009	\$ 12,237	\$ 64,212	\$ (29,021)	\$ (17,192)	\$ (17,481)	\$ 12,755
Comprehensive (loss):						
Net (loss)			(2,190)			(2,190)
Foreign currency translation adjustment					(352)	(352)
Unrealized loss on marketable securities, net of tax					413	413
Pension and post retirement benefit adjustments, net of tax					709	709
Comprehensive (loss)						(1,420)
Amortization of restricted stock		1,002				1,002
Exercise of stock options (360,000 shares)	360	328				688
Restricted stock awards	592	(592)				-0-
Share-based compensation		202				202
Balance at June 30, 2009	\$ 13,189	\$ 65,152	\$ (31,211)	\$ (17,192)	\$ (16,711)	\$ 13,227

See notes to consolidated financial statements.



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

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Dollars in thousands)</b>	
<b>OPERATING ACTIVITIES</b>		
Net (loss) income	\$ (2,190)	\$ 9,199
Adjustments to reconcile net (loss) income to net cash used by operating activities:		
Depreciation and amortization	9,660	10,459
Share-based compensation expense	1,204	1,103
Gain on purchase of 8.375% senior subordinated notes	(3,096)	-0-
Changes in operating assets and liabilities:		
Accounts receivable	42,071	(22,094)
Inventories and other current assets	30,138	(17,103)
Accounts payable and accrued expenses	(76,704)	29,242
Other	(3,000)	(8,112)
Net Cash (Used) Provided by Operating Activities	(1,917)	2,694
<b>INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment, net	(3,295)	(9,008)
Purchases of marketable securities	(62)	(413)
Sales of marketable securities	865	2,562
Net Cash Used by Investing Activities	(2,492)	(6,859)
<b>FINANCING ACTIVITIES</b>		
(Payments on) proceeds from long-term debt, net	(1,912)	6,293
Proceeds from revolving credit, net	3,500	19,000
Purchase of treasury stock	-0-	(2,962)
Purchase of 8.375% senior subordinated notes	(3,029)	-0-
Exercise of stock options	688	-0-
Net Cash (Used) Provided by Financing Activities	(753)	22,331
(Decrease) Increase in Cash and Cash Equivalents	(5,162)	18,166
Cash and Cash Equivalents at Beginning of Period	17,825	14,512
Cash and Cash Equivalents at End of Period	\$ 12,663	\$ 32,678
Taxes paid	\$ 3,743	\$ 4,002
Interest paid	11,500	13,282

See notes to consolidated financial statements.



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

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

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

The Company evaluated subsequent events through August 10, 2009, the date these financial statements were issued.

**NOTE B Segments**

The Company operates through three segments: Supply Technologies, Aluminum Products and Manufactured Products. Supply Technologies provides our customers with Total Supply Management<sup>tm</sup> services for a broad range of high-volume, specialty production components. Total Supply Management<sup>tm</sup> manages the efficiencies of every aspect of supplying production parts and materials to our customers' manufacturing floors, from strategic planning to program implementation and includes such services as engineering and design support, part usage and cost analysis, supplier selection, quality assurance, bar coding, product packaging and tracking, just-in-time and point-of-use delivery, electronic billing services and ongoing technical support. Aluminum Products manufactures cast aluminum components for 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>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net sales:				
Supply Technologies	\$ 77,444	\$ 138,551	\$ 160,415	\$ 267,784
Aluminum products	21,635	43,984	43,993	84,520

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

Manufactured products	64,326	103,405	140,247	200,726
	\$ 163,405	\$ 285,940	\$ 344,655	\$ 553,030
Income (loss) before income taxes:				
Supply Technologies	\$ 2,885	\$ 6,585	\$ 3,431	\$ 11,292
Aluminum products	(1,794)	(62)	(5,456)	(1,117)
Manufactured products	9,373	14,419	17,085	27,641
	10,464	20,942	15,060	37,816
Corporate costs	(254)	(5,219)	(3,609)	(9,345)
Interest expense	(6,128)	(6,632)	(12,099)	(13,896)
Income (loss) before income taxes	\$ 4,082	\$ 9,091	\$ (648)	\$ 14,575

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

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Identifiable assets were as follows:		
Supply Technologies	\$ 224,617	\$ 256,161
Aluminum products	74,628	87,215
Manufactured products	224,045	242,057
General corporate	14,561	33,787
	<b>\$ 537,851</b>	<b>\$ 619,220</b>

**NOTE C Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board ( 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 was adopted prospectively by the Company, effective January 1, 2009. There was no impact on the Consolidated Financial Statements upon adoption, and its effects on future periods will depend on the nature and significance of business combinations subject to this statement.

In December 2008, the FASB issued FASB Staff Position ( FSP ) 132(R)-1, Employers Disclosures about Post Retirement Benefit Plan Assets. FSP 132(R)-1 provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The guidance addresses disclosures related to the categories of plan assets and fair value measurements of plan assets. This FSP was adopted by the Company effective January 1, 2009 and had no effect on its consolidated financial position or results of operations.

In April 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies. This FSP requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated. If fair value cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, and FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss. Further, the FASB removed the subsequent accounting guidance for assets and liabilities arising from contingencies from FAS 141(R)-1. The requirements of this FSP carry forward without significant revision the guidance on contingencies of Statement of Financial Accounting Standards No. 141, Business Combinations, which was superseded by FAS 141(R). The FSP also eliminates the requirement to disclose an estimate of the range of possible outcomes of recognized contingencies at the acquisition date. For unrecognized contingencies, the FASB requires that entities include only the disclosures required by

Statement of Financial Accounting Standards No. 5. This FSP was adopted effective January 1, 2009. There was no impact upon adoption, and its effects on future periods will depend on the nature and significance of business combinations subject to this statement.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. Based on the guidance, if an entity determines that the level of activity for an asset or liability has significantly decreased and that a transaction is not orderly, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transaction or quoted prices may be necessary to estimate fair value in accordance with Statement of Financial Accounting Standards No. 157 *Fair Value Measurements*. This FSP is to be applied prospectively and is effective for interim and annual periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15,

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

2009. The Company adopted this FSP for its quarter ended June 30, 2009. There was no impact on the Consolidated Financial Statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB-28-1, Interim Disclosures about Fair Value of Financial Instruments, which requires that publicly traded companies include the fair value disclosures required by Statement of Financial Accounting Standards No. 107 in their interim financial statements. This FSP is effective for interim reporting periods ending after June 15, 2009. The Company adopted this FSP at June 30, 2009. At June 30, 2009, the approximate fair value of the 8.375% Senior Subordinated Notes due 2014 was \$96,430. The Company had other investments having Level 2 inputs totaling \$6,380.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, Subsequent Events ( FAS 165 ), which addresses the types and timing of events that should be reported in the financial statements for events occurring between the balance sheet date and the date the financial statements are issued or available to be issued. FAS 165 was effective for the Company on June 30, 2009. The adoption of FAS 165 did not impact the Company's consolidated financial position or results of operations.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of Statement of Financial Accounting Standards No. 162, which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles ( GAAP ) in the United States. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this standard will change how we reference various elements of GAAP when preparing our financial statement disclosures, but will have no impact on our financial position, results of operations or cash flows.

**NOTE D Inventories**

The components of inventory consist of the following:

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Finished goods	\$ 114,751	\$ 129,939
Work in process	31,034	29,648
Raw materials and supplies	70,659	69,230
	<b>\$ 216,444</b>	<b>\$ 228,817</b>

**NOTE E Shareholders Equity**

At June 30, 2009, capital stock consists of (i) Serial Preferred Stock, of which 632,470 shares were authorized and none were issued, and (ii) Common Stock, of which 40,000,000 shares were authorized and 13,188,892 shares were

issued, of which 11,745,368 were outstanding and 1,443,524 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:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>NUMERATOR</b>				
Net income (loss)	\$ 3,272	\$ 5,717	\$ (2,190)	\$ 9,199
<b>DENOMINATOR</b>				
Denominator for basic earnings per share weighted average shares	11,008	11,082	10,890	11,118
Effect of dilutive securities:				
Employee stock options	274	515	-0-	526
Denominator for diluted earnings per share weighted average shares and assumed conversions	11,282	11,597	10,890	11,644
Amounts per common share:				
Basic	\$ .30	\$ .52	\$ (.20)	\$ .83
Diluted	\$ .29	\$ .49	\$ (.20)	\$ .79

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

Pursuant to Statement of Financial Accounting Standards No. 128, Earnings Per Share, when a loss is reported the denominator of diluted earnings per share cannot be adjusted for the dilutive impact of stock options and awards because doing so will result in anti-dilution. Therefore, for the six months ended June 30, 2009, basic weighted-average shares outstanding are used in calculating diluted earnings per share.

Outstanding stock options with exercise prices greater than the average price of the common shares are anti-dilutive and are not included in the computation of diluted earnings per share. Stock options on 82,000 and 69,000 shares were excluded in the three months and six months ended June 30, 2008, respectively and 256,000 were excluded for the three months ended June 30, 2009 because they were anti-dilutive.

**NOTE G Stock-Based Compensation**

Total stock compensation expense recorded in the first six months of 2009 and 2008 was \$1,204 and \$1,103, respectively. Total stock compensation expense recorded in the second quarter of 2009 and 2008 was \$689 and \$550,

respectively. There were 589,500 shares of restricted stock awarded during the six months ended June 30, 2009 at prices ranging from \$3.49 to \$3.74 per share, of which 66,500 shares were awarded in the three months ended June 30, 2009. There were no stock options awarded during the six months ended June 30, 2009. There were stock options for 65,000 shares awarded with an exercise price of \$15.61 per share during the three months and six months ended June 30, 2008. There were 16,000 shares of restricted stock awarded during the three months and six months ended June 30, 2008. As of June 30, 2009, there was \$3,639 of unrecognized compensation cost related to non-vested stock-based compensation, which cost is expected to be recognized over a weighted average period of 2.03 years.

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

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

	<b>Pension Benefits</b>				<b>Postretirement Benefits</b>			
	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>		<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Service costs	\$ 123	\$ 108	\$ 246	\$ 216	\$ 24	\$ 43	\$ 48	\$ 86
Interest costs	694	722	1,388	1,444	296	290	592	580
Expected return on plan assets	(1,758)	(2,408)	(3,517)	(4,816)	-0-	-0-	-0-	-0-
Transition obligation	(10)	(12)	(20)	(24)	-0-	-0-	-0-	-0-
Amortization of prior service cost	32	34	64	68	-0-	(13)	-0-	(26)
Recognized net actuarial loss	231	(29)	462	(58)	119	71	238	142
Benefit (income) costs	\$ (688)	\$ (1,585)	\$ (1,377)	\$ (3,170)	\$ 439	\$ 391	\$ 878	\$ 782

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

**NOTE I Comprehensive Income**

Total comprehensive income (loss) was as follows:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net income (loss)	\$ 3,272	\$ 5,717	\$ (2,190)	\$ 9,199
Foreign currency translation	3,525	268	(352)	1,615
Unrealized loss on marketable securities, net of tax	-0-	(11)	413	(143)
Pension and post retirement benefit adjustments, net of tax	371	41	709	82
Total comprehensive income (loss)	\$ 7,168	\$ 6,015	\$ (1,420)	\$ 10,753

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

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

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Foreign currency translation adjustment	\$ 3,630	\$ 3,982
Unrealized net losses on marketable securities, net of tax	-0-	(413)
Pension and postretirement benefit adjustments, net of tax	(20,341)	(21,050)
	\$ (16,711)	\$ (17,481)

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:

	2009	2008
Balance at January 1	\$ 5,402	\$ 5,799
Claims paid during the year	(786)	(1,757)
Additional warranties issued during the first six months	740	4,368
Balance at June 30	\$ 5,356	\$ 8,410

**NOTE K Income Taxes**

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

The 2009 annual effective income tax rate is estimated to be approximately 79% and is higher than the 35% United States federal statutory rate primarily due to anticipated losses in the United States for which the Company will record no tax benefit and anticipated income earned in jurisdictions outside of the United States.

The effective income tax rate in the first six months of 2009 and 2008 was (238)% and 37%, respectively. The primary reason for the variance in the effective income tax rate is because the Company anticipates full-year 2009 losses in the United States with no tax benefit at June 30, 2009 and anticipated full-year 2008 income in the United States at June 30, 2008.

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

**NOTE L Restructuring**

In 2008, due to volume declines and volatility in the automotive markets along with the general economic downturn, the Company evaluated its long-lived assets in accordance with Statement of Financial Accounting Standards No. 144. Based on the results of these tests, the Company recorded asset impairment charges. In addition, the Company made a decision to exit its relationship with its largest customer, Navistar, effective December 31, 2008, which along with the general economic downturn, resulted in either the closure, downsizing or consolidation of eight facilities in its distribution network. As a result, the Company recorded asset impairment charges of \$30,875, which were composed of \$5,544 of inventory impairment included in Cost of Products Sold, \$1,758 for a loss on disposition of a foreign

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

subsidiary, \$564 of severance costs (80 employees) and \$23,009 for impairment of property and equipment and other long-term assets. The Company expects the restructuring activities to be completed in 2009.

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

Balance at December 31, 2008	\$ 545
Cash payments made in 2009	(372)
Balance at June 30, 2009	\$ 173

**Table of Contents**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**NOTE M Contingencies**

During the second quarter of 2009, Chrysler's U.S. operations and General Motors' U.S. operations filed for bankruptcy protection under Chapter 11 of the United States Code. The Company has collected substantially all amounts that were due from Chrysler and General Motors as of the dates of the respective bankruptcy filings. As such, there was no charge to earnings in the second quarter of 2009 as a result of these customer bankruptcies. The Company's sales to General Motors and Chrysler in the second quarter of 2009 were \$3.6 million in the aggregate, or approximately 2% of consolidated net sales. Accounts receivable from General Motors and Chrysler were \$1.2 million at June 30, 2009. Chrysler and General Motors have subsequently emerged from bankruptcy. We expect to collect substantially all of the trade receivables due from these customers and, accordingly, have recorded no reserves related to these amounts. However, we remain focused on the continual management of this credit risk.

On May 27, 2009, Metaldyne Corporation filed for bankruptcy protection under Chapter 11 of the United States Code. The Company's sales to Metaldyne for the second quarter of 2009 were \$2.0 million. The account receivable from Metaldyne at June 30, 2009 was \$4.1 million. The impact of this bankruptcy continues to be reviewed by management and, accordingly, the Company recorded a \$2.0 million charge to reserve for the collection of this account receivable during the second quarter of 2009.

**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 June 30, 2009, and the related consolidated statements of operations for the three-month and six-month periods ended June 30, 2009 and 2008, and the consolidated statement of shareholders' equity for the six-month period ended June 30, 2009 and cash flows for the six-month period ended June 30, 2009 and 2008. These financial statements are the responsibility of the Company's management.

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

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

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

/s/ Ernst & Young LLP

Cleveland, Ohio  
August 10, 2009



**Table of Contents**

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

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

**Executive Overview**

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

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

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

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

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

## **Table of Contents**

### **Accounting Changes**

In December 2007, the Financial Accounting Standards Board ( 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 was adopted prospectively by the Company, effective January 1, 2009. There was no impact on the consolidated financial statements upon adoption, and its effects on future periods will depend on the nature and significance of business combinations subject to this statement.

In December 2008, the FASB issued FSP 132(R)-1, Employers Disclosures about Post Retirement Benefit Plan Assets. FSP 132(R)-1 provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The guidance addresses disclosures related to the categories of plan assets and fair value measurements of plan assets. This FSP was adopted by the Company effective January 1, 2009 and had no effect on its consolidated financial position or results of operations.

In April 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies. This FSP requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated. If fair value cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, and FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss. Further, the FASB removed the subsequent accounting guidance for assets and liabilities arising from contingencies from FAS 141(R)-1. The requirements of this FSP carry forward without significant revision the guidance on contingencies of Statement of Financial Accounting Standards No. 141, Business Combinations, which was superseded by FAS 141(R). The FSP also eliminates the requirement to disclose an estimate of the range of possible outcomes of recognized contingencies at the acquisition date. For unrecognized contingencies, the FASB requires that entities include only the disclosures required by Statement of Financial Accounting Standards No. 5. This FSP was adopted effective January 1, 2009. There was no impact upon adoption, and its effects on future periods will depend on the nature and significance of business combinations subject to this statement.

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. Based on the guidance, if an entity determines that the level of activity for an asset or liability has significantly decreased and that a transaction is not orderly, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transaction or quoted prices may be necessary to estimate fair value in accordance with Statement of Financial Accounting Standards No. 157 Fair Value Measurements. This FSP is to be applied prospectively and is effective for interim and annual periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The Company adopted this FSP for its quarter ended June 30, 2009. There was no impact on the Consolidated Financial Statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB-28-1, Interim Disclosures about Fair Value of Financial Instruments, which requires that publicly traded companies include the fair value disclosures required by Statement of Financial Accounting Standards No. 107 in their interim financial statements. This FSP is effective for interim reporting periods ending after June 15, 2009 and was adopted by the Company at June 30, 2009.

In May 2009, the FASB issued Financial Accounting Standards No. 165, Subsequent Events ( FAS 165 ), which addresses the types and timing of events that should be reported in the financial statements for events occurring between the balance sheet date and the date the financial statements are issued or available to be issued. FAS 165 was effective for the Company on June 30, 2009. The adoption of FAS 165 did not impact the Company's consolidated financial position or results of operations.

**Table of Contents**

In June 2009, the FASB issued Financial Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of Statement of Financial Accounting Standards No. 162, which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles ( GAAP ) in the United States. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this standard will change how we reference various elements of GAAP when preparing our financial statement disclosures, but will have no impact on our financial position, results of operations or cash flows.

**Results of Operations*****Six Months 2009 versus Six Months 2008******Net Sales by Segment:***

	<b>Six Months Ended June 30,</b>		<b>Change</b>	<b>Percent Change</b>
	<b>2009</b>	<b>2008</b>		
Supply Technologies	\$ 160.4	\$ 267.8	\$ (107.4)	(40)%
Aluminum Products	44.0	84.5	(40.5)	(48)%
Manufactured Products	140.3	200.7	(60.4)	(30)%
Consolidated Net Sales	\$ 344.7	\$ 553.0	\$ (208.3)	(38)%

Net sales declined \$208.3 million to \$344.7 million in the first six months of 2009 compared to \$553.0 million in the same period in 2008 as the Company experienced volume declines in each segment resulting from the challenging global economic downturn. Supply Technologies sales decreased 40% primarily due to volume reductions in the heavy duty truck industry, of which \$38.3 million resulted from the Company's decision to exit its relationship with its largest customer in the fourth quarter of 2008. The remaining sales reductions were due to the overall reduction in demand from customers in most end-markets. Aluminum Products sales decreased 48% as the general decline in auto industry sales volumes exceeded additional sales from new contracts starting production ramp-up. Manufactured Products sales decreased 30% from the declining business environment in each of its business reporting units.

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

	<b>Six Months Ended June 30,</b>		<b>Change</b>	<b>Percent Change</b>
	<b>2009</b>	<b>2008</b>		
Consolidated cost of products sold	\$ 291.5	\$ 470.6	\$ (179.1)	(38)%
Consolidated gross profit	\$ 53.2	\$ 82.4	\$ (29.2)	(35)%

Gross Margin	15.4%	14.9%
--------------	-------	-------

Cost of products sold decreased \$179.1 million in the first six months of 2009 to \$291.5 million compared to \$470.6 million in the same period in 2008, while gross margin increased to 15.4% in the first six months of 2009 from 14.9% in the same period in 2008.

Supply Technologies gross margin remained unchanged from the prior year, as increased product profitability improvements were offset by volume declines. Aluminum Products gross margin decreased primarily due to reduced volume from customers in the automotive industry, partially offset by cost cutting measures, a plant closure and improved efficiencies at another plant location. Gross margin in the Manufactured Products segment increased primarily due to workforce reductions and other cost cutting measures.

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

	<b>Six Months Ended June 30,</b>		<b>Change</b>	<b>Percent Change</b>
	<b>2009</b>	<b>2008</b>		
Consolidated SG&A expenses	\$ 44.8	\$ 54.0	\$ (9.2)	(17)%
SG&A percent	13.0%	9.8%		

Consolidated SG&A expenses decreased 17% in the first six months of 2009 compared to the same period in 2008, representing a 3.2% increase in SG&A expenses as a percent of sales. SG&A expenses decreased in the first six months of 2009 compared to the same period in 2008 primarily due to employee workforce reductions, salary cuts, less business travel, reduction in volume of business and a reduction in pension income. SG&A expenses benefited in the first six months of 2009 from a reduction of \$2.1 million resulting from a second quarter change in our vacation benefit, which is now earned throughout the calendar year rather than earned in full at the beginning of the year, and a \$2.0 million charge for a reserve for an account receivable from a customer in bankruptcy.

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

During the second quarter of 2009, the Company recorded a gain of \$3.1 million on the purchase of \$6.125 million principal amount of Park-Ohio Industries, Inc. 8.375% senior subordinated notes due 2014.

***Interest Expense:***

	<b>Six Months Ended June 30,</b>		<b>Change</b>	<b>Percent Change</b>
	<b>2009</b>	<b>2008</b>		
Interest expense	\$ 12.1	\$ 13.9	\$ (1.8)	(13)%
Average outstanding borrowings	\$ 379.2	\$ 384.0	\$ (4.8)	(1)%
Average borrowing rate	6.38%	7.24%	(86)	basis points

Interest expense decreased \$1.8 million in the first six months of 2009 compared to the same period of 2008, primarily due to lower average outstanding borrowings and a lower average borrowing rate during the first six months of 2009. The decrease in average borrowings in the first six months of 2009 resulted primarily from earnings, partially offset by increased working capital. The lower average borrowing rate in the first six months of 2009 was due primarily to decreased interest rates under our revolving credit facility compared to the same period in 2008.

***Income Tax:***

The provision for income taxes was \$1.5 million in the first half of 2009, a (238)% effective income tax rate, compared to income taxes of \$5.4 million provided in the corresponding period of 2008, a 37% effective income tax rate. We estimate that the effective tax rate for full-year 2009 will be approximately 79%.

**Results of Operations**

*Second Quarter 2009 versus Second Quarter 2008**Net Sales by Segment:*

	<b>Three Months Ended June 30,</b>		<b>Change</b>	<b>Percent Change</b>
	<b>2009</b>	<b>2008</b>		
Supply Technologies	\$ 77.4	\$ 138.5	\$ (61.1)	(44)%
Aluminum Products	21.7	44.0	(22.3)	(51)%
Manufactured Products	64.3	103.4	(39.1)	(38)%
Consolidated Net Sales	\$ 163.4	\$ 285.9	\$ (122.5)	(43)%



**Table of Contents**

Consolidated net sales declined \$122.5 million in the second quarter of 2009 to \$163.4 compared to \$285.9 million in the same quarter of 2008 as the Company experienced volume declines in each segment resulting from the challenging global economic downturn. Supply Technologies sales decreased 44% primarily due to volume reductions in the heavy-duty truck industry, of which \$23.3 million resulted from the Company's decision to exit its relationship with its largest customer in the fourth quarter of 2008. The remaining sales reduction was due to the overall reduction in demand. Aluminum Products sales decreased 51% as the general decline in auto industry sales volumes exceeded sales from new contracts starting production. Manufactured Products sales decreased 38% from the declining business environment.

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

	<b>Three Months Ended June 30,</b>			
	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>Percent Change</b>
Consolidated cost of products sold	\$ 134.1	\$ 242.2	\$ (108.1)	(45)%
Consolidated gross profit	\$ 29.3	\$ 43.7	\$ (14.4)	(33)%
Gross Margin	17.9%	15.3%		

Cost of products sold decreased \$108.1 million to \$134.1 million in the second quarter of 2009 compared to \$242.2 million for the same quarter of 2008, while gross margin increased to 17.9% in the second quarter of 2009 from 15.3% in the same quarter of 2008.

Gross margins improved in each segment resulting from cost cutting initiatives and business restructuring activities undertaken in the fourth quarter of 2008 and first quarter of 2009.

***SG&A Expenses:***

	<b>Three Months Ended June 30,</b>			
	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>Percent Change</b>
Consolidated SG&A expenses	\$ 22.2	\$ 28.0	\$ (5.8)	(21)%
SG&A percent	13.6%	9.8%		

Consolidated SG&A expenses decreased 21% in the second quarter of 2009 compared to the same quarter in 2008, representing an increase in SG&A expenses as a percent of sales of 380 basis points from 9.8% to 13.6%. SG&A expenses decreased in the second quarter of 2009 compared to the same quarter in 2008 primarily due to workforce reductions, salary cuts, reduction in volume of business and a reduction in pension income. SG&A expenses for the second quarter of 2009 benefited from a reduction of \$2.1 million resulting from a second quarter change in our vacation benefit, which is now earned throughout the calendar year rather than earned in full at the beginning of the year, and a \$2.0 charge for a reserve for an account receivable from a customer in bankruptcy.

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

During the second quarter of 2009, the Company recorded a gain of \$3.1 million on the purchase of \$6.125 million principal amount of Park-Ohio Industries, Inc. 8.375% senior subordinated notes due 2014.

***Interest Expense:***

	<b>Three Months Ended June 30,</b>			
	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>Percent Change</b>
Interest expense	\$ 6.1	\$ 6.6	\$ (.5)	(8)%
Average outstanding borrowings	\$ 376.9	\$ 390.2	\$ (13.3)	(3)%
Average borrowing rate	6.50%	6.80%	(30)	basis points

## **Table of Contents**

Interest expense decreased \$0.5 million in the second quarter of 2009 compared to the same period of 2008, primarily due to lower average outstanding borrowings and a lower average borrowing rate during the second quarter of 2009. The decrease in average borrowings in the second quarter of 2009 resulted primarily from earnings and a reduction in working capital. The lower average borrowing rate in the second quarter of 2009 was due primarily to decreased interest rates under our revolving credit facility compared to the same period in 2008.

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

The provision for income taxes was \$.8 million in the second quarter of 2009, a 20% effective income tax rate, compared to income taxes of \$3.4 million provided in the corresponding quarter of 2008, a 37% effective income tax rate. We estimate that the effective tax rate for full-year 2009 will be approximately 79%.

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

Our liquidity needs are primarily for working capital and capital expenditures. Our primary sources of liquidity have been funds provided by operations and funds available from existing bank credit arrangements and the sale of our senior subordinated notes. In 2003, we entered into a revolving credit facility with a group of banks which, as subsequently amended, matures at December 31, 2010 and provides for availability of up to \$270 million subject to an asset-based formula. The revolving credit facility is secured by substantially all of our assets in the United States, Canada and the United Kingdom. Borrowings from this revolving credit facility 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 June 30, 2009, the Company had \$168.1 million borrowed under the revolving credit facility, \$7.9 million outstanding primarily for standby letters of credit, and approximately \$15.6 million of unused borrowing availability.

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

At June 30, 2009, the Company's debt service coverage ratio was 1.4, and, therefore, it was in compliance with the debt service coverage ratio covenant contained in the revolving credit facility. The Company was also in compliance with the other covenants contained in the revolving credit facility as of June 30, 2009. The debt service coverage ratio is calculated at the end of each fiscal quarter and is based on the most recently ended four fiscal quarters of consolidated EBITDA minus cash taxes paid, minus unfunded capital expenditures, plus cash tax refunds to consolidated debt charges which are consolidated cash interest expense plus scheduled principal payments on indebtedness plus scheduled reductions in our fixed asset borrowing base as defined in the revolving credit facility. The debt service coverage ratio must be greater than 1.0 and not less than 1.1 for any two consecutive fiscal quarters. While we expect to remain in compliance throughout 2009, further declines in demand in the automotive industry and in sales volumes in 2009 could adversely impact our ability to remain in compliance with certain of these financial covenants. Additionally, to the extent our customers are adversely affected by the declines in demand in the automotive industry or the economy in general, they may not be able to pay their accounts payable to us on a timely basis or at all, which would make the accounts receivable ineligible for purposes of the revolving credit facility and

could reduce our borrowing base and our ability to borrow under such facility.

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

## **Table of Contents**

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

The ratio of current assets to current liabilities was 3.07 at June 30, 2009 versus 2.22 at December 31, 2008. Working capital increased by \$5.0 million to \$257.9 million at June 30, 2009 from \$252.9 million at December 31, 2008.

During the first six months of 2009, the Company used \$1.9 million from operating activities compared to providing \$2.7 million in the same period of 2008. The decrease in operating cash provision of \$10.7 million was primarily the result of a reduction in accounts payable and accrued expenses in the first six months of 2009 compared to an increase during the same period of 2008 (a decrease of \$76.7 million compared to an increase of \$29.2 million, respectively), primarily due to reductions in raw material purchases due to lower business volume and timing of payments of accounts payable. This difference, plus a decrease in net income of \$11.4 million, was offset by a reduction in accounts receivable, inventories and other current assets in the first six months of 2009 compared to the same period of 2008 (a decrease of \$69.2 million compared to an increase of \$47.3 million, respectively), due to collection of accounts receivable along with an inventory reduction due to lower business volume during the first six months of 2009 compared to the same period of 2008. In the first six months of 2009, the Company also used cash of \$3.3 million for capital expenditures and \$3.0 million to purchase \$6.125 million principal amount of its 8.375% Senior Subordinated Notes due 2014. These activities, plus cash interest and tax payments of \$15.2 million, an increase in borrowing of \$1.6 million and proceeds from the exercise of stock options of \$.7 million, resulted in a decrease in cash of \$5.2 million in the first six months of 2009.

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

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

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

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

## **Forward-Looking Statements**

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

## **Table of Contents**

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

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

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

### **Item 3. *Quantitative and Qualitative 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 \$168.1 million at June 30, 2009. A 100 basis point increase in the interest rate would have resulted in an increase in interest expense of approximately \$.8 million during the six-month period ended June 30, 2009.

Our foreign subsidiaries generally conduct business in local currencies. During the first six months of 2009, we recorded an unfavorable foreign currency translation adjustment of \$.4 million related to net assets located outside the United States. This foreign currency translation adjustment resulted primarily from the weakening of the U.S. dollar. Our foreign operations are also subject to other customary risks of operating in a global environment, such as unstable political situations, the effect of local laws and taxes, tariff increases and regulations and requirements for export licenses, the potential imposition of trade or foreign exchange restrictions and transportation delays.

The Company periodically enters into forward contracts on foreign currencies, primarily the euro and the British Pound Sterling, purely for the purpose of hedging exposure to changes in the value of accounts receivable in those currencies against the U.S. dollar. The Company currently uses no other derivative instruments. At June 30, 2009, 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 2009 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 June 30, 2009, we were a co-defendant in approximately 270 cases asserting claims on behalf of approximately 1,270 plaintiffs alleging personal injury as a result of exposure to asbestos. These asbestos cases generally relate to production and sale of asbestos-containing products and allege various theories of liability, including negligence, gross negligence and strict liability and seek compensatory and, in some cases, punitive damages.

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

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

Historically, we have been dismissed from asbestos cases on the basis that the plaintiff incorrectly sued one of our subsidiaries or because the plaintiff failed to identify any asbestos-containing product manufactured or sold by us or our subsidiaries. We intend to vigorously defend these asbestos cases, and believe we will continue to be successful in being dismissed from such cases. However, it is not possible to predict the ultimate outcome of asbestos-related lawsuits, claims and proceedings due to the unpredictable nature of personal injury litigation. Despite this uncertainty, and although our results of operations and cash flows for a particular period could be adversely affected by asbestos-related lawsuits, claims and proceedings, management believes that the ultimate resolution of these matters will not have a material adverse effect on our financial condition, liquidity or results of operations. Among the factors management considered in reaching this conclusion were: (a) our historical success in being dismissed from these types of lawsuits on the bases mentioned above; (b) many cases have been improperly filed against one of our subsidiaries; (c) in many cases, the plaintiffs have been unable to establish any causal relationship to us or our products or premises; (d) in many cases, the plaintiffs have been unable to demonstrate that they have suffered any identifiable injury or compensable loss at all, that any injuries that they have incurred did in fact result from alleged exposure to asbestos; and (e) the complaints assert claims against multiple defendants and, in most cases, the damages alleged are not attributed to individual defendants. Additionally, we do not believe that the amounts claimed in any of the asbestos cases are meaningful indicators of our potential exposure because the amounts claimed typically bear no relation to the extent of the plaintiff's injury, if any.

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**

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

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

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

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

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

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

The Company held its annual meeting of shareholders on May 28, 2009. The shareholders approved the elections of three directors to serve until the annual meeting of stockholders in the year 2012. The votes cast for each nominee were as follows:

	<b>For</b>	<b>Withheld</b>
Matthew V. Crawford	10,825,072	851,296
A. Malachi Mixon, III	10,708,941	967,427
Ronna Romney	10,835,368	841,000

The shareholders ratified the appointment of Ernst & Young LLP as the independent auditors of Park-Ohio Holdings Corp. for the fiscal year 2009. The votes cast were as follows:

<b>For</b>	<b>Against</b>	<b>Abstained</b>
10,860,298	21,740	3,278

The shareholders voted to amend and restate the Park-Ohio Holdings Corp. Amended and Restated 1998 Long-Term Incentive Plan. The votes cast were as follows:

<b>For</b>	<b>Against</b>	<b>Abstained</b>
5,849,734	2,149,375	1,329,917

**Item 6. Exhibits**

The following exhibits are included herein:

- 10 Amended and Restated 1998 Long-Term Incentive Plan (filed as Exhibit 10.1 to Form 8-K of Park-Ohio Holdings Corp. filed on June 3, 2009, SEC File No. 000-03134 and incorporated herein by reference and made a part hereof)
- 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 Vice President and Chief Financial Officer  
L. Rutherford (Principal Financial and Accounting  
Title: Officer)

Date: August 10, 2009

**Table of Contents**

**EXHIBIT INDEX**

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

**Exhibit**

- 10 Amended and Restated 1998 Long-Term Incentive Plan (filed as Exhibit 10.1 to Form 8-K of Park-Ohio Holdings Corp. filed on June 3, 2009, SEC File No. 000-03134 and incorporated herein by reference and made a part hereof)
- 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