

PARK OHIO HOLDINGS CORP

Form 10-Q

May 10, 2012

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2012**

**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:

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(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 April 30, 2012: 12,167,913.

The Exhibit Index is located on page 27.

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

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

|                                                                                                                          | (Unaudited)            |              |
|--------------------------------------------------------------------------------------------------------------------------|------------------------|--------------|
|                                                                                                                          | March                  | December 31, |
|                                                                                                                          | 31,                    | 2011         |
|                                                                                                                          | 2012                   | 2011         |
|                                                                                                                          | (Dollars in thousands) |              |
| ASSETS                                                                                                                   |                        |              |
| Current Assets                                                                                                           |                        |              |
| Cash and cash equivalents                                                                                                | \$ 44,588              | \$ 78,001    |
| Accounts receivable, less allowances for doubtful accounts of \$5,469 at March 31, 2012 and \$5,483 at December 31, 2011 | 191,062                | 139,941      |
| Inventories, net                                                                                                         | 222,643                | 202,039      |
| Deferred tax assets                                                                                                      | 22,544                 | 20,561       |
| Unbilled contract revenue                                                                                                | 15,102                 | 18,778       |
| Other current assets                                                                                                     | 12,572                 | 8,790        |
| Total Current Assets                                                                                                     | 508,511                | 468,110      |
| Property, plant and equipment:                                                                                           |                        |              |
| Land and land improvements                                                                                               | 6,471                  | 3,654        |
| Buildings                                                                                                                | 51,524                 | 47,594       |
| Machinery and equipment                                                                                                  | 226,392                | 208,727      |
|                                                                                                                          | 284,387                | 259,975      |
| Less accumulated depreciation                                                                                            | 201,377                | 198,165      |
|                                                                                                                          | 83,010                 | 61,810       |
| Other Assets:                                                                                                            |                        |              |
| Goodwill and other intangible assets                                                                                     | 104,282                | 20,187       |
| Other                                                                                                                    | 64,578                 | 63,833       |
|                                                                                                                          | \$ 760,381             | \$ 613,940   |
| LIABILITIES AND SHAREHOLDERS' EQUITY                                                                                     |                        |              |
| Current Liabilities                                                                                                      |                        |              |
| Trade accounts payable                                                                                                   | \$ 134,774             | \$ 99,588    |
| Accrued expenses                                                                                                         | 102,308                | 73,651       |
| Current portion of long-term debt                                                                                        | 4,730                  | 1,415        |
| Current portion of other postretirement benefits                                                                         | 2,002                  | 2,002        |
| Total Current Liabilities                                                                                                | 243,814                | 176,656      |
| Long-Term Liabilities, less current portion                                                                              |                        |              |
| Senior Notes                                                                                                             | 250,000                | 250,000      |
| Credit facility                                                                                                          | 138,029                | 93,000       |
| Other long-term debt                                                                                                     | 3,051                  | 3,165        |
| Deferred tax liability                                                                                                   | 24,321                 | 1,392        |
| Other postretirement benefits and other long-term liabilities                                                            | 25,159                 | 24,285       |
|                                                                                                                          | 440,560                | 371,842      |
| Shareholders' Equity                                                                                                     |                        |              |
| Capital stock, par value \$1 a share:                                                                                    |                        |              |
| Serial preferred stock:                                                                                                  |                        |              |

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|                                                                                |                                                  |            |            |
|--------------------------------------------------------------------------------|--------------------------------------------------|------------|------------|
| Authorized 632,470 shares: Issued and outstanding                              | none                                             | -0-        | -0-        |
| Common stock:                                                                  |                                                  |            |            |
| Authorized 40,000,000 shares: Issued                                           | 13,831,274 shares in 2012 and 13,813,774 in 2011 | 13,831     | 13,814     |
| Additional paid-in capital                                                     |                                                  | 71,116     | 70,248     |
| Retained earnings                                                              |                                                  | 19,348     | 10,392     |
| Treasury stock, at cost, 1,706,217 shares in 2012 and 1,673,926 shares in 2011 |                                                  | (21,266)   | (20,607)   |
| Accumulated other comprehensive (loss)                                         |                                                  | (7,022)    | (8,405)    |
|                                                                                |                                                  | 76,007     | 65,442     |
|                                                                                |                                                  | \$ 760,381 | \$ 613,940 |

Note: The balance sheet at December 31, 2011 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 accompanying notes to these unaudited condensed consolidated financial statements. The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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

|                                              | <b>Three Months Ended<br/>March 31,<br/>2012                  2011<br/>(Amounts in thousands,<br/>except per share data)</b> |            |
|----------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|------------|
| Net sales                                    | \$ 263,056                                                                                                                   | \$ 241,628 |
| Cost of products sold                        | 214,177                                                                                                                      | 199,693    |
| Gross profit                                 | 48,879                                                                                                                       | 41,935     |
| Selling, general and administrative expenses | 28,745                                                                                                                       | 25,665     |
| Operating income                             | 20,134                                                                                                                       | 16,270     |
| Interest expense                             | 6,735                                                                                                                        | 5,863      |
| Income before income taxes                   | 13,399                                                                                                                       | 10,407     |
| Income taxes                                 | 4,443                                                                                                                        | 1,678      |
| Net income                                   | \$ 8,956                                                                                                                     | \$ 8,729   |
| Amounts per common share:                    |                                                                                                                              |            |
| Basic                                        | \$ .76                                                                                                                       | \$ .76     |
| Diluted                                      | \$ .74                                                                                                                       | \$ .73     |
| Common shares used in the computation:       |                                                                                                                              |            |
| Basic                                        | 11,787                                                                                                                       | 11,460     |
| Diluted                                      | 12,041                                                                                                                       | 11,987     |

See accompanying notes to these unaudited condensed consolidated financial statements. The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

|                                                             | <b>Three Months Ended<br/>March 31,</b> |             |
|-------------------------------------------------------------|-----------------------------------------|-------------|
|                                                             | <b>2012</b>                             | <b>2011</b> |
|                                                             | <b>(Amounts in thousands)</b>           |             |
| Net income                                                  | \$ 8,956                                | \$ 8,729    |
| Other comprehensive income:                                 |                                         |             |
| Foreign currency translation                                | 1,221                                   | 2,620       |
| Pension and post retirement benefit adjustments, net of tax | 162                                     | 106         |
| Comprehensive income, net of tax                            | \$ 10,339                               | \$ 11,455   |

See accompanying notes to these unaudited condensed consolidated financial statements. The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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

|                                            | <b>Common<br/>Stock</b> | <b>Additional<br/>Paid-In<br/>Capital</b> | <b>Retained<br/>Earnings<br/>(Dollars in thousands)</b> | <b>Treasury<br/>Stock</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>(Loss)</b> | <b>Total</b> |
|--------------------------------------------|-------------------------|-------------------------------------------|---------------------------------------------------------|---------------------------|-----------------------------------------------------------|--------------|
| Balance at January 1, 2012                 | \$ 13,814               | \$ 70,248                                 | \$ 10,392                                               | \$ (20,607)               | \$ (8,405)                                                | \$ 65,442    |
| Other comprehensive income                 |                         |                                           | 8,956                                                   |                           | 1,383                                                     | 10,339       |
| Amortization of restricted stock           |                         | 617                                       |                                                         |                           |                                                           | 617          |
| Purchase of treasury stock (32,291 shares) |                         |                                           |                                                         | (659)                     |                                                           | (659)        |
| Exercise of stock options (17,500 shares)  | 17                      | 244                                       |                                                         |                           |                                                           | 261          |
| Share-based compensation                   |                         | 7                                         |                                                         |                           |                                                           | 7            |
| Balance at March 31, 2012                  | \$ 13,831               | \$ 71,116                                 | \$ 19,348                                               | \$ (21,266)               | \$ (7,022)                                                | \$ 76,007    |

See accompanying notes to these condensed consolidated financial statements. The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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

|                                                                                   | Three Months Ended<br>March 31, |           |
|-----------------------------------------------------------------------------------|---------------------------------|-----------|
|                                                                                   | 2012                            | 2011      |
|                                                                                   | (Dollars in thousands)          |           |
| <b>OPERATING ACTIVITIES</b>                                                       |                                 |           |
| Net income                                                                        | \$ 8,956                        | \$ 8,729  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |           |
| Depreciation and amortization                                                     | 3,501                           | 3,957     |
| Share-based compensation expense                                                  | 624                             | 428       |
| Changes in operating assets and liabilities:                                      |                                 |           |
| Accounts receivable                                                               | (20,201)                        | (20,061)  |
| Inventories and other current assets                                              | (7,449)                         | (7,033)   |
| Accounts payable and accrued expenses                                             | 30,403                          | 25,989    |
| Other                                                                             | 1,266                           | 961       |
| Net Cash Provided by Operating Activities                                         | 17,100                          | 12,970    |
| <b>INVESTING ACTIVITIES</b>                                                       |                                 |           |
| Purchases of property, plant and equipment, net                                   | (2,829)                         | (1,515)   |
| Acquisitions, net of cash acquired                                                | (94,641)                        | -0-       |
| Net Cash Used by Investing Activities                                             | (97,470)                        | (1,515)   |
| <b>FINANCING ACTIVITIES</b>                                                       |                                 |           |
| Proceeds from term loan and other debt                                            | 24,630                          | -0-       |
| Proceeds from (payments on) revolving credit facility                             | 23,600                          | (15,728)  |
| Debt issue costs                                                                  | (875)                           | -0-       |
| Exercise of stock options                                                         | 261                             | -0-       |
| Purchase of treasury stock                                                        | (659)                           | (224)     |
| Net Cash Provided (Used) by Financing Activities                                  | 46,957                          | (15,952)  |
| Decrease in Cash and Cash Equivalents                                             | (33,413)                        | (4,497)   |
| Cash and Cash Equivalents at Beginning of Period                                  | 78,001                          | 35,311    |
| Cash and Cash Equivalents at End of Period                                        | \$ 44,588                       | \$ 30,814 |
| Taxes paid                                                                        | \$ 1,338                        | \$ 463    |
| Interest paid                                                                     | \$ 669                          | \$ 1,389  |

See accompanying notes to these condensed consolidated financial statements. The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2012**

**(Dollars and shares in thousands, except per share amounts)**

**NOTE A Basis of Presentation**

The consolidated financial statements include the accounts of Park-Ohio Holdings Corp. and its subsidiaries (collectively, the Company). All significant intercompany transactions have been eliminated in consolidation. Certain amounts in the prior years' financial statements have been reclassified to conform to the current year presentation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. 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, 2011.

**NOTE B Recent Accounting Pronouncements**

*Accounting Pronouncements Adopted in the Three Months Ended March 31, 2012*

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU No. 2011-05 amends existing guidance by allowing only two options for presenting components of net income and other comprehensive income: (1) in a single continuous financial statement, statement of comprehensive income or (2) in two separate but consecutive financial statements, consisting of an income statement followed by a separate statement on other comprehensive income. Also, items that are reclassified from other comprehensive income to net income must be presented on the face of the financial statements. ASU No. 2011-05 requires retrospective application, and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. In December 2011, the FASB issued ASU No. 2011-12, deferring its requirements that companies present reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the financial statements. Entities continue to be required to present amounts reclassified out of accumulated other comprehensive income on the face of the financial statements or disclose those amounts in the notes to the financial statements. The requirement to present reclassification adjustments in interim periods was also deferred. However, entities are required to report a total for comprehensive income in condensed financial statements of interim periods in a single continuous statement or in two consecutive statements. The FASB is reconsidering the presentation requirements for reclassification adjustments. The Company adopted ASU No. 2011-5 in the first quarter of 2012 and elected to present the components of net income and comprehensive income in two separate but consecutive statements.

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

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

Results by business segment were as follows:

|                                    | <b>Three Months Ended<br/>March 31,</b> |                   |
|------------------------------------|-----------------------------------------|-------------------|
|                                    | <b>2012</b>                             | <b>2011</b>       |
| Net sales:                         |                                         |                   |
| Supply Technologies                | \$ 134,351                              | \$ 123,226        |
| Aluminum Products                  | 36,165                                  | 39,041            |
| Manufactured Products              | 92,540                                  | 79,361            |
|                                    | <b>\$ 263,056</b>                       | <b>\$ 241,628</b> |
| Income (loss) before income taxes: |                                         |                   |
| Supply Technologies                | \$ 10,077                               | \$ 8,633          |
| Aluminum Products                  | 1,059                                   | 3,314             |
| Manufactured Products              | 14,090                                  | 8,546             |
|                                    | <b>25,226</b>                           | <b>20,493</b>     |
| Corporate costs                    | (5,092)                                 | (4,223)           |
| Interest expense                   | (6,735)                                 | (5,863)           |
|                                    | <b>\$ 13,399</b>                        | <b>\$ 10,407</b>  |

|                       | <b>March 31,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|-----------------------|---------------------------|------------------------------|
| Identifiable assets:  |                           |                              |
| Supply Technologies   | \$ 236,324                | \$ 228,629                   |
| Aluminum Products     | 216,988                   | 61,002                       |
| Manufactured Products | 220,168                   | 203,782                      |
| General corporate     | 86,901                    | 120,527                      |
|                       | <b>\$ 760,381</b>         | <b>\$ 613,940</b>            |

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For the three months ended March 31, 2012, sales of the Manufactured Products segment consisted of capital equipment (74%), forged and machined products (19%) and rubber products (7%). Engineered specialty products sales represent approximately 13% of Supply Technologies segment sales for the three months ended March 31, 2012.

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

The components of inventory consist of the following:

|                            | <b>March 31,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|----------------------------|---------------------------|------------------------------|
| Finished goods             | \$ 121,445                | \$ 122,010                   |
| Work in process            | 28,702                    | 20,660                       |
| Raw materials and supplies | 72,496                    | 59,369                       |
|                            | <b>\$ 222,643</b>         | <b>\$ 202,039</b>            |

**NOTE E Shareholders Equity**

At March 31, 2012, capital stock consisted of (i) Serial Preferred Stock, of which 632,470 shares were authorized and none were issued, and (ii) Common Stock, of which 40,000,000 shares were authorized and 13,831,274 shares were issued, of which 12,125,057 were outstanding and 1,706,217 were treasury shares.

**NOTE F Net Income Per Common Share**

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

|                                                                                            | <b>Three Months Ended<br/>March 31,</b> |             |
|--------------------------------------------------------------------------------------------|-----------------------------------------|-------------|
|                                                                                            | <b>2012</b>                             | <b>2011</b> |
| <b>NUMERATOR</b>                                                                           |                                         |             |
| Net income                                                                                 | \$ 8,956                                | \$ 8,729    |
| <b>DENOMINATOR</b>                                                                         |                                         |             |
| Denominator for basic earnings per share weighted average shares                           | 11,787                                  | 11,460      |
| Effect of dilutive securities:                                                             |                                         |             |
| Employee stock options                                                                     | 254                                     | 527         |
| Denominator for diluted earnings per share weighted average shares and assumed conversions | 12,041                                  | 11,987      |
| Amounts per common share:                                                                  |                                         |             |
| Basic                                                                                      | \$ .76                                  | \$ .76      |
| Diluted                                                                                    | \$ .74                                  | \$ .73      |

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.

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 40,000 and 20,000 shares were excluded in the three months ended March 31, 2012

and 2011, respectively, because they were anti-dilutive.

**NOTE G Stock-Based Compensation**

Total stock-based compensation expense recorded in the first three months of 2012 and 2011 was \$624 and \$428, respectively. There were no stock option or restricted stock awards during the first three months of 2012 and 2011. As of March 31, 2012, there was \$3,141 of unrecognized compensation cost related to non-vested stock-based compensation, which is expected to be recognized over a weighted average period of 2.1 years.

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

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

|                                    | Three Months Ended<br>March 31, |            |                         |        |
|------------------------------------|---------------------------------|------------|-------------------------|--------|
|                                    | Pension Benefits                |            | Postretirement Benefits |        |
|                                    | 2012                            | 2011       | 2012                    | 2011   |
| Service costs                      | \$ 542                          | \$ 109     | \$ 15                   | \$ 12  |
| Interest costs                     | 565                             | 596        | 201                     | 228    |
| Expected return on plan assets     | (2,059)                         | (2,229)    | -0-                     | -0-    |
| Transition obligation              | (10)                            | (10)       | -0-                     | -0-    |
| Amortization of prior service cost | 11                              | 11         | (24)                    | (24)   |
| Recognized net actuarial loss      | 241                             | -0-        | 186                     | 129    |
| (Income) benefit costs             | \$ (710)                        | \$ (1,523) | \$ 378                  | \$ 345 |

**NOTE I Comprehensive Income**

The components of accumulated comprehensive income at March 31, 2012 and December 31, 2011 are as follows:

|                                                            | March 31,<br>2012 | December 31,<br>2011 |
|------------------------------------------------------------|-------------------|----------------------|
| Foreign currency translation adjustment                    | \$ 6,073          | \$ 4,852             |
| Pension and postretirement benefit adjustments, net of tax | (13,095)          | (13,257)             |
|                                                            | \$ (7,022)        | \$ (8,405)           |

The pension and postretirement benefit liability amounts were net of deferred taxes of \$5,571 at March 31, 2012 and December 31, 2011. No income taxes are provided on foreign currency translation adjustments as foreign earnings are considered permanently invested.

**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:

|                                                 | 2012     | 2011     |
|-------------------------------------------------|----------|----------|
| Balance at January 1                            | \$ 4,208 | \$ 4,046 |
| Claims paid during the quarter                  | (592)    | (127)    |
| Additional warranties issued during the quarter | 817      | 149      |

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|                               |          |          |
|-------------------------------|----------|----------|
| Acquired warranty liabilities | 3,317    | -0-      |
| Balance at March 31           | \$ 7,750 | \$ 4,068 |

### 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.

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

The effective income tax rate in the first three months of 2012 and 2011 was 33.2% and 16.1%, respectively. The 2012 annual effective income tax rate is estimated to be approximately 33% and is lower than the 35% United States federal statutory rate primarily due to anticipated income earned in jurisdictions outside of the United States where the effective income tax rate is lower than in the United States.

**NOTE L Fair Value Measurements**

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

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

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

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

The fair value of the 8.125% Senior Notes due 2021 is estimated based on a third party's bid price. The fair value approximated \$257,500 at March 31, 2012 and \$247,500 at December 31, 2011.

**NOTE M Financing Arrangements**

The Company is a party to a credit and security agreement dated November 5, 2003, as amended (the "Credit Agreement"), with a group of banks, under which it may borrow or issue standby letters of credit or commercial letters of credit. On March 23, 2012, the Credit Agreement was amended and restated to, among other things, increase the revolving loan commitment from \$200,000 to \$220,000, and provide a term loan for \$25,000 that is secured by certain real estate and machinery and equipment. Amounts borrowed under the revolving credit facility may be borrowed at either (i) LIBOR plus 1.75% to 2.75% or (ii) the bank's prime lending rate minus .25% to 1.00%, at the Company's election. The LIBOR-based interest rate is dependent on the Company's debt service coverage ratio, as defined in the Credit Agreement. Under the Credit Agreement, a detailed borrowing base formula provides borrowing availability to the Company based on percentages of eligible accounts receivable and inventory. Interest on the term loan is at either (i) LIBOR plus 2.75% or (ii) the bank's prime lending rate plus .25%, at the Company's election. The term loan is amortized based on a seven-year schedule with the balance due at maturity.

Long-term debt consists of the following:

|                              | <b>March 31,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|------------------------------|---------------------------|------------------------------|
| 8.125% senior notes due 2021 | \$ 250,000                | \$ 250,000                   |
| Revolving credit             | 116,600                   | 93,000                       |
| Term loan                    | 25,000                    | -0-                          |
| Other                        | 4,210                     | 4,580                        |
|                              | <b>395,810</b>            | <b>347,580</b>               |
| Less current maturities      | 4,730                     | 1,415                        |
| <b>Total</b>                 | <b>\$ 391,080</b>         | <b>\$ 346,165</b>            |



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

During the first three months of 2012 and 2011, the Company sold approximately \$20,432 and \$11,690, respectively, of accounts receivable to mitigate accounts receivable concentration risk and to provide additional financing capacity and recorded losses in the amount of \$94 and \$53, respectively, in the condensed consolidated statements of income. These losses represented implicit interest on the transactions.

**NOTE O Acquisition**

On March 23, 2012, the Company completed the acquisition of Fluid Routing Solutions Holding Corp. ( FRS ), a leading manufacturer of industrial hose products and fuel filler and hydraulic fluid assemblies, in an all cash transaction valued at \$97,451. FRS products include fuel filler, hydraulic, and thermoplastic assemblies and several forms of manufactured hose, including bulk and formed fuel, power steering, transmission oil cooling, hydraulic and thermoplastic hose. FRS sells to automotive and industrial customers throughout North America, Europe and Asia. FRS has five production facilities located in Florida, Michigan, Ohio, Tennessee and the Czech Republic. FRS is included in the Company's Aluminum Products segment pending further evaluation. The Company funded the acquisition with cash of \$40,000 (\$10,000 domestic and \$30,000 foreign), a \$25,000 seven-year amortizing term loan provided by the Credit Agreement and secured by certain real estate and machinery and equipment of the Company and \$32,500 of borrowings under the revolving credit facility provided by the Credit Agreement. The acquisition was accounted for under the acquisition method of accounting. Under the acquisition method of accounting, the total estimated purchase price is allocated to FRS' net tangible assets and intangible assets acquired and liabilities assumed based on their estimated fair values as of March 23, 2012, the effective date of the acquisition. Based on management's valuation of the fair value of tangible and intangible assets acquired and liabilities assumed, which are based on estimates and assumptions that are subject to change, the purchase price is allocated as follows:

|                                           |               |
|-------------------------------------------|---------------|
| Cash and cash equivalents                 | \$ 2,809      |
| Accounts receivable                       | 30,920        |
| Inventories                               | 11,617        |
| Prepaid expenses and other current assets | 3,626         |
| Property, plant and equipment             | 21,143        |
| Customer relationships                    | 30,000        |
| Trademarks and trade name                 | 10,900        |
| Other assets                              | 213           |
| Accounts payable                          | (17,814)      |
| Accrued expenses                          | (15,622)      |
| Deferred tax liability                    | (22,912)      |
| Other long-term liabilities               | (776)         |
| Goodwill                                  | 43,348        |
| <br>Total purchase price                  | <br>\$ 97,452 |

The areas of purchase price allocation that are not yet finalized relate to the working capital adjustment as of March 23, 2012, and completion of appraisals for the inventories, property plant and equipment and intangible assets. There were \$262 of direct transaction costs included in selling, general and administrative expenses during the first three months of 2012.

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

The following unaudited pro forma information is provided to present a summary of the combined results of the Company's operations with FRS as if the acquisition had occurred on January 1, 2011. The unaudited pro forma financial information is for informational purposes only and is not necessarily indicative of what the results would have been had the acquisition been completed at the date indicated above.

|                      | Three Months Ended<br>March 31, |            |
|----------------------|---------------------------------|------------|
|                      | 2012                            | 2011       |
| Pro forma revenues   | \$ 313,925                      | \$ 288,961 |
| Pro forma net income | \$ 5,297                        | \$ 8,292   |
| Earnings per share:  |                                 |            |
| Basic                | \$ .45                          | \$ .72     |
| Diluted              | \$ .44                          | \$ .69     |

Pro forma net income for the three months ended March 31, 2012 was impacted by transaction and other non-recurring costs incurred by FRS.

**Note P Commitments and Contingencies**

The Company is subject to various pending and threatened legal proceedings arising in the ordinary course of business. Although the Company cannot precisely predict the amount of any liability that may ultimately arise with respect to any of these matters, the Company records provisions when it considers the liability probable and reasonably estimable. Our provisions are based on historical experience and legal advice, reviewed quarterly and adjusted according to developments. Estimating probable losses requires the analysis of multiple forecasted factors that often depend on judgments about potential actions by third parties, such as regulators, courts, and state and federal legislatures. Changes in the amounts of our loss provisions, which can be material, affect our financial condition. Due to the inherent uncertainties in the process undertaken to estimate potential losses, we are unable to estimate an additional range of loss in excess of our accruals. While it is reasonably possible that such excess liabilities, if they were to occur, could be material to operating results in any given quarter or year of their recognition, we do not believe that it is reasonably possible that such excess liabilities would have a material adverse effect on our long-term results of operations, liquidity or consolidated financial position.

Our subsidiaries are involved in a number of contractual and warranty related disputes. At this time, we cannot reasonably determine the probability of a loss, and the timing and amount of loss, if any, cannot be reasonably estimated. We believe that appropriate liabilities for these contingencies have been recorded; however, actual results may differ materially from our estimates.

**Table of Contents****PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE Q Goodwill and Other Intangible Assets**

The change in goodwill and other intangibles assets reflected on the balance sheet from December 31, 2011 to March 31, 2012 was the result of foreign currency translation and an increase of \$84,248 related to the acquisition of FRS. Information regarding other intangible assets as of March 31, 2012 and December 31, 2011 follows:

|                                        | Acquisition<br>Costs | March 31, 2012<br>Accumulated<br>Amortization | Net        | Acquisition<br>Costs | December 31, 2011<br>Accumulated<br>Amortization | Net       |
|----------------------------------------|----------------------|-----------------------------------------------|------------|----------------------|--------------------------------------------------|-----------|
| Non-contractual customer relationships | \$ 41,670            | \$ 3,451                                      | \$ 38,219  | \$ 11,670            | \$ 3,320                                         | \$ 8,350  |
| Other                                  | 3,420                | 1,120                                         | 2,300      | 3,420                | 1,046                                            | 2,374     |
|                                        | \$ 45,090            | \$ 4,571                                      | \$ 40,519  | \$ 15,090            | \$ 4,366                                         | \$ 10,724 |
| Tradenames                             |                      |                                               | 10,900     |                      |                                                  | -0-       |
| Goodwill                               |                      |                                               | 52,863     |                      |                                                  | 9,463     |
| Total                                  |                      |                                               | \$ 104,282 |                      |                                                  | \$ 20,187 |

Amortization expense for the first three months of 2012 was \$205 and is estimated to be \$3,100 in 2012, \$3,086 in 2013 and \$3,028 for each of the three subsequent years thereafter. The weighted-average amortization period for the acquired intangible assets was approximately 15 years.

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

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

#### **Executive Overview**

We are an industrial Total Supply Management 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, a proactive solutions approach that manages the efficiencies of every aspect of supplying production parts and materials to our customers manufacturing floor, from strategic planning to program implementation. Total Supply Management includes such services as engineering and design support, part usage and cost analysis, supplier selection, quality assurance, bar coding, product packaging and tracking, just-in-time and point-of-use delivery, electronic billing services and ongoing technical support. The principal customers of Supply Technologies are in the heavy-duty truck, automotive and vehicle parts, electrical distribution and controls, consumer electronics, power sports/fitness equipment, HVAC, agricultural and construction equipment, semiconductor equipment, plumbing, aerospace and defense, and appliance industries. Aluminum Products casts and machines aluminum engine, transmission, brake, suspension and other components such as pump housings, clutch retainers/pistons, control arms, knuckles, master cylinders, pinion housings, brake calipers, oil pans and flywheel spacers for automotive, agricultural, construction, heavy-duty truck and marine 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 C to the condensed consolidated financial statements, included elsewhere herein.

On April 7, 2011, the Company completed the sale of \$250 million in aggregate principal amount of 8.125% Senior Notes due 2021 (the Notes) in an offering exempt from the registration requirements of the Securities Act of 1933. The Notes bear an interest rate of 8.125% per annum and will be payable semi-annually in arrears on April 1 and October 1 of each year commencing on October 1, 2011. The Notes mature on April 1, 2021. The Company also purchased all of its outstanding 8.375% senior subordinated notes due 2014 in aggregate principal amount of \$183.8 million that were not held by its affiliates, repaid all of the term loan A and term loan B outstanding under its then existing credit facility and retired the 8.375% senior subordinated notes due 2014 in the aggregate principal amount of \$26.2 million that were held by its affiliates.

On March 23, 2012, the Company completed the acquisition of Fluid Routing Solutions Holding Corp. (FRS), a leading manufacturer of industrial hose products and fuel filler and hydraulic fluid assemblies, in an all cash transaction valued at \$97.5 million. FRS products include fuel filler, hydraulic, and thermoplastic assemblies and several forms of manufactured hose including bulk and formed fuel, power steering, transmission oil cooling, hydraulic and thermoplastic hose. FRS sells to automotive and industrial customers throughout North America, Europe and Asia. FRS has five production facilities located in Florida, Michigan, Ohio, Tennessee and the Czech Republic. FRS is included in the Company's Aluminum Products segment pending further evaluation.

In connection with the acquisition of FRS, the Company amended and restated its existing credit and security agreement dated November 5, 2003, as amended (the Credit Agreement), to, among other things, increase the revolving loan commitment from \$200 million to \$220 million and provide a seven-year amortizing term loan for \$25 million that is secured by certain real estate and machinery and equipment. The Company funded the acquisition with cash of \$40 million (\$10 million domestic and \$30 million foreign), the \$25 million term loan provided by the Credit Agreement and \$32.5 million of borrowings under the revolving credit facility provided by the Credit Agreement.

**Table of Contents****Critical Accounting Policies**

Our critical accounting policies are described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and in the notes to our Consolidated Financial Statements for the year ended December 31, 2011, contained in our 2011 Annual Report on Form 10-K. There were no new accounting policies or updates to existing accounting policies as a result of new accounting pronouncements discussed in the notes to our condensed consolidated financial statements in this Quarterly Report on Form 10-Q. The application of our critical accounting policies may require management to make judgments and estimates about the amounts reflected in the condensed consolidated financial statements. Management uses historical experience and all available information to make these estimates and judgments, and different amounts could be reported using different assumptions and estimates.

**Results of Operations*****Three Months 2012 versus Three Months 2011******Net Sales by Segment:***

|                        | <b>Three Months<br/>Ended March 31,</b> |             | <b>Change</b> | <b>Percent<br/>Change</b> |
|------------------------|-----------------------------------------|-------------|---------------|---------------------------|
|                        | <b>2012</b>                             | <b>2011</b> |               |                           |
|                        | <b>(Dollars in millions)</b>            |             |               |                           |
| Supply Technologies    | \$ 134.4                                | \$ 123.2    | \$ 11.2       | 9%                        |
| Aluminum Products      | 36.2                                    | 39.0        | (2.8)         | (7)%                      |
| Manufactured Products  | 92.5                                    | 79.4        | 13.1          | 16%                       |
| Consolidated Net Sales | \$ 263.1                                | \$ 241.6    | \$ 21.5       | 9%                        |

Net sales increased \$21.5 million to \$263.1 million in the first three months of 2012, compared to \$241.6 million in the same period in 2011, as the Company experienced volume increases in its Supply Technologies and Manufactured Products segments offset by a decline in the Aluminum products segment. Supply Technologies sales increased 9% primarily due to volume increases in the heavy-duty truck, electrical, power sports, agricultural and construction equipment industries offset primarily by declines in the semi-conductor, HVAC and instruments industries. Aluminum Products sales decreased 7% primarily from reductions in volume, which was partially offset by incremental sales of \$5.5 million resulting from the acquisition of FRS. Manufactured Products sales increased 16% primarily due to the increased business in the capital equipment, forged and machine and rubber products business units.

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

|                                    | <b>Three Months<br/>Ended March 31,</b> |             | <b>Change</b> | <b>Percent<br/>Change</b> |
|------------------------------------|-----------------------------------------|-------------|---------------|---------------------------|
|                                    | <b>2012</b>                             | <b>2011</b> |               |                           |
|                                    | <b>(Dollars in millions)</b>            |             |               |                           |
| Consolidated cost of products sold | \$ 214.2                                | \$ 199.7    | \$ 14.5       | 7%                        |
| Consolidated gross profit          | \$ 48.9                                 | \$ 41.9     | \$ 7.0        | 17%                       |
| Gross margin                       | 18.6%                                   | 17.3%       |               |                           |

Cost of products sold increased \$14.5 million to \$214.2 million in the first three months of 2012, compared to \$199.7 million in the same period in 2011, while gross margin increased to 18.6% in the first three months of 2012 compared to 17.3% in the same period in 2011. The increase in cost of products sold was due primarily to higher sales levels and higher commodity prices offset by higher production levels, which contributed to improved absorption of fixed costs in the Manufactured Products segment. Gross margin increased in the Supply Technologies and Manufactured Products business units resulting primarily from volume increases while gross margin decreased in the Aluminum Products business unit resulting from volume declines.



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

|                            | Three Months<br>Ended March 31, |         | Change                | Percent<br>Change |
|----------------------------|---------------------------------|---------|-----------------------|-------------------|
|                            | 2012                            | 2011    | (Dollars in millions) |                   |
| Consolidated SG&A expenses | \$ 28.7                         | \$ 25.7 | \$ 3.0                | 12%               |
| SG&A percent               | 10.9%                           | 10.6%   |                       |                   |

Consolidated SG&A expenses increased 12% in the first three months of 2012 compared to the same period in 2011, representing a 30 basis point increase in SG&A expenses as a percent of sales. SG&A expenses increased in the first three months of 2012 compared to the same period in 2011 primarily due to increases in payroll and payroll related expenses and a reduction in pension income of \$.8 million.

***Interest Expense:***

|                                                                   | Three Months<br>Ended<br>March 31, |          | Change                | Percent<br>Change |
|-------------------------------------------------------------------|------------------------------------|----------|-----------------------|-------------------|
|                                                                   | 2012                               | 2011     | (Dollars in millions) |                   |
| Interest expense                                                  | \$ 6.7                             | \$ 5.9   | \$ .8                 | 14%               |
| Debt extinguishment costs included in interest expense            | \$ 0.3                             | -0-      | .3                    |                   |
| Amortization of deferred financing costs and bank service charges | \$ 0.6                             | \$ 0.7   | .1                    | (14)%             |
| Average outstanding borrowings                                    | \$ 358.6                           | \$ 308.7 | \$ 49.9               | 16%               |
| Average borrowing rate                                            | 7.51%                              | 7.04%    | 47 basis points       |                   |

Interest expense increased \$.8 million in the first three months of 2012 compared to the same period of 2011, primarily due to a higher average borrowing rate during the first three months of 2012. Average borrowings in the first three months of 2012 were higher when compared to the same period in 2011 due to the Company's sale of \$250 million in aggregate principal amount of the Notes offset by the purchase of all of its outstanding 8.375% senior subordinated notes due 2014 and additional borrowings to fund the acquisition of FRS. The higher average borrowing rate in the first three months of 2012 was due primarily to the interest rate mix of our revolving credit facility and the Notes when compared to the mix in the same period in 2011.

***Income Tax:***

The provision for income taxes was \$4.4 million in the first three months of 2012, a 33.2% effective income tax rate, compared to income taxes of \$1.7 million provided in the corresponding period of 2011, a 16.1% effective income tax rate. We estimate that the effective tax rate for full-year 2012 will be approximately 33%.

**Liquidity and Sources of Capital**

As of March 31, 2012, the Company had \$116.6 million outstanding under its revolving credit facility, and approximately \$80.9 million of unused borrowing availability.

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 debt securities. On April 7, 2011, the Company completed the sale of \$250.0 million aggregate principal amount of Notes. The Notes bear an interest rate of 8.125% per annum and will be payable semi-annually in arrears on April 1 and October 1 of each year beginning on April 1, 2011. The Notes mature on April 1, 2021.

The Company is a party to the Credit Agreement, with a group of banks, under which it may borrow or issue standby letters of credit or commercial letters of credit. On March 23, 2012, the Credit Agreement was amended and restated to, among other things, increase the revolving loan commitment from \$200 million to \$220 million,



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and provide a term loan for \$25 million that is secured by certain real estate and machinery and equipment. Amounts borrowed under the revolving credit facility may be borrowed at either (i) LIBOR plus 1.75% to 2.75% or (ii) the bank's prime lending rate minus .25% to 1.00%, at the Company's election. The LIBOR-based interest rate is dependent on the Company's debt service coverage ratio, as defined in the Credit Agreement. Under the Credit Agreement, a detailed borrowing base formula provides borrowing availability to the Company based on percentages of eligible accounts receivable and inventory. Interest on the term loan is at either (i) LIBOR plus 2.75% or (ii) the bank's prime lending rate plus .25%, at the Company's election. The term loan is amortized based on a seven-year schedule with the balance due at maturity.

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 provided by the Credit Agreement is based on the Company's ability to meet a debt service ratio covenant, which could be materially impacted by negative economic trends. Failure to meet the debt service ratio could materially impact the availability and interest rate of future borrowings.

The Company had cash and cash equivalents held by foreign subsidiaries of \$32.2 million at March 31, 2012 and \$61.2 million at December 31, 2011. For each of its foreign subsidiaries, the Company makes a determination regarding the amount of earnings intended for permanent reinvestment, with the balance, if any, available to be repatriated to the United States. The cash held by foreign subsidiaries for permanent reinvestment is generally used to finance the foreign subsidiaries' operational activities and/or future foreign investments. At March 31, 2012, management believed that sufficient liquidity was available in the United States, and it is our current intention to permanently reinvest undistributed earnings of our foreign subsidiaries outside of the United States. Although we have no intention to repatriate the approximately \$80.8 million of undistributed earnings of our foreign subsidiaries, as of December 31, 2011, if we were to repatriate these earnings, there would potentially be an adverse tax impact.

At March 31, 2012, the Company's debt service coverage ratio was 2.7, and, therefore, it was in compliance with the debt service coverage ratio covenant contained in the revolving credit facility. The Company was also in compliance with the other covenants contained in the revolving credit facility as of March 31, 2012. 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 that are consolidated cash interest expense plus scheduled principal payments on indebtedness plus scheduled reductions in our term debt as defined in the Credit Agreement. 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 2012, declines in sales volumes in 2012 could adversely impact our ability to remain in compliance with certain of these financial covenants. Additionally, to the extent our customers are adversely affected by declines in the economy in general, they may not be able to pay their accounts payable to us on a timely basis or at all, which would make the accounts receivable ineligible for purposes of the revolving credit facility and could reduce our borrowing base and our ability to borrow under such facility.

The ratio of current assets to current liabilities was 2.09 at March 31, 2012, versus 2.65 at December 31, 2011. Working capital decreased by \$26.8 million to \$264.7 million at March 31, 2012, from \$291.5 million at December 31, 2011. Accounts receivable increased \$51.2 million to \$191.1 million at March 31, 2012, from \$139.9 million at December 31, 2011, primarily resulting from the acquisition of FRS and its \$28.4 million of accounts receivable and sales volume increases. Inventory increased by \$20.6 million at March 31, 2012, to \$222.6 million from \$202.0 million at December 31, 2011, primarily resulting from planned increases due to sales volume increases and \$11.3 million of increases associated with the acquisition of FRS. Accrued expenses increased by \$28.6 million to \$102.3 million at March 31, 2012, from \$73.7 million at December 31, 2011, primarily resulting from the terms of the payments of interest due on the Notes and accrued liabilities of FRS of \$17.0 million. Accounts payable increased \$35.2 million to \$134.8 million at March 31, 2012, from \$99.6 million at December 31, 2011, primarily as a result of acquiring the accounts payable of FRS of \$17.3 million and the timing of payments at March 31, 2012.

During the first three months of 2012, the Company provided \$17.1 million from operating activities compared to \$13.0 million in the same period of 2011. The increase in the operating cash provision of \$4.1

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million in 2012 compared to 2011 was primarily the result of a decrease in operating assets and liabilities offset by an increase in net income. In the first three months of 2012, the Company used cash of \$2.8 million for capital expenditures and \$94.6 million for the acquisition of FRS. These activities, plus cash interest and tax payments of \$2.0 million, an increase in borrowings of \$48.2 million and purchase of treasury stock of \$.7 million resulted in a decrease in cash of \$33.4 million in the first three months of 2012.

We do not have off-balance sheet arrangements, financing or other relationships with unconsolidated entities or other persons. There are occasions whereupon we enter into forward contracts on foreign currencies, purely for the purpose of hedging exposure to changes in the value of accounts receivable in those currencies against the U.S. dollar. At March 31, 2012, none were outstanding. We currently have no other derivative instruments.

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

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 Quarterly Report on Form 10-Q contains certain statements that are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The words believes, anticipates, plans, expects, intends, estimates and similar expressions are intended to identify forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance and achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, but are not limited to, the following: our substantial indebtedness; continuation of the current negative global economic environment; general business conditions and competitive factors, including pricing pressures and product innovation; demand for our products and services; raw material availability and pricing; component part availability and pricing; changes in our relationships with customers and suppliers; the financial condition of our customers, including the impact of any bankruptcies; our ability to successfully integrate FRS and achieve the expected results of the acquisition; our ability to retain FRS's relationship with customers and suppliers; our ability to successfully integrate recent and future acquisitions into existing operations; changes in general domestic economic conditions such as inflation rates, interest rates, tax rates, unemployment rates, higher labor and healthcare costs, recessions and changing government policies, laws and regulations, including the uncertainties related to the current global financial crisis; adverse impacts to us, our suppliers and customers from acts of terrorism or hostilities; our ability to meet various covenants, including financial covenants, contained in the agreements governing our indebtedness; disruptions, uncertainties or volatility in the credit markets that may limit our access to capital; increasingly stringent domestic and foreign governmental regulations, including those affecting the environment; inherent uncertainties involved in assessing our potential liability for environmental remediation-related activities; the outcome of pending and future litigation and other claims and disputes with customers; our dependence on the automotive and heavy-duty truck industries, which are highly cyclical; the dependence of the automotive industry on consumer spending, which could be lower due to the effects of the current financial crisis; our ability to negotiate contracts with labor unions; our dependence on key management; our dependence on information systems; and the other factors we describe under Item 1A. Risk Factors included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. 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.

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**Review By Independent Registered Public Accounting Firm**

The condensed consolidated financial statements at March 31, 2012, and for the three-month periods ended March 31, 2012 and 2011, have been reviewed, prior to filing, by Ernst & Young LLP, our independent registered public accounting firm.

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### **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 the floating rate revolving credit facility provided by our Credit Agreement, which consisted of borrowings of \$116.6 million at March 31, 2012. A 100 basis point increase in the interest rate would have resulted in an increase in interest expense of approximately \$.3 million during the three-month period ended March 31, 2012.

Our foreign subsidiaries generally conduct business in local currencies. During the first quarter of 2012, we recorded a favorable foreign currency translation adjustment of \$1.2 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 March 31, 2012, 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 first quarter of 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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### **PART II**

#### **OTHER INFORMATION**

##### **Item 1. *Legal Proceedings***

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

In addition to the routine lawsuits and asserted claims noted above, we were a party to the lawsuits and legal proceedings described below at March 31, 2012.

We were a co-defendant in approximately 225 cases asserting claims on behalf of approximately 760 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 seven asbestos cases, involving 25 plaintiffs, that plead specified damages. In each of the seven cases, the plaintiff is seeking compensatory and punitive damages based on a variety of potentially alternative causes of action. In three cases, the plaintiff has alleged compensatory damages in the amount of \$3.0 million for four separate causes of action and \$1.0 million for another cause of action and punitive damages in the amount of \$10.0 million. In the fourth case, the plaintiff has alleged against each named defendant, compensatory and punitive damages, each in the amount of \$10.0 million, for seven separate causes of action. In the fifth case, the plaintiff has alleged compensatory damages in the amount of \$20.0 million for three separate causes of action and \$5.0 million for another cause of action and punitive damages in the amount of \$20.0 million. In the remaining two cases, the plaintiffs have each alleged against each named defendant compensatory and punitive damages, each in the amount of \$50.0 million, for four separate causes of action.

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 or 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.

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One of our subsidiaries, Ajax Tocco Magnethermic ( ATM ), is a party to a binding arbitration proceeding pending in South Africa with its customer Evraz Highveld Steel and Vanadium ( Evraz ). The arbitration involves a dispute over the design and installation of a melting furnace. Evraz sought binding arbitration in September 2011 for breach of contract and seeks compensatory damages in the amount of \$37.0 million, as well as fees and expenses related to the arbitration. ATM intends to counterclaim arbitration, alleging breach of contract for non-payment in the amount of \$2.7 million as well as fees and expenses related to the arbitration. We believe we have meritorious defenses to these claims and intend to vigorously defend such allegations.

**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, 2011.

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

Set forth below is information regarding the Company's repurchases of its common stock during the quarter ended March 31, 2012.

| Period     |                   | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price Paid<br>Per<br>Share | Total Number<br>of Shares<br>Purchased as<br>Part of Publicly<br>Announced Plans(1) | Maximum Number of<br>Shares<br>That May Yet Be<br>Purchased Under<br>the<br>Plans or Program |
|------------|-------------------|-------------------------------------------|---------------------------------------|-------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| January 1  | January 31, 2012  | 2,066(2)                                  | \$ 17.84                              | -0-                                                                                 | 340,920                                                                                      |
| February 1 | February 29, 2012 | -0-                                       | -0-                                   | -0-                                                                                 | 340,920                                                                                      |
| March 1    | March 31, 2012    | 30,225(2)                                 | 20.59                                 | -0-                                                                                 | 340,920                                                                                      |
| Total      |                   | 32,291                                    | \$ 20.41                              | -0-                                                                                 | 340,920                                                                                      |

(1) On September 27, 2006, the Company announced a share repurchase program whereby the Company may repurchase up to 1.0 million shares of its common stock. During the first quarter of 2012, no shares were purchased as part of this program.

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

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**Item 6. Exhibits**

The following exhibits are included herein:

|         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1*    | Agreement and Plan of Merger by and among Fluid Routing Solutions Holding Corp., FRS Group, LP, Automotive Holding Acquisition Corp and Park-Ohio Industries, Inc., dated as of March 5, 2012                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 4.1     | Fifth Amended and Restated Credit Agreement, dated March 23, 2012, among Park-Ohio Industries, Inc., the other Loan Parties (as defined therein), the Lenders (as defined therein), JP Morgan Chase Bank, N.A., as Administrative Agent, JP Morgan Chase Bank, N.A., Toronto Branch, as Canadian Agent, RBS Business Capital, as Syndication Agent, KeyBank National Association and First National Bank of Pennsylvania, as Co-Documentation Agent, U.S. Bank National Association, as Co-Documentation Agent and Joint Bookrunner, PNC Bank, National Association, as Joint Bookrunner and J.P. Morgan Securities Inc., as Sole Lead Arranger and Bookrunning Manager (filed as Exhibit 4.1 to the Form 8-K of Park-Ohio Holdings Corp., filed on March 27, 2012, SEC File No. 000-03134 and incorporated by reference and made a part hereof) |
| 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                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 101.INS | XBRL Instance Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 101.SCH | XBRL Taxonomy Extension Schema Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

\* The exhibits and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K and will be provided to the Securities and Exchange Commission upon request.

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**SIGNATURES**

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/ PATRICK W. FOGARTY  
Name: Patrick W. Fogarty  
Title: Interim Chief Financial Officer,

Director of Corporate Development  
(Principal Financial and Accounting Officer)

Date: May 10, 2012

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**EXHIBIT INDEX**

**QUARTERLY REPORT ON FORM 10-Q**

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

**FOR THE QUARTER ENDED MARCH 31, 2012**

|         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
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