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PARK-OHIO HOLDINGS CORP. 10-Q

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

~~[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2000, 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 NO. 0-3134~~

~~PARK-OHIO HOLDINGS CORP.~~
~~(Exact name of registrant as specified in its charter)~~

~~OHIO~~	~~34-1867219~~
~~(State or other jurisdiction of incorporation or organization)~~	~~(I.R.S. Employer Identification No.)~~
~~23000 EUCLID AVENUE, CLEVELAND, OHIO~~	~~44117~~
~~(Address of principal executive offices)~~	~~(Zip Code)~~

~~REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: 216/692-7200~~
~~PARK-OHIO HOLDINGS CORP. IS A SUCCESSOR ISSUER TO PARK-OHIO INDUSTRIES, INC.~~

~~Indicate by check mark whether the registrant:~~

~~(1) Has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports):~~

~~and~~

~~(2) Has been subject to such filing requirements for the past 90 days.~~

~~YES [X] NO [ ]~~

~~Number of shares outstanding of registrant's Common Stock, par value $1.00 per share, as of July 31, 2000: 10,544,387.~~

~~The Exhibit Index is located on page 18.~~

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

~~INDEX~~

~~PART I~~

~~FINANCIAL INFORMATION~~

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

~~CONSOLIDATED BALANCE SHEETS~~

	(UNAUDITED) JUNE 30 2000	DECEMBER 31 1999
	(DOLLARS IN THOUSANDS)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,325	$ 5,867
Accounts receivable, less allowances for doubtful accounts of $3,300 at June 30, 2000 and $3,296 at December 31, 1999	122,492	112,896
Inventories	185,321	192,270
Deferred tax assets	600	600
Other current assets	11,153	5,250
Total Current Assets	322,891	316,883
Property, Plant and Equipment	206,754	211,093
Less accumulated depreciation	87,712	86,721
	119,042	124,372
Other Assets		
Excess purchase price over net assets acquired, net of accumulated amortization of $10,358 at June 30, 2000 and $11,941 at December 31, 1999	125,094	137,905
Deferred taxes	2,400	2,400
Other	51,844	48,321
	$621,271	$629,881
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Trade accounts payable	$ 69,334	$ 72,452
Accrued expenses	38,586	33,064
Current portion of long-term liabilities	2,443	2,557
Total Current Liabilities	110,363	108,073
Long-Term Liabilities, less current portion		
Long-term debt	334,504	339,813
Other postretirement benefits	24,748	25,470
Other	1,886	1,840
	361,138	367,123
Shareholders' Equity		
Capital stock, par value $1 a share:		
Serial Preferred Stock	-0-	-0-
Common Stock	11,210	11,148
Additional paid-in capital	56,184	55,684
Retained earnings	92,967	96,674
Treasury stock, at cost	(8,657)	(7,969)
Accumulated other comprehensive earnings (loss)	(1,372)	(852)
Unearned compensation -- restricted stock awards	(562)	-0-
	149,770	154,685
	$621,271	$629,881

Note: The balance sheet at December 31, 1999 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See notes to consolidated financial statements.

PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2000	1999	2000	1999
	(DOLLARS IN THOUSANDS -- EXCEPT PER SHARE DATA)			
Net sales	$204,539	$186,917	$410,899	$358,320
Cost of products sold	167,246	153,104	337,329	293,540
Gross profit	37,293	33,813	73,570	64,780
Selling, general and administrative expenses	21,392	20,195	42,436	38,147
Operating income	15,901	13,618	31,134	26,633
Interest expense	7,720	5,693	15,225	11,071
Loss on sale of Kay Home Products	15,318	-0-	15,318	-0-
Income (loss) before income taxes	(7,137)	7,925	591	15,562
Income taxes	1,130	3,389	4,298	6,677
Net income (loss)	$ (8,267)	$ 4,536	$ (3,707)	$ 8,885
Net income (loss) per common share:				
Basic	$ (.79)	$ .42	$ (.35)	$ .83
Diluted	$ (.79)	$ .42	$ (.35)	$ .82
Common shares used in the computation:				
Basic	10,528	10,714	10,539	10,753
Diluted	10,528	10,839	10,539	10,888

See notes to consolidated financial statements.

PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	ACCUMULATED OTHER COMPREHENSIVE EARNINGS (LOSS)	UNEARNED COMPENSATION	TOTAL
	(DOLLARS IN THOUSANDS)						
Balance January 1, 2000	$11,148	$55,684	$96,674	$(7,969)	$ (852)	$ -0-	$154,685
Issuance of restricted stock	62	500				(562)	-0-
Comprehensive income:							
Net loss			(3,707)				(3,707)
Foreign currency translation adjustment					(520)		(520)
Comprehensive income (loss)							(4,227)
Purchase of treasury stock				(688)			(688)
Balance June 30, 2000	$11,210	$56,184	$92,967	$(8,657)	$(1,372)	$ (562)	$149,770

See notes to consolidated financial statements.

PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	SIX MONTHS ENDED JUNE 30	
	2000	1999
	(DOLLARS IN THOUSANDS)	
OPERATING ACTIVITIES		
Net income (loss)..	$(3,707)	$ 8,885
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization..........................	10,520	10,326
Loss on sale of Kay Home Products......................	15,318	-0-
	22,131	19,211
Changes in operating assets and liabilities excluding acquisitions of businesses:		
Accounts receivable..................................	(13,841)	(1,986)
Inventories and other current assets..................	(2,188)	(10,033)
Accounts payable and accrued expenses.................	2,580	7,887
Other...	(4,707)	(8,109)
Net Cash Provided by Operating Activities...........	3,975	6,970
INVESTING ACTIVITIES		
Purchases of property, plant and equipment, net...........	(9,584)	(9,092)
Costs of acquisitions, net of cash acquired..............	-0-	(35,664)
Proceeds from sale of Kay Home Products..................	9,177	-0-
Purchase of investments..................................	-0-	(445)
Net Cash (Used) by Investing Activities...............	(407)	(45,201)
FINANCING ACTIVITIES		
Proceeds from bank arrangements..........................	14,000	49,000
Issuance of 9.25% Senior Subordinated Notes, net of deferred financing costs..............................	-0-	49,508
Payments on debt...	(19,422)	(56,129)
Purchase of treasury stock...............................	(688)	(2,123)
Net Cash (Used) Provided by Financing Activities.......	(6,110)	40,256
(Decrease)Increase in Cash and Cash Equivalents........	(2,542)	2,025
Cash and Cash Equivalents at Beginning of Period.......	5,867	4,320
Cash and Cash Equivalents at End of Period............	$ 3,325	$ 6,345

See notes to consolidated financial statements.

PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JUNE 30, 2000

(DOLLARS IN THOUSANDS -- EXCEPT PER SHARE DATA)

NOTE A -- BASIS OF PRESENTATION

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month and six month periods ended June 30, 2000 are not necessarily indicative of the results that may be expected for the year ending December 31, 2000. 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, 1999.

~~NOTE B -- ACQUISITIONS AND DISPOSITION~~

~~During 1999, the Company acquired all of the stock of The Metalloy Corporation ("Metalloy"), Columbia Nut and Bolt Corp. ("Columbia"), Industrial Fasteners Corporation ("Industrial"), M.P. Colinet ("Colinet") and substantially all of the assets of St. Louis Screw and Bolt ("St. Louis Screw") and PMC Industries, Inc. ("PMC") for cash. Metalloy is a full service aluminum casting and machining company. Columbia and Industrial are logistics providers of "Class C" production components. St. Louis Screw is a manufacturer of bolts and PMC and Colinet provide capital equipment and associated parts for the oil drilling industry. Each of these transactions has been accounted for as a purchase. The purchase price and the results of operations of each of these businesses prior to their respective dates of acquisition were not deemed to be significant as defined in Regulation S-X.~~

~~On June 30, 2000 the Company completed the sale of substantially all of the assets of Kay Home Products, which was part of the Manufactured Products segment, for cash of approximately $9.2 million and recorded a loss of approximately $15.3 million. Kay Home Products was a non-core business producing and distributing barbecue grills, tray tables, screen houses and plant stands.~~

~~NOTE C -- INVENTORIES~~

~~The components of inventory consist of the following:~~

	JUNE 30 2000	DECEMBER 31 1999
~~In process and finished goods~~	~~$155,539~~	~~$160,648~~
~~Raw materials and supplies~~	~~29,782~~	~~31,622~~
	~~$185,321~~	~~$192,270~~

~~NOTE D -- SHAREHOLDERS' EQUITY~~

~~At June 30, 2000, capital stock consists of (i) Serial Preferred Stock of which 632,470 shares were authorized and none were issued and (ii) Common Stock of which 40,000,000 shares were authorized and 10,548,687 shares were issued and outstanding.~~

~~NOTE E -- NET INCOME (LOSS) PER COMMON SHARE~~

~~The following table sets forth the computation of basic and diluted earnings (loss) per share:~~

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2000	1999	2000	1999
	(DOLLARS IN THOUSANDS -- EXCEPT PER SHARE DATA)			
~~NUMERATOR~~				
~~Net income (loss)~~	~~$(8,267)~~	~~$ 4,536~~	~~$(3,707)~~	~~$ 8,885~~
~~DENOMINATOR~~				
~~Denominator for basic earnings per share-weighted average shares~~	~~10,528~~	~~10,714~~	~~10,539~~	~~10,753~~
~~Effect of dilutive securities:~~				
~~Employee stock options~~	~~-0-~~	~~125~~	~~-0-~~	~~135~~
~~Denominator for diluted earnings per share-adjusted weighted average shares and assumed conversions~~	~~10,528~~	~~10,839~~	~~10,539~~	~~10,888~~
~~Net income (loss) per common share basic~~	~~$ (.79)~~	~~$ .42~~	~~$ (.35)~~	~~$ .83~~
~~Net income (loss) per common share-diluted~~	~~$ (.79)~~	~~$ .42~~	~~$ (.35)~~	~~$ .82~~

NOTE F -- ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" was issued in June 1998 and subsequently amended in June 2000, to provide guidance on its implementation. Statement 133 requires derivatives to be recorded on the balance sheet at fair value and establishes accounting for three different types of hedges: hedges of changes in fair value of assets, liabilities, or firm commitments; hedges of the variable cash flows of forecasted transactions; and hedges of foreign currency exposures of net investments in foreign operations. Statement 133, as delayed by the issuance of Statement 138, is effective for years beginning after June 15, 2000 and is not expected to have a significant impact on the Company's financial position or results of operations.

In December 1999, the staff of the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB")101, "Revenue Recognition in Financial Statements." SAB 101 outlines the basic criteria that must be met to recognize revenue, and provides guidelines for disclosure related to revenue recognition policies. This guidance is required to be implemented in the fourth quarter of 2000. The Company is currently reviewing this guidance in order to determine the impact of its provisions, if any, on the consolidated financial statements. The impact of SAB 101, if any, will be reported as a change in accounting principle in accordance with APB Opinion No. 20 and FASB Statement No. 3.

In March 2000, the FASB issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation: An Interpretation of APB Opinion No. 25," which is effective July 1, 2000. This interpretation clarifies various accounting issues for stock compensation plans. The Company has determined that the interpretation will not have a significant effect on its financial statements.

NOTE G -- SEGMENTS

The Company manages its business based upon three operating segments: Integrated Logistics Solutions ("ILS"), Aluminum Products and Manufactured Products. ILS is a leading national supplier of "Class C" production components to original equipment manufacturers ("OEMs"), other manufacturers and distributors. In connection with the supply of such industrial products, ILS provides a variety of value-added, cost-

effective procurement solutions. Aluminum Products manufactures cast aluminum components primarily for automotive OEMs. In addition, Aluminum Products also provides value-added services such as design and engineering, machining and assembly. Manufactured Products operates a diverse group of manufacturing businesses that design and manufacture a broad range of high quality products for specific customer applications. Intersegment sales are immaterial.

Results by Business Segment were as follows:

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2000	1999	2000	1999
	(DOLLARS IN THOUSANDS -- EXCEPT PER SHARE DATA)			
Net sales:				
ILS	$129,862	$109,123	$264,591	$215,535
Aluminum products	31,283	37,128	65,064	68,747
Manufactured products	43,394	40,666	81,244	74,038
	$204,539	$186,917	$410,899	$358,320
Income (loss) before income taxes:				
ILS	$ 12,085	$ 10,030	$ 25,715	$ 20,995
Aluminum products	2,646	4,144	5,276	7,115
Manufactured products	3,948	2,131	5,789	3,103
	18,679	16,305	36,780	31,213
Amortization of excess purchase price over net assets acquired	(988)	(894)	(1,981)	(1,708)
Corporate costs	(1,790)	(1,793)	(3,665)	(2,872)
Interest expense	(7,720)	(5,693)	(15,225)	(11,071)
Loss on the sale of Kay Home Products	(15,318)	-0-	(15,318)	-0-
	$ (7,137)	$ 7,925	$ 591	$ 15,562

	JUNE 30, 2000	DECEMBER 31, 1999
Identifiable assets were as follows:		
ILS	$349,095	$343,522
Aluminum products	107,282	97,717
Manufactured products	154,417	170,267
General corporate	10,477	18,375
	$621,271	$629,881

NOTE H -- RECLASSIFICATION

Certain amounts have been reclassified to conform to current year presentation.

NOTE I -- INVOLUNTARY CONVERSION OF ASSETS

On June 6, 2000 the Company experienced a fire at one of its manufacturing facilities located in Cicero, Illinois. The Company carries both property damage and business interruption insurance and as a result, does not expect the fire to have a material adverse impact on the Company's financial results. The total loss from business interruption, extra expenses and property damage has not been determined. The deductible portion of the loss was recorded during the quarter ended June 30, 2000. The Company has recorded the book value of property damaged by the fire as a receivable which is included in other current assets at June 30, 2000.

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors and Shareholders
Park-Ohio Holdings Corp.

We have reviewed the accompanying consolidated balance sheet of Park-Ohio Holdings Corp. and subsidiaries as of June 30, 2000, and the related consolidated statements of operations for the three-month and six-month periods ended June 30, 2000 and 1999, the consolidated statement of shareholders' equity for the six-month period ended June 30, 2000 and the consolidated statements of cash flows for the six-month period ended June 30, 2000 and 1999. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and

~~accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.~~

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

~~We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Park-Ohio Holdings Corp. and subsidiaries as of December 31, 1999 and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended, not presented herein, and in our report dated February 22, 2000, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 1999, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.~~

~~/s/ Ernst & Young LLP~~

~~Cleveland, Ohio~~
~~July 19, 2000~~

~~ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS~~

~~The consolidated financial statements of the Company include the accounts of Park-Ohio Holdings Corp. and its subsidiaries. All significant intercompany transactions have been eliminated in consolidation. The financial information for the six and three-month periods ended June 30, 2000 is not directly comparable on a period to period basis to the financial information for the six and three-month periods ended June 30, 1999 due to acquisitions and a divestiture made subsequent to the second quarter of 1999. In July 1999, the Company acquired all of the shares of Columbia Nut and Bolt Corp. ("Columbia") and Industrial Fasteners Corporation ("Industrial"). Columbia and Industrial are logistics providers of "Class C" production components. In September 1999, the Company acquired all of the shares of M.P. Colinet ("Colinet"). Colinet provides capital equipment and associated parts for the oil drilling industry and is complementary to PMC Industries, a subsidiary of the Company acquired in February, 1999. These acquisitions are accounted for as purchases and consequently their results are included in the consolidated financial statements from their respective dates of acquisition. On June 30, 2000, the Company sold substantially all the assets of Kay Home Products, for cash of approximately $9.2 million and recorded a pretax loss of approximately $15.3 million. Kay Home Products was a non-core business producing and distributing barbecue grills, tray tables, screen houses and plant stands.~~

~~Reported diluted net loss per common share was $.79 for the quarter ended June 30, 2000 and $.35 for the six months ended June 30, 2000. Excluding the loss from the sale of Kay Home Products, the Company would have reported net income per common share -- diluted of $.47 for the quarter ended June 30, 2000 and $.90 for the six months ended June 30, 2000.~~

~~OVERVIEW~~

~~The Company operates diversified manufacturing and logistics businesses that serve a wide variety of industrial markets. The Company has three operating segments: Integrated Logistics Solutions ("ILS"), Aluminum Products, and Manufactured Products. ILS is a leading national supplier of "Class C" production components to original equipment manufacturers ("OEMs"), other manufacturers and distributors. In connection with the supply of such industrial products, ILS provides a variety of value added, cost-effective procurement solutions. The principal customers of ILS are in the transportation, industrial, electrical and lawn and garden equipment industries. Aluminum Products manufactures cast aluminum components primarily for automotive OEMs. 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. The principal customers of Manufactured Products are OEMs and end users in the automotive, railroad, truck and aerospace industries.~~

~~Between 1993 and 1999, the Company has grown significantly, both internally and through acquisitions. Over this period, the Company's net sales increased at a 40% compound annual growth rate ("CAGR"), from $94.5 million to $717.2~~

million, and income from continuing operations on a fully taxed basis increased at a 38% CAGR from $2.4 million to $16.3 million.

Recent growth has been primarily attributable to the Company's strategy of making selective acquisitions in order to complement internal growth. Historically, the Company has acquired under-performing businesses with potential for: (i) significant cost reductions through improved labor, supplier and customer relations and increased purchasing power and (ii) revenue enhancement due to better asset utilization and management practices, as well as increased access to capital. The Company's internal growth has been driven primarily by the addition of ILS customers under total fastening service ("TFS") contracts and by the leveraging of existing customer relationships in the Aluminum and Manufactured Products segments.

Between January 1, 1994 and June 30, 2000, the Company's continuing operations incurred $96.5 million of capital expenditures, the majority of which was used to expand and upgrade existing manufacturing facilities and enhance the Company's management information systems.

RESULTS OF OPERATIONS

First Half 2000 versus First Half 1999

Net sales increased by $52.6 million, or 15%, from $358.3 million for the first half of 1999 to $410.9 million for the first half of 2000. Of the $52.6 million in growth for the first half, $39.1 million represented organic growth, primarily ILS, while the remainder was from acquisitions made subsequent to June 30, 1999. For ILS, net sales increased 23%, or $49.1 million, of which $35.6 million related to internal growth (a 17% internal growth rate) and the remainder to the acquisitions of Columbia and Industrial. For Aluminum Products, net sales decreased 5%, or $3.7 million, resulting from an $8.8 million decrease related to the ending of sales contracts at Metalloy which were expected at the time of its purchase in 1999, partially offset by a $5.1 million increase in sales from internal growth. For Manufactured Products, net sales increased 10%, or $7.2 million, related to internal growth. Because it closed on June 30, 2000, the divestiture of Kay Home Products did not affect Manufactured Products net sales for the first half of 2000.

Gross profit increased by $8.8 million, or 14%, from $64.8 million for the first half of 1999 to $73.6 million for the first half of 2000. Of the increase in gross profit, $4.7 million was attributable to the organic increase in sales and the remainder to acquisitions. The Company's consolidated gross margin decreased to 17.9% for the first six months of 2000 from 18.1% for the first six months of 1999. This decrease in consolidated gross margin was due to decreased margins in both the Aluminum Products and ILS segments offset by an increase in gross margins in the Manufactured Products segment. For Aluminum Products, the decrease in gross margins related to the ending of sales contracts at Metalloy which were expected at the time of its purchase in 1999, resulting in the allocation of fixed manufacturing overhead over a smaller production base. The decrease in gross margins in the ILS segment related to a shift in product mix to lower margin items. The increase in margins in the Manufactured Products segment resulted from increased sales of higher margin products, particularly in the oil drilling capital equipment business, and from increased production levels which allocated fixed overhead costs over a larger productive base.

Selling, general and administrative ("SG&A") expenses increased by 11% to $42.4 million for the first six months of 2000 from $38.1 million for the first six months of 1999. The increase was related to recent acquisitions and to increased sales. Columbia and Industrial, acquired in July 1999, incurred $2.0 million of SG&A expenses in the first six months of 2000. In the first half of 2000, SG&A costs benefited from an increase in net pension credits of $1.8 million, reflecting favorable investment returns on pension plan assets. Consolidated SG&A expenses as a percentage of net sales decreased to 10.3% for the first six months of 2000 from 10.6% for the first six months of 1999.

Interest expense increased by $4.1 million from $11.1 million for the first six months of 1999 to $15.2 million for 2000 due to higher average debt outstanding during the current period and higher average interest rates in 2000 versus 1999. During the first six months of 2000, the Company averaged outstanding borrowings of $344.5 million as compared to $270.9 million for the first six months of 1999. The $73.6 million increase in outstanding borrowings related to acquisitions in the preceding twelve months and to increases in working capital. The average interest rate of 8.84% for the six months ended June 30, 2000 was 67 basis points higher than the average rate of 8.17% for 1999. This rate increase was due to both the $50 million add-on in June 1999 to the Company's Senior Subordinated Notes at 9.25%, and to increased rates on the Company's revolving credit facility caused by Federal Reserve actions.

Before considering the tax effect of the divestiture of Kay Home Products,

~~the effective income tax rate for the six-month period ended June 30, 2000 was 41%, while for the six months ended June 30, 1999 it was 43%. The decrease in tax rate resulted from the relative reduction of non deductible goodwill for tax purposes and to a corresponding increase in research and experimental credits. The divestiture of Kay Home Products generated a book loss of $15.3 million, ($13.2 million net of tax). The effective income tax rate for the first half of 2000 was impacted by the $10.2 million of non deductible goodwill associated with the business sold.~~

~~Second Quarter 2000 versus Second Quarter 1999~~

~~Net sales increased by $17.6 million, or 9%, from $186.9 million for the quarter ended June 30, 1999 to $204.5 million for the three months ended June 30, 2000. Of the $17.6 million in growth for the quarter,~~

~~$6.5 million represented organic growth, primarily ILS, while the remainder was from acquisitions made subsequent to June 30, 1999. For ILS, net sales increased 19%, or $20.7 million, of which $9.6 million related to internal growth (a 9% internal growth rate) and the remainder to the acquisitions of Columbia and Industrial. For Manufactured Products, net sales increased by $2.7 million related to internal growth. Because it closed on June 30, 2000, the divestiture of Kay Home Products did not affect net sales for the second quarter. For Aluminum Products, net sales decreased 16%, or $5.8 million, resulting from an $8.0 million decrease related to the ending of sales contracts at Metalloy which were expected at the time of its purchase in 1999, partially offset by a $2.2 million increase in sales from internal growth.~~

~~Gross profit increased by $3.5 million, or 10%, from $33.8 million for the quarter ended June 30, 1999 to $37.3 million for the quarter ended June 30, 2000. Of the increase in gross profit, $1.1 million was attributable to an organic increase in sales and the remainder to acquisitions. The Company's consolidated gross margin increased to 18.2% for the current period from 18.1% for the quarter ended June 30, 1999. Manufactured Products experienced increased margins compared to the year earlier period, resulting primarily from increased production activity, which allocated fixed overhead costs over a larger productive base. Aluminum Products' gross margins declined slightly due to decreased production volumes, which allocated fixed overhead over a smaller production base. Gross Margins also declined slightly at ILS as a result of a shift in product mix.~~

~~Selling, general and administrative ("SG&A") expenses increased by 6% to $21.4 million for the quarter ended June 30, 2000 from $20.2 million for the quarter ended June 30, 1999. The increase was related to Columbia and Industrial, acquired in July, 1999, which incurred $.9 million of SG&A expenses in the second quarter of 2000, and to increased sales. In second quarter 2000, SG&A expenses benefited from an increase in net pension credits of $1.0 million, reflecting favorable investment returns on pension plan assets. Consolidated SG&A expenses as a percentage of net sales decreased to 10.5% in the second quarter of 2000 from 10.8% in the second quarter of 1999.~~

~~Interest expense increased by $2.0 million from $5.7 million in second quarter 1999 to $7.7 million in 2000 due to higher average debt outstanding during the current period and higher average interest rates in 2000 versus 1999. For the quarter ended June 30, 2000, the Company averaged outstanding borrowings of $344.7 million as compared to $276.5 million outstanding for the quarter ended June 30, 1999. The $68.2 million increase in outstanding borrowings related to acquisitions in the preceding twelve months and to increases in working capital. The average interest rate of 8.96% for second quarter 2000 was 72 basis points higher than the average rate of 8.24% for 1999. This rate increase was due to both the $50 million add on in June 1999 to the Company's Senior Subordinated Notes at 9.25%, and to increased rates on the Company's revolving credit facility caused by Federal Reserve actions.~~

~~Before considering the tax effect of the divestiture of Kay Home Products, the effective income tax rate for the quarter ended June 30, 2000 was 41%, while for the quarter ended June 30, 1999 it was 43%. The decrease in tax rate results from the relative reduction of non-deductible goodwill for tax purposes and to a corresponding increase in research and experimental credits. The divestiture of Kay Home Products generated a book loss of $15.3 million, ($13.2 million net of tax). The effective income tax rate for the second quarter of 2000 was impacted by the $10.2 million of non-deductible goodwill associated with the business sold.~~

~~LIQUIDITY AND SOURCES OF CAPITAL~~

~~The Company's liquidity needs are primarily for working capital and capital expenditures. The Company's primary sources of liquidity have been funds provided by operations and funds available from existing bank credit arrangements and the sale of Senior Subordinated Notes. On November 1, 1999,~~

Park-Ohio amended its credit agreement with a group of banks under which it may borrow up to $175 million on an unsecured basis. The proceeds from the amended credit agreement, which expires on April 30, 2001, will be used for general corporate purposes. Amounts borrowed under the credit agreement may be borrowed at Park-Ohio's election at either (i) the bank's prime lending rate less 100 basis points to plus 20 basis points or (ii) LIBOR plus 90-220 basis points depending on the aggregate amount borrowed under the credit agreement. As of June 30, 2000, $133.0 million was outstanding under the facility. The Company's ability to

refinance or extend its borrowings under this facility will depend on a variety of factors, including the Company's operating performance and the outlook for the Company and its industry groups and the availability of credit for borrowers in the Company's industry groups and in the economy generally.

On June 3, 1999, the Company sold an additional $50 million of its 9.25% Senior Subordinated Notes due 2007 bringing the amount of Notes outstanding to $200 million. The Company used the net proceeds from the sale of the Notes ($49.5 million) to repay outstanding bank borrowings.

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. Capital expenditures for 2000 are projected to be approximately $15 million that will be used to invest in the Company's current facilities for projected new business, for scheduled improvements and new equipment to expand existing products.

The ratio of current assets to current liabilities was 2.93 at both June 30, 2000 and at December 31, 1999. Working capital increased by $3.7 million, to $212.5 million at June 30, 2000 from $208.8 million at December 31, 1999, to support the internal growth of the Company.

During the first six months of 2000, the Company generated $22.1 million from operations before changes in operating assets and liabilities. After giving effect to the use of $18.1 million in the operating accounts, the Company provided $4.0 million from operating activities compared to $7.0 million for the first half of 1999. During the first six months of 2000, the Company invested $9.6 million in capital expenditures, generated $9.2 million from the divestiture of Kay Home Products and used $.7 million for other purposes, primarily the purchase of treasury shares. The remaining cash provided, along with a decrease in cash of $2.5 million was used to reduce long-term debt, primarily bank borrowings, by $5.4 million.

SEASONALITY; VARIABILITY OF OPERATING RESULTS

As a result of the significant growth in our net sales and operating income in recent years, seasonal fluctuations have been mitigated. However, the Company's results of operations are typically stronger in the first six months rather than the last six months of each calendar year due to scheduled plant maintenance in the third quarter coinciding with customer plant shutdowns and to holidays in the fourth quarter.

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

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains certain statements that are "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Certain statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements, including without limitation, discussion regarding the Company's capital resources and anticipated levels of capital expenditures. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside our control, which could cause actual results to differ materially from such statements. These uncertainties and other factors include such things as: our ability to renegotiate or extend the existing credit facility, general business conditions, competitive factors, including pricing pressures and product innovation and quality; raw material availability and pricing; changes in our relationships 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 and tax rates; increasingly stringent domestic and foreign governmental regulations including those affecting the environment; inherent uncertainties involved in assessing our potential liability for environmental remediation-related activities; the outcome of pending and future litigation and other claims; dependence on

the automotive industry; dependence on key management; and dependence on information systems. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise. In light of these and other uncertainties, the inclusion of a forward-looking statement herein should not be regarded as a representation by us that our plans and objectives will be achieved.

REVIEW BY INDEPENDENT ACCOUNTANTS

The consolidated financial statements at June 30, 2000, and for the three-month and six-month periods ended June 30, 2000 and 1999, have been reviewed by Ernst & Young LLP, our independent accountants, and their report is included herein.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to market risk including changes in interest rates. The Company is subject to interest rate risk on its floating rate revolving credit facility which consisted of borrowings of $133.0 million at June 30, 2000. A 100 basis point increase in the interest rate would have resulted in an increase in interest expense of approximately $.7 million during the six months ended June 30, 2000.

PART II

OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its annual meeting of stockholders on May 4, 2000. The stockholders approved the election of three directors to serve until the annual meeting of stockholders in the year 2003. The votes cast for each nominee were as follows:

	FOR	WITHHELD
Matthew V. Crawford..	10,064,071	485,720
Lewis E. Hatch Jr..	10,070,882	478,909
Lawrence O. Selhorst.......................................	10,081,515	468,276

Directors whose term of office as a director continued after the annual meeting were: Edward F. Crawford, Kevin R. Greene, Thomas E. McGinty, Felix J. Tarorick and James W. Wert.

No other matters were submitted to a vote of the stockholders.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

The following exhibits are included herein:

(15) Letter re: unaudited financial information
(27) Financial data schedule (Electronic filing only)

The Company did not file any reports on Form 8-K during the three months ended June 30, 2000.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PARK-OHIO HOLDINGS CORP.

(Registrant)

By /s/ RICHARD PAUL ELLIOTT

Name: Richard Paul Elliott
Title: Vice President and Chief Financial Officer

Dated August 14, 2000

EXHIBIT INDEX

QUARTERLY REPORT ON FORM 10-Q

PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES
FOR THE QUARTER ENDED JUNE 30, 2000

EXHIBIT	
(15)	Letter re: unaudited financial information
(27)	Financial data schedule (Electronic filing only)

EX-15
2
ex15.txt
EXHIBIT 15

EXHIBIT (15) LETTER RE: UNAUDITED FINANCIAL INFORMATION

Board of Directors and Shareholders
Park-Ohio Holdings Corp.

We are aware of the incorporation by reference in the following Registration Statements of Park-Ohio Holdings Corp., for the registration of its common stock of our report dated July 19, 2000 relating to the unaudited consolidated interim financial statements of Park-Ohio Holdings Corp., which are included in its Form 10-Q for the quarter ended June 30, 2000.

REGISTRATION STATEMENT	DESCRIPTION	SHARES REGISTERED
Form S-8 (33-64420)	1992 Stock Option Plan	350,000
Form S-8 (33-01047)	Individual Account Retirement Plan	1,500,000
Form S-8 (333-28407)	Amended and Restated 1992 Stock Option Plan and 1996 Non-Employee Director Stock Option Plan	750,000
Form S-4 (333-46931)	Formation of PKOH Holding Corporation	11,000,000
Form S-8 (333-58161)	1998 Long-Term Incentive Plan	550,000

/s/ Ernst & Young LLP

Cleveland, Ohio
August 11, 2000

EX-27
3
ex27.txt
EXHIBIT 27

~~THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.~~

~~0000076282~~
~~PARK OHIO HOLDINGS CORP~~
~~1,000~~
~~U.S. DOLLARS~~

~~6-MOS~~
~~DEC-31-2000~~
~~JAN-01-2000~~
~~JUN-30-2000~~
~~1~~
~~3,325~~
~~0~~
~~122,492~~
~~3,300~~
~~185,321~~
~~322,891~~
~~206,754~~
~~87,712~~
~~621,271~~
~~110,363~~
~~334,504~~
~~0~~
~~0~~
~~11,210~~
~~138,560~~
~~621,271~~
~~410,899~~
~~410,899~~
~~337,329~~
~~337,329~~
~~0~~
~~0~~
~~15,225~~
~~591~~
~~4,298~~
~~(3,707)~~
~~0~~
~~0~~
~~0~~
~~(3,707)~~
~~(.35)~~
~~(.35)~~