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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 SEPTEMBER 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 October 31, 2000: 10,496,191.

The Exhibit Index is located on page 19.

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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) SEPTEMBER 30 2000	DECEMBER 31 1999
	(DOLLARS IN THOUSANDS)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 599	$ 5,867
Accounts receivable, less allowances for doubtful accounts of $3,519 at September 30, 2000 and $3,296 at December 31, 1999	120,025	112,896
Inventories	192,545	192,270
Deferred tax assets	600	600
Other current assets	15,738	5,250
Total Current Assets	329,507	316,883
Property, Plant and Equipment	214,812	211,093
Less accumulated depreciation	91,770	86,721
	123,042	124,372
Other Assets		
Excess purchase price over net assets acquired, net of accumulated amortization of $11,251 at September 30, 2000 and $11,941 at December 31, 1999	128,423	137,905
Deferred taxes	2,400	2,400
Other	57,627	48,321
	$640,999	$629,881
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Trade accounts payable	$ 71,271	$ 72,452
Accrued expenses	43,985	33,064
Current portion of long-term liabilities	2,444	2,557
Total Current Liabilities	117,700	108,073
Long-Term Liabilities, less current portion		
Long-term debt	343,324	339,813
Other postretirement benefits	24,393	25,470
Other	1,902	1,840
	369,619	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	56,135	55,684
Retained earnings	97,710	96,674
Treasury stock, at cost	(9,092)	(7,969)
Accumulated other comprehensive earnings (loss)	(1,776)	(852)
Unearned compensation -- restricted stock awards	(507)	-0-
	153,680	154,685
	$640,999	$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 INCOME (UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2000	1999	2000	1999
	(DOLLARS IN THOUSANDS -- EXCEPT PER SHARE DATA)			
Net sales	$170,923	$178,087	$581,822	$536,407
Cost of products sold	143,217	146,542	480,546	440,082
Gross profit	27,706	31,545	101,276	96,325
Selling, general and administrative expenses	16,747	18,108	59,183	56,255
Operating income	10,959	13,437	42,093	40,070
Interest expense	7,601	6,658	22,826	17,729
Loss on sale of Kay Home Products	-0-	-0-	15,318	-0-
Gain from fire insurance	(4,700)	-0-	(4,700)	-0-
Income before income taxes	8,058	6,779	8,649	22,341
Income taxes	3,260	2,903	7,558	9,581
Net income	$ 4,798	$ 3,876	$ 1,091	$ 12,760
Net income per common share:				
Basic	$ .46	$ .36	$ .10	$ 1.19
Diluted	$ .46	$ .36	$ .10	$ 1.17
Common shares used in the computation:				
Basic	10,456	10,664	10,511	10,723
Diluted	10,462	10,827	10,513	10,868

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)		$154,685
Issuance of restricted stock	62	500				(562)	-0-
Amortization of restricted stock			(55)			55	-0-
Comprehensive income:							
Net income			1,091				1,091
Foreign currency translation adjustment					(924)		(924)
Comprehensive income							167
Exercise of stock options		(49)		172			123
Purchase of treasury stock				(1,295)			(1,295)
Balance September 30, 2000	$11,210	$56,135	$97,710	$(9,092)	$(1,776)	$(507)	$153,680

See notes to consolidated financial statements.

PARK OHIO HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30	
	2000	1999
	(DOLLARS IN THOUSANDS)	
OPERATING ACTIVITIES		
Net income..	$ 1,091	$12,760
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization..........................	15,343	15,090
Loss on sale of Kay Home Products......................	15,318	-0-
Gain from fire insurance...............................	(4,700)	-0-
	27,052	27,850
Changes in operating assets and liabilities excluding acquisitions and divestitures of businesses:		
Accounts receivable....................................	(11,374)	(8,312)
Inventories and other current assets...................	(9,296)	(25,268)
Accounts payable and accrued expenses..................	5,645	12,660
Other..	(7,655)	(9,147)
Net Cash Provided (Used) by Operating Activities.....	4,372	(2,217)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment, net...........	(17,513)	(13,226)
Costs of acquisitions, net of cash acquired..............	(3,530)	(65,237)
Proceeds from sale of Kay Home Products..................	9,177	-0-
Other..	-0-	(445)
Net Cash (Used) by Investing Activities................	(11,866)	(78,908)
FINANCING ACTIVITIES		
Proceeds from bank arrangements..........................	23,000	88,500
Issuance of 9.25% Senior Subordinated Notes, net of deferred financing costs..............................	-0-	49,508
Payments on debt...	(19,602)	(56,267)
Purchase of treasury stock...............................	(1,295)	(3,021)
Issuance of common stock under stock option plan..........	123	259
Net Cash Provided by Financing Activities.............	2,226	78,979
(Decrease)in Cash and Cash Equivalents................	(5,268)	(2,146)
Cash and Cash Equivalents at Beginning of Period.......	5,867	4,320
Cash and Cash Equivalents at End of Period............	$ 599	$ 2,174

See notes to consolidated financial statements.

PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 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 nine month periods ended September 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.~~

~~During September 2000, the Company acquired IBM's Automation Connection and SiView Mate software product lines and related assets for cash of approximately $3.5 million. The transaction has been accounted for as a purchase and the results of operations prior to the date 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 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:~~

	SEPTEMBER 30 2000	DECEMBER 31 1999
~~In process and finished goods~~	~~$161,859~~	~~$160,648~~
~~Raw materials and supplies~~	~~30,686~~	~~31,622~~
	~~$192,545~~	~~$192,270~~

~~NOTE D -- SHAREHOLDERS' EQUITY~~

~~At September 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 10,496,191 shares were issued and outstanding.~~

~~NOTE E -- NET INCOME PER COMMON SHARE~~

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

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2000	1999	2000	1999
	(DOLLARS IN THOUSANDS -- EXCEPT PER SHARE DATA)			
NUMERATOR				
Net income	$4,798	$3,876	$1,091	$12,760
DENOMINATOR				
Denominator for basic earnings per share weighted average shares	10,456	10,664	10,511	10,723
Effect of dilutive securities:				
Employee stock options	6	163	2	145
Denominator for diluted earnings per share adjusted weighted average shares and assumed conversions	10,462	10,827	10,513	10,868
Net income per common share basic	$ .46	$ .36	$ .10	$ 1.19
Net income per common share diluted	$ .46	$ .36	$ .10	$ 1.17

NOTE F -- ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board's ("FASB") 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 No. 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 No. 133 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.

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 logistics provider 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, supply chain management solutions to major OEM's. 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 niche manufacturing businesses that design and manufacture a broad range of high quality products engineered for specific customer applications. Intersegment sales are immaterial.

Results by Business Segment were as follows:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2000	1999	2000	1999
	(DOLLARS IN THOUSANDS -- EXCEPT PER SHARE DATA)			
Net sales:				
ILS	$111,934	$112,710	$376,525	$328,245
Aluminum products	24,871	29,686	89,935	98,433
Manufactured products	34,118	35,691	115,362	109,729
	$170,923	$178,087	$581,822	$536,407
Income (loss) before income taxes:				
ILS	$ 10,025	$ 10,169	$ 35,740	$ 31,164
Aluminum products	(486)	1,860	4,790	8,975
Manufactured products	4,039	3,637	9,828	6,740
	13,578	15,666	50,358	46,879
Amortization of excess purchase price over net assets acquired	(894)	(1,018)	(2,875)	(2,726)
Corporate costs	(1,725)	(1,211)	(5,390)	(4,083)
Interest expense	(7,601)	(6,658)	(22,826)	(17,729)
Loss on the sale of Kay Home Products	-0-	-0-	(15,318)	-0-
Gain from fire insurance	4,700	-0-	4,700	-0-
	$ 8,058	$ 6,779	$ 8,649	$ 22,341

	SEPTEMBER 30, 2000	DECEMBER 31, 1999
Identifiable assets were as follows:		
ILS	$355,181	$343,522
Aluminum products	107,617	97,717
Manufactured products	159,060	170,267
General corporate	19,141	18,375
	$640,999	$629,881

NOTE H -- RECLASSIFICATIONS

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. 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 amount due from the insurance company for business interruption, property damage, and other related expenses has not been determined. The deductible portion of the loss was recorded during the quarter ended June 30, 2000. The Company has received a partial settlement from its insurance carrier for certain machinery and equipment and has recorded a gain of $4.7 million during the quarter ended September 30, 2000. The net book value of the other property damaged by the fire has been recorded as a receivable which is included in other current assets at September 30, 2000.

NOTE J -- COMPREHENSIVE EARNINGS

Total comprehensive earnings were as follows:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2000	1999	2000	1999
~~Net earnings..~~	~~$4,798~~	~~$3,876~~	~~$1,091~~	~~$12,760~~
~~Foreign currency translation..........................~~	~~(404)~~	~~339~~	~~(924)~~	~~588~~
~~Total comprehensive earnings..........................~~	~~$4,394~~	~~$4,215~~	~~$ 167~~	~~$13,348~~

~~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 September 30, 2000, and the related consolidated statements of income for the three-month and nine-month periods ended September 30, 2000 and 1999, the consolidated statement of shareholders' equity for the nine-month period ended September 30, 2000 and the consolidated statements of cash flows for the nine-month period ended September 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 is derived.~~

~~/s/ Ernst & Young LLP~~

~~Cleveland, Ohio~~
~~October 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 nine and three-month periods ended September 30, 2000 is not directly comparable on a period to period basis to the financial information for the nine and three-month periods ended September 30, 1999 due to a divestiture made subsequent to the third quarter of 1999 and a gain recognized relating to fire insurance. 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. In June 2000 one of the Company's manufacturing plants was destroyed in a fire. A $4.7 million pretax gain was recognized, which represented the difference between replacement cost and net book value of a portion of equipment destroyed at the time of the fire.~~

Reported diluted net income per share was $.46 for the quarter ended September 30, 2000 and $.10 for the nine months ended September 30, 2000. Excluding the loss from the sale of Kay Home Products, the Company would have reported net income per common share -- diluted of $.46 for the quarter ended September 30, 2000 and $1.36 for the nine months ended September 30, 2000.

OVERVIEW

The Company has three operating segments: Integrated Logistics Solutions ("ILS"), Aluminum Products, and Manufactured Products. ILS is a leading logistics provider 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 supply chain management solutions to major OEM's. 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. In addition, 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 logistics service contracts and by the leveraging of existing customer relationships in the Aluminum and Manufactured Products segments.

RESULTS OF OPERATIONS

Nine Months 2000 versus Nine Months 1999

Net sales increased by $45.4 million, or 8%, from $536.4 million for the first three quarters of 1999 to $581.8 million for the first three quarters of 2000. Of the $45.4 million in growth for the first nine months $34.0 million represented organic growth, $13.5 million was from acquisitions made in July 1999, while sales decreased by $2.1 million due to the divestiture of Kay Home Products. For ILS, net sales increased 15%, or $48.3 million, of which $34.8 million related to internal growth and the remainder to the acquisitions made in July 1999. For Aluminum Products, net sales decreased 9%, or $8.5 million. This decrease resulted from a $13.7 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 $5.2 million increased sales from internal growth. For Manufactured Products, net sales increased 5%, or $5.6 million, consisting of $7.7 million of internal growth (7%) less a sales decrease of $2.1 million due to the divestiture of Kay Home Products.

Gross profit increased by $5.0 million, or 5%, from $96.3 million for the first three quarters of 1999 to $101.3 million for the first three quarters of 2000. Of the increase in gross profit, $1.0 million was attributable to the organic increase in sales and $4.1 million to acquisitions offset by $.1 million due to the divestiture of Kay Home Products. However, the Company's consolidated gross margin decreased to 17.4% for the first nine months of 2000 from 18.0% for the first nine months of 1999. This decrease in consolidated gross margin was primarily due to decreased margins in Aluminum Products, 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 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. These more than offset the gross margin effects of a strike at one plant and the temporary shutdown of

~~another due to a fire, both of which occurred in the Manufactured Products segment.~~

~~Selling, general and administrative ("SG&A") expenses increased by 5% to $59.2 million for the first nine months of 2000 from $56.3 million for the first nine months of 1999. The increase was related to increased sales and acquisitions made in the second half of 1999, partially offset by the divestiture of the Kay Home Products. Kay Home Products, divested on June 30, 2000, incurred $.8 million of SG&A expenses in the third quarter of 1999. In the first three quarters of 2000, SG&A costs benefited from an increase in net pension credits of $2.2 million, reflecting favorable investment returns on pension plan assets. Consolidated SG&A expenses as a percentage of net sales decreased to 10.2% for the first nine months of 2000 from 10.5% for the first nine months of 1999.~~

~~Interest expense increased by $5.1 million from $17.7 million for the first nine months of 1999 to $22.8 million for the first nine months of 2000 due to higher average debt outstanding during the current period and by higher average interest rates in 2000 versus 1999. During the first nine months of 2000, the Company averaged outstanding borrowings of $343.1 million as compared to $284.0 million for the first nine months of 1999. The $59.1 million increase related to acquisitions in the preceding twelve months and to increases in working capital. The average interest rate of 8.87% for the nine months ended September 30, 2000 was 55 basis points higher than the average rate of 8.32% for 1999. This rate increase was due both to 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 primarily caused by Federal Reserve action.~~

~~Before considering the tax effect of the divestiture of Kay Home Products and the gain on fire insurance, the effective income tax rate for the nine month period ended September 30, 2000 was 41%, while for the nine months ended September 30, 1999 it was 43%. The decrease in tax rate resulted from creating a foreign sales corporation and to an increase in research and experimental credits. The divestiture of Kay Home Products generated a book loss of $15.3 million, reducing income taxes by $2.1 million due to the exclusion of goodwill for tax purposes. Income taxes of $1.9 million were provided for the $4.7 million pretax fire insurance gain. The Company's consolidated net income for the first nine months of 2000 was therefore $1.1 million on consolidated income before income taxes of $8.6 million.~~

~~Third Quarter 2000 versus Third Quarter 1999~~

~~Net sales decreased by $7.2 million, or 4%, from $178.1 million for the quarter ended September 30, 1999 to $170.9 million for the quarter ended September 30, 2000. Of the $7.2 million decrease for the quarter, $5.1 million represented organic decreases in sales primarily in Aluminum Products, and $2.1 million resulted from the divestiture of Kay Home Products. For ILS, net sales decreased 1%, or $.8 million, due to an approximate $7 million decrease in sales to the heavy truck market, mostly offset by growth in sales to other markets. For Aluminum Products, net sales decreased 16%, or $4.8 million, resulting from the~~

~~ending of sales contracts at Metalloy which were expected at the time of its purchase in 1999. For Manufactured Products, net sales decreased 4%, or $1.6 million, consisting of $.5 million internal growth less a sales decrease of $2.1 million due to the divestiture of Kay Home Products.~~

~~Gross profit decreased by $3.8 million, or 12%, from $31.5 million for the quarter ended September 30, 1999 to $27.7 million for the quarter ended September 30, 2000. Of the decrease in gross profit, $3.7 million represented organic decreases in all three segments and the remainder to the divestiture of Kay Home Products. The Company's consolidated gross margin decreased to 16.2% for the current period from 17.7% for the quarter ended September 30, 1999. Aluminum Products' gross margins declined due to decreased production volumes, which allocated fixed overhead over a smaller production base. Manufactured Products experienced increased margins compared to the year earlier period, resulting primarily from a shift in product mix. This more than offset the gross margin effects of a strike at one plant and the temporary shutdown of another due to a fire, both of which occurred in the Manufactured Products segment.~~

~~Selling, general and administrative ("SG&A") expenses decreased by 8% to $16.7 million for the quarter ended September 30, 2000 from $18.1 million for the quarter ended September 30, 1999. The decrease was related to decreased sales and the divestiture of Kay Home Products. Kay Home Products, divested on June 30, 2000, incurred $.8 million of SG&A expenses in the third quarter 1999. In third quarter 2000, SG&A expenses benefited from an increase in net pension credits of $.4 million, reflecting favorable investment returns on pension plan assets. Consolidated SG&A expenses as a percentage of net sales decreased to 9.8% in third quarter 2000 from 10.2% in third quarter of 1999.~~

Interest expense increased by $.9 million from $6.7 million in third quarter 1999 to $7.6 million in the same period 2000 due to higher average debt outstanding during the current period and higher average interest rates in 2000 versus 1999. For the quarter ended September 30, 2000, the Company averaged outstanding borrowings of $338.0 million as compared to $308.0 million outstanding for the quarter ended September 30, 1999. The $30.0 million increase related to acquisitions in the preceding twelve months and to increases in working capital. The average interest rate of 9.00% for third quarter 2000 was 35 basis points higher than the average rate of 8.65% in the same period of 1999. This rate increase was due to increased rates on the Company's revolving credit facility primarily caused by Federal Reserve action.

Before considering the tax effect of the gain on fire insurance, the effective income tax rate for the quarter ended September 30, 2000 was 41%, while for the quarter ended September 30, 1999 it was 43%. The decrease in tax rate results from creating a foreign sales corporation and an increase in research and experimental credits.

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 new 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 September 30, 2000, $142 million was outstanding under the facility. The Company is currently negotiating a new bank agreement. 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. Net cash outflow for capital expenditures in 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. In addition, approximately $7 million of capital expenditures will be incurred for machinery and equipment to replace those destroyed in the rubber plant fire, paid for from insurance proceeds. Further capital expenditures may be made in 2000 to replace the fire destroyed building and tooling, and will be funded from insurance proceeds.

The ratio of current assets to current liabilities was 2.80 at September 30, 2000 versus 2.93 at December 31, 1999. Working capital increased by $3.0 million, to $211.8 million at September 30, 2000 from $208.8 million at December 31, 1999, to support the internal growth of the Company.

During the first nine months of 2000, the Company generated $27.1 million from operations before changes in operating assets and liabilities. After giving effect to the use of $22.7 million in the operating accounts, the Company provided $4.4 million from operating activities compared to the use of $2.2 million for the first three quarters of 1999. During the first nine months of 2000, the Company invested $17.5 million in capital expenditures, including $5.6 for replacement of fire-destroyed equipment and tooling, generated $9.2 million from the divestiture of Kay Home Products, used $3.5 million for an acquisition and used $1.3 million for other purposes, primarily the purchase of treasury shares. The remaining cash used, along with a decrease in cash of $5.3 million was offset by an increase in long-term debt, primarily bank borrowings, by $3.4 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 to coincide 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; 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 the our plans and objectives will be achieved.

REVIEW BY INDEPENDENT ACCOUNTANTS

The consolidated financial statements at September 30, 2000, and for the three- and nine-month periods ended September 30, 2000 and 1999, have been reviewed, prior to filing, 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 $142 million at September 30, 2000. A 100 basis point increase in the interest rate would have resulted in an increase in interest expense of approximately $1.1 million during the nine months ended September 30, 2000.

PART II
OTHER INFORMATION

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

There were no matters submitted to a vote of security holders during the third quarter of 2000.

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 September 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 November 13, 2000~~

~~EXHIBIT INDEX~~
~~QUARTERLY REPORT ON FORM 10-Q~~
~~PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES~~
~~FOR THE QUARTER ENDED SEPTEMBER 30, 2000~~

EXHIBIT

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

~~EX-15~~
~~2~~
~~184514aex15.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 October 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 September 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~~
~~November 13, 2000~~

EX-27
3
184514aex27.txt
EXHIBIT 27

5

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

0000076282
PARK-OHIO HOLDINGS CORP.
1000
U.S. DOLLARS

9-MOS
DEC-31-2000
JAN-01-2000
SEP-30-2000
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599
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