

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

FORM 10-Q

(MARK ONE)

—
☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD
ENDED SEPTEMBER 30, 2001, 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 ☒ NO ☐

Number of shares outstanding of registrant's Common Stock, par value \$1.00 per
share, as of October 31, 2001: 10,496,191.

The Exhibit Index is located on page 20.

PARK OHIO HOLDINGS CORP. AND SUBSIDIARIES
INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Consolidated balance sheets September 30, 2001 and
December 31, 2000

Consolidated statements of operations Nine months and
three months ended September 30, 2001 and 2000

Consolidated statement of shareholders' equity Nine
months ended September 30, 2001

Consolidated statements of cash flows Nine months ended
September 30, 2001 and 2000

~~Notes to consolidated financial statements~~ ~~September 30,~~
~~2001~~
~~Independent accountants' review report~~
~~Item 2. Management's Discussion and Analysis of Financial Condition~~
~~and Results of Operations~~
~~Item 3. Quantitative and Qualitative Disclosures About Market Risk~~

~~PART II. OTHER INFORMATION~~

~~Item 4. Submission of Matters to a Vote of Security Holders~~
~~Item 6. Exhibits and Reports on Form 8-K~~

~~SIGNATURE~~

~~EXHIBIT INDEX~~

~~2~~

~~PART I~~

~~FINANCIAL INFORMATION~~

~~3~~

~~PARK OHIO HOLDINGS CORP. AND SUBSIDIARIES~~
~~CONSOLIDATED BALANCE SHEETS~~

(UNAUDITED)
 SEPTEMBER 30 DECEMBER 31
 2001 2000

(DOLLARS IN THOUSANDS)

ASSETS		
Current Assets		
Cash and cash equivalents.....	\$ 2,942	\$ 2,612
—Accounts receivable, less allowances for doubtful accounts —of \$2,961 at September 30, 2001 and \$3,292 at December 31, 2000.....	108,990	117,318
Inventories.....	177,881	189,023
Other current assets.....	12,155	13,191
Total Current Assets.....	301,968	322,144
Property, Plant and Equipment.....	244,468	234,463
—Less accumulated depreciation.....	113,350	101,757
	131,118	132,706
Other Assets		
—Excess purchase price over net assets acquired, net of —accumulated amortization of \$15,081 at September 30, 2001 and \$12,283 at December 31, 2000.....	132,724	133,612
Other.....	55,408	46,870
	\$621,218	\$635,332
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Trade accounts payable.....	\$ 58,052	\$ 76,041
Accrued expenses.....	30,703	28,831
Current portion of long term liabilities.....	2,528	3,904
Total Current Liabilities.....	91,283	108,776
Long Term Liabilities, less current portion		
Long term debt.....	351,540	343,248
Other postretirement benefits.....	23,127	24,487
Other.....	8,012	6,695
	382,679	374,430
Shareholders' Equity		
—Capital stock, par value \$1 a share:		
—Serial Preferred Stock.....	0	0
—Common Stock.....	11,210	11,210
—Additional paid in capital.....	56,135	56,135
—Retained earnings.....	93,258	97,192
—Treasury stock, at cost.....	(9,092)	(9,092)
—Accumulated other comprehensive income (loss).....	(3,934)	(2,858)
—Unearned compensation — restricted stock awards.....	(321)	(461)
	147,256	152,126
	\$621,218	\$635,332

Note: The balance sheet at December 31, 2000 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.

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2001	2000	2001	2000
(DOLLARS IN THOUSANDS -- EXCEPT PER SHARE DATA)				
Net sales.....	\$156,183	\$170,923	\$489,756	\$581,822
Cost of products sold.....	132,078	143,217	412,573	480,546
— Gross profit.....	24,105	27,706	77,183	101,276
Selling, general and administrative expenses.....	17,152	15,854	52,726	56,308
Amortization of goodwill.....	941	893	2,798	2,875
Restructuring and other non-recurring expenses.....	709	0	1,012	0
— Operating income.....	5,303	10,959	20,647	42,093
Interest expense.....	7,856	7,601	23,656	22,826
Non-operating items, net.....	0	(4,700)	1,850	10,618
— Income (loss) before income taxes.....	(2,553)	8,058	(4,859)	8,649
Income taxes (benefit).....	147	3,260	(925)	7,558
— Net income (loss).....	\$ (2,700)	\$ 4,798	\$ (3,934)	\$ 1,091
Net income (loss) per common share:				
— Basic.....	\$ (.26)	\$.46	\$ (.38)	\$.10
— Diluted.....	\$ (.26)	\$.46	\$ (.38)	\$.10
Common shares used in the computation:				
— Basic.....	10,434	10,456	10,434	10,511
— Diluted.....	10,434	10,462	10,434	10,513

See notes to consolidated financial statements.

5

PARK OHIO HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

	COMMON STOCK	PAID-IN CAPITAL	ADDITIONAL RETAINED EARNINGS	TREASURY STOCK	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	UNEARNED COMPENSATION	TOTAL
(DOLLARS IN THOUSANDS)							
Balance January 1, 2001.....	\$11,210	\$56,135	\$97,192	\$ (9,092)	\$ (2,858)	\$ (461)	\$152,126
Comprehensive income:							
— Net income (loss).....			(3,934)				(3,934)
— Foreign currency translation adjustment.....					(1,076)		(1,076)
— Comprehensive income (loss).....							(5,010)
Amortization of restricted							
— stock.....						140	140
Balance September 30, 2001.....	\$11,210	\$56,135	\$93,258	\$ (9,092)	\$ (3,934)	\$ (321)	\$147,256

See notes to consolidated financial statements.

6

PARK OHIO HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30	
	2001	2000
	(DOLLARS IN THOUSANDS)	
OPERATING ACTIVITIES		
Net income (loss).....	\$ (3,934)	\$ 1,091
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization.....	15,369	15,343
Loss on sale of Kay Home Products.....	0	15,318
Gain from fire insurance.....	0	(4,700)
	11,435	27,052
Changes in operating assets and liabilities excluding acquisitions of businesses:		
Accounts receivable.....	8,327	(11,374)
Inventories and other current assets.....	12,179	(9,296)
Accounts payable and accrued expenses.....	(16,117)	5,645
Other.....	(11,427)	(7,655)
Net Cash Provided by Operating Activities.....	4,397	4,372
INVESTING ACTIVITIES		
Purchases of property, plant and equipment, net.....	(10,983)	(17,513)
Costs of acquisitions, net of cash acquired.....	0	(3,530)
Proceeds from sale of Kay Home Products.....	0	9,177
Net Cash (Used) by Investing Activities.....	(10,983)	(11,866)
FINANCING ACTIVITIES		
Proceeds from bank arrangements.....	19,000	23,000
Payments on debt.....	(12,084)	(19,602)
Purchase of treasury stock.....	0	(1,295)
Issuance of common stock under stock option plan.....	0	123
Net Cash Provided by Financing Activities.....	6,916	2,226
Increase (Decrease) in Cash and Cash Equivalents.....	330	(5,268)
Cash and Cash Equivalents at Beginning of Period.....	2,612	5,867
Cash and Cash Equivalents at End of Period.....	\$ 2,942	\$ 599
Taxes paid (refunded).....	\$ (1,509)	\$ 1,601
Interest paid.....	\$ 17,705	\$ 17,367

See notes to consolidated financial statements.

7

PARK OHIO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2001

(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, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. 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, 2000. 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. Certain amounts have been reclassified to conform to current year presentation.

NOTE B — ACQUISITIONS AND DISPOSITION

On September 30, 2000, the Company acquired IBM's plant automation software product lines and related assets for cash of approximately \$3.9 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, which is included in non operating items, net in the consolidated statement of operations. Kay Home 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	DECEMBER 31
	2001	2000
	-----	-----
In process and finished goods.....	\$155,422	\$164,833
Raw materials and supplies.....	22,459	24,190
	-----	-----
	\$177,881	\$189,023
	=====	=====

NOTE D — SHAREHOLDERS' EQUITY

At September 30, 2001, 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.

PARK OHIO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

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 SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2001	2000	2001	2000
(DOLLARS IN THOUSANDS -- EXCEPT PER SHARE DATA)				
NUMERATOR				
Net income (loss).....	\$ (2,700)	\$ 4,798	\$ (3,934)	\$ 1,091
DENOMINATOR				
Denominator for basic earnings per share weighted				
average shares.....	10,434	10,456	10,434	10,511
Effect of dilutive securities:				
Employee stock awards.....	0	6	0	2
Denominator for diluted earnings per				
share-adjusted weighted average shares and				
assumed conversions.....	10,434	10,462	10,434	10,513
Net income (loss) per common share basic.....	\$ (.26)	\$.46	\$ (.38)	\$.10
Net income (loss) per common share diluted.....	\$ (.26)	\$.46	\$ (.38)	\$.10

NOTE F — ACCOUNTING PRONOUNCEMENTS

The Company adopted Financial Accounting Standards Board Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended, on January 1, 2001. Because the Company does not currently use derivatives, adoption of the new Statement did not impact earnings or the financial position of the Company.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("FAS 141"). FAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method, which is consistent with the Company's treatment of prior business combinations.

In June 2001, the FASB also issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). Under FAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed for impairment annually, or more frequently if impairment indicators arise. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The Company is required to adopt FAS 142 effective January 1, 2002, and finish evaluating potential impairment of existing goodwill by June 30, 2002. The Company is currently evaluating the effect that adoption of FAS 142 will have on its results of operations and financial position, including any potential for goodwill impairment. At September 30, 2001, the Company has \$132.7 million of goodwill, with annual amortization expense of approximately \$3.7 million.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"), which establishes a single accounting model to be used for long-lived assets, to be disposed of. The new rules supercede FAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Although retaining many of the fundamental recognition and measurement provisions of FAS 121, the new rules significantly change the criteria that would have to be met to classify an asset as held for sale. This distinction is important because assets to be disposed of are stated at the lower of their fair values or carrying amounts and depreciation is no longer recognized. The new rules also will supercede the provisions of APB Opinion 30 with

9

PARK OHIO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

regard to reporting the effects of a disposal of a segment of a business. FAS 144 will also require the expected future operating losses from discontinued operations to be displayed in discontinued operations in the periods in which the losses are incurred rather than as of the measurement date as presently required by APB 30. In addition, more dispositions will qualify for discontinued operations treatment in the income statement. FAS 144 is effective for fiscal years beginning after December 15, 2001. The Company is currently evaluating the effect that adoption of this standard will have on the Company's financial

position, results of operations or cash flows.

NOTE G — SEGMENTS

The Company operates through three 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 services. 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	
	2001	2000	2001	2000
(DOLLARS IN THOUSANDS)				
Net sales:				
ILS.....	\$ 97,817	\$111,934	\$324,137	\$376,525
Aluminum products.....	20,545	24,871	62,503	89,935
Manufactured products.....	37,821	34,118	103,116	115,362
	\$156,183	\$170,923	\$489,756	\$581,822
Income (loss) before income taxes:				
ILS.....	\$ 5,303	\$ 9,351	\$ 21,649	\$ 33,900
Aluminum products.....	(773)	(670)	(1,908)	4,236
Manufactured products.....	2,485	4,002	5,567	9,346
	7,015	12,683	25,308	47,482
Corporate costs.....	(1,712)	(1,724)	(4,661)	(5,389)
Interest expense.....	(7,856)	(7,601)	(23,656)	(22,826)
Non recurring items, net.....	0	4,700	(1,850)	(10,618)
	\$ (2,553)	\$ 8,058	\$ (4,859)	\$ 8,649

NOTE H — OPTION OFFER PROGRAM

The Company completed a program ("the Option Offer Program") whereby all outstanding options (1,089,500 at May 29, 2001) to purchase shares of Company common stock held by Company employees and directors were tendered to the Company and cancelled. The Company intends to grant new options on a one for one basis in December 2001 under the Company's 1998 Long Term Incentive Plan at an exercise price equal to the market price on the date of grant.

PARK OHIO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

NOTE I — COMPREHENSIVE INCOME (LOSS)

Total comprehensive income (loss) was as follows:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2001	2000	2001	2000
(DOLLARS IN THOUSANDS)				
Net income (loss).....	\$ (2,700)	\$4,798	\$ (3,934)	\$1,091
Foreign currency translation gain (loss).....	163	(404)	(1,076)	(924)
Total comprehensive income (loss).....	\$ (2,537)	\$4,394	\$ (5,010)	\$ 167

NOTE J — RESTRUCTURING AND OTHER NON-RECURRING EXPENSES

During 2001, the Company closed several ILS distribution centers and a manufacturing plant, began restructuring its Rubber Group manufacturing activities in the aftermath of the fire that destroyed the Cicero Rubber plant, and closed a manufacturing facility in its Aluminum Products Group. As a result of these actions, the Company reduced employee headcount by 311, incurring severance costs of \$.5 million and incurred \$.5 million related to the closing of facilities. Of these amounts, \$.7 million was incurred in the third quarter. All amounts incurred have been paid as of September 30, 2001. The Company continues to evaluate additional restructuring and cost reductions.

NOTE K — NON-OPERATING ITEMS, NET

In June 2000, the Company's Cicero Flexible Products plant was destroyed in a fire. In the third quarter of 2000, the Company received a partial settlement from its insurance carrier, primarily reflecting the replacement cost of fixed assets, and recognized a net gain of \$4.7 million. In the nine months ended September 30, 2001, the Company expensed \$1.9 million of non-recurring business interruption costs, which were not covered by insurance.

In June 2000, the Company completed the sale of substantially all of the assets of Kay Home Products and recorded a pretax loss of approximately \$15.3 million.

NOTE L — INCOME TAXES

Despite a loss before income taxes of \$2.6 million, the Company recorded a \$.1 million tax provision as a result of the change in the estimated income tax rate for 2001 from 46% to 19%. This change, which reduced the third quarter income tax benefit by \$.6 million, resulted from the tax rate impact of permanent tax items such as goodwill amortization given the pretax loss during the first nine months of 2001.

NOTE M — FINANCING ARRANGEMENTS

The Company is a party to a credit agreement dated December 21, 2000 (as amended) with a group of banks, under which it may borrow or issue standby letters of credit and commercial letters of credit up to \$180 million. Interest is payable quarterly at either the banks' prime lending rate plus 0.5% 1.5% or at the Company's election at LIBOR plus 2.75% 3.50%. The Company's ability to elect LIBOR-based interest and the interest rate are dependent on the Company's ratio of senior funded indebtedness to pro forma earnings before interest, taxes, depreciation and amortization ("EBITDA"), as defined in the credit agreement and adjusted every quarter. The revolving credit is secured by substantially all of the Company's assets.

11

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors and Shareholders
Park Ohio Holdings Corp.

We have reviewed the accompanying consolidated balance sheet (unaudited) of Park Ohio Holdings Corp. and subsidiaries as of September 30, 2001, and the related consolidated statements of operations (unaudited) for the three month and nine month periods ended September 30, 2001 and 2000, the consolidated statement of shareholders' equity (unaudited) for the nine month period ended September 30, 2001 and the consolidated statements of cash flows (unaudited) for the nine month periods ended September 30, 2001 and 2000. These financial statements are the responsibility of the Company's management.

We conducted our review 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, 2000 and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended, not presented herein, and in our report dated March 26, 2001, 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, 2000, 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
November 12, 2001

12

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

~~The financial information for the nine and three month periods ended September 30, 2001 is not directly comparable to the financial information for the nine and three month periods ended September 30, 2000 due to a divestiture, business interruption expenses relating to a fire at one of the Company's rubber plants, and restructuring and other non-recurring expenses. On June 30, 2000, the Company sold substantially all the assets of Kay Home Products, for cash of approximately \$9.2 million, recognizing a non-operating loss of \$15.3 million. In June 2000, the Company's Cicero Flexible Products plant was destroyed in a fire. In the third quarter of 2000, the company received interim insurance payments, primarily reflecting the replacement cost of fixed assets, and recognized a net gain of \$4.7 million. In the first and second quarters of 2001, the Company expensed \$950 thousand and \$900 thousand respectively, of non-recurring business interruption costs which were not covered by insurance. In 2001, the Company closed nine logistics warehouses and two manufacturing plants, incurring restructuring and other non-recurring expenses of \$1.0 million (\$0.7 million in the third quarter of 2001).~~

~~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 services to major OEM's. The principal customers of ILS are in the heavy duty truck, vehicle parts and accessories, industrial equipment, electrical controls, HVAC, appliances and motors, 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, oil and aerospace industries.~~

~~Between 1993 and 2000, the Company grew significantly, both internally and through acquisitions. Over this period, the Company's net sales increased at a 35% compounded annual growth rate ("CAGR"), from \$94.5 million to \$754.7 million, and income from continuing operations on a fully taxed basis, excluding the 2000 effects of the sale of Kay Home Products and fire insurance gains, increased at a 23% CAGR from \$2.4 million to \$10.1 million.~~

~~The Company's sales volumes and profitability began to decline in third quarter 2000 and have continued through the current quarter. This volume drop is directly linked to overall weakness in the manufacturing economy, and particularly to contraction in the Heavy Truck and Automotive industries. As a result, net sales declined by \$92.0 million in the first nine months of 2001 to \$409.8 million, and the Company incurred a net loss of \$3.9 million (\$1.6 million excluding the after tax impact of the non-recurring charges discussed above). The Company expects this trend in sales and earnings to continue in fourth quarter 2001. Despite these sales declines, the Company believes it has retained or gained market share in most major markets served.~~

~~The Company responded to this downturn by reducing costs and taking targeted actions to increase specific prices and exit low margin products. These actions have partially offset the decline in gross margins caused by the absorption of fixed overheads over a reduced sales base. The Company has also begun to restructure several of its businesses, including the closure of two manufacturing plants and nine logistics warehouses. In the three months ended September 30, 2001, the Company recognized restructuring and other non-recurring expenses of \$0.7 million, with \$0.2 million occurring in ILS, \$0.1 million in~~

Aluminum Products and \$4 million in Manufactured Products. The Company continues to evaluate additional restructuring and cost reductions. Management's actions are intended to position the Company for profitability when the manufacturing economy stabilizes and returns to growth.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("FAS 142"). Under FAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed for impairment annually, or more frequently if impairment indicators arise. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The Company is required to adopt FAS 142 effective January 1, 2002, and finish evaluating potential impairment of existing goodwill by June 30, 2002. There may be a charge to earnings if goodwill has been impaired. The Company is currently evaluating the effect that adoption of FAS 142 will have on its results of operations and financial position, including any potential goodwill impairment.

RESULTS OF OPERATIONS

Nine Months 2001 versus Nine Months 2000

Net sales declined by \$92.0 million, or 16%, from \$581.8 million for the first nine months of 2000 to \$489.8 million for the first nine months of 2001. Organic sales declined 14%, or \$79.3 million, while sales decreased by \$12.8 million due to the divestiture of Kay Home Products. ILS net sales declined 14%, or \$52.4 million, due primarily to shrinkage in heavy truck and other customer industries. Aluminum Products net sales declined 31%, or \$27.4 million. This included an \$11.3 million decrease relating to the ending of sales contracts at Metalloy which were expected at the time of its purchase in 1999, and \$3.6 million relating to the Company's decision to discontinue production of low volume non-automotive products, while the remainder, \$12.5 million, resulted from reductions in production releases from automotive customers. Manufactured Products net sales decreased 11%, or \$12.3 million, consisting of a \$5 million increase in organic sales offset by the divestiture of \$12.8 million sales.

Gross profit declined by \$24.1 million, or 24%, from \$101.3 million for the first three quarters of 2000 to \$77.2 million for the first three quarters of 2001. Of this decline, \$10.9 million was attributable to the organic sales decreases and the remainder to the divestiture. The Company's consolidated gross margin decreased to 15.8% for the first nine months of 2001 from 17.4% for the first nine months of 2000, due to decreased margins in all three segments. The decline in ILS gross margin related to reduced volumes resulting in the absorption of fixed operational overheads over a smaller sales base. For Aluminum Products, the decrease in gross margins related to the absorption of fixed manufacturing overhead over a smaller production base. The decrease in margins in the Manufactured Products segment resulted primarily from the divestiture of Kay Home Products with its high first half gross margin, and secondarily from decreased production levels which absorbed fixed overhead costs over a smaller production base.

Selling, general and administrative expenses and amortization of goodwill ("SG&A") decreased by 6%, or \$3.7 million, to \$55.5 million for the first nine months of 2001 from \$59.2 million for the first nine months of 2000. SG&A expenses were reduced by \$5.1 million in response to declining sales from continuing operations and \$2.0 million by the divestiture of Kay Home Products, partially offset by the addition of \$2.7 million of SG&A in acquired businesses and a decline in net pension credits of \$.7 million. SG&A expenses as a percentage of net sales were 11.3% for the first nine months of 2001 compared to 10.2% for the first nine months of 2000.

Interest expense increased by \$.9 million from \$22.8 million in the first nine months of 2000 to \$23.7 million in the first nine months of 2001 due to higher average debt outstanding during the current period. During the first nine months of 2001, the Company averaged outstanding borrowings of \$356.8 million as compared to \$342.8 million for the corresponding period of the prior year. The \$14.0 million increase related primarily to increases in working capital. The average interest rate of 8.84% for the nine months ended September 30, 2001 was 4 basis points lower than the average rate of 8.88% for the first nine months of 2000, primarily due to decreased rates on the Company's revolving credit facility.

The effective income tax rate for the nine month period ended September 30, 2001 was 19%, compared to 41% for the nine month period ended September 30, 2000, before considering the tax effect of the divestiture of Kay Home Products. This decrease resulted from the tax rate impact of permanent tax items

such as goodwill amortization given the pretax loss during the first nine months of 2001 as compared to the pretax profit in the first nine months of 2000.

Third Quarter 2001 versus Third Quarter 2000

Net sales decreased by \$14.7 million, or 9%, from \$170.9 million for the quarter ended September 30, 2000 to \$156.2 million for the quarter ended September 30, 2001. ILS net sales decreased 13%, or \$14.1 million, due primarily to shrinkage in customer industries. Aluminum Products net sales declined 17%, or \$4.3 million. This included a \$1.4 million decrease relating to the ending of sales contracts at Metalloy which were expected at the time of its purchase in 1999, and \$.8 million relating to the Company's decision to discontinue production of low volume, non-automotive products, while the remainder, \$2.1 million, resulted from reductions in production releases from automotive customers. Manufactured Products net sales increased by \$3.7 million, or 11%, primarily related to increases in sales of capital equipment.

Gross profit declined by \$3.6 million, or 13%, from \$27.7 million for the third quarter ended September 30, 2000 to \$24.1 million for the quarter ended September 30, 2001. The Company's consolidated gross margin decreased to 15.4% for the current quarter from 16.2% for the third quarter 2000. Declines in gross margin in both the ILS and Manufactured Products segments related to reduced volumes resulting in the absorption of fixed operational and manufacturing overheads over a smaller sales base. Gross margin increased in the third quarter in the Aluminum Products segment as the benefit of cost reductions and start of production of higher margin new contracts was partially offset by the margin impact of continued volume declines.

Selling, general and administrative expenses and amortization of goodwill ("SG&A") increased by 8%, or \$1.4 million, to \$18.1 million for the quarter ended September 30, 2001 from \$16.7 million for quarter ended September 30, 2000. This increase primarily results from the addition of \$.9 million of SG&A in acquired businesses and a decline in net pension credits of \$.3 million. Consolidated SG&A expenses as a percentage of net sales were 11.5% in third quarter 2001 as compared to 9.8% in the same period of 2000.

Interest expense increased by \$.3 million from \$7.6 million in third quarter 2000 to \$7.9 million in 2001 primarily due to higher average debt outstanding during the current period. During the third quarter of 2001, the Company averaged outstanding borrowings of \$356.3 million as compared to \$338.0 million for the corresponding period of the prior year. The \$18.3 million increase related primarily to increases in working capital. The average interest rate of 8.82% for third quarter 2001 was 18 basis points lower than the average rate of 9.00% for the corresponding period of 2000, primarily due to decreased rates on the Company's revolving credit facility.

Despite a loss before income taxes of \$2.6 million, the Company recorded a \$.1 million tax provision as a result of the change in the estimated income tax rate for 2001 from 46% to 19%. This change, which reduced the third quarter income tax benefit by \$.6 million, resulted from the tax rate impact of permanent tax items such as goodwill amortization given the pretax loss during the first nine months of 2001.

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 an existing bank credit agreement and the sale of Senior Subordinated Notes. The Company is a party to a credit agreement dated December 21, 2000 (as amended) with a group of banks under which it may borrow up to \$180 million secured by substantially all of the assets of the Company. The proceeds from the credit agreement, which expires on December 31, 2003, will be used for general corporate purposes. Amounts are borrowed under the credit agreement, at the Company's election, at either (i) the bank's prime lending rate plus 50-150 basis points or (ii) LIBOR plus 275-350 basis points. The Company's ability to elect LIBOR based interest and the interest rate are dependent on the Company's ratio of senior funded indebtedness to pro forma EBITDA, as defined. As of September 30, 2001, \$145.0 million was outstanding under the facility, a decrease of \$9.0 million from the balance outstanding at June 30, 2001.

Current financial resources (working capital and available bank borrowing arrangements) and anticipated funds from operations are expected to be adequate to meet current cash requirements. The availability of bank borrowings is based on the company's ability to meet various financial covenants, which could be materially impacted if negative economic trends continue.

The ratio of current assets to current liabilities was 3.31 at September

30, 2001 versus 2.96 at December 31, 2000. Working capital decreased by \$2.7 million, to \$210.7 million at September 30, 2001 from \$213.4 million at December 31, 2000.

During the first nine months of 2001, the Company generated \$11.4 million from operations before changes in operating assets and liabilities. After giving effect to the use of \$7.0 million in the operating accounts, the Company generated \$4.4 million from operating activities, the same cash as generated in the first nine months of 2000. During the first nine months of 2001, the Company invested \$11.0 million in capital expenditures, including \$2.0 million for replacement of fire-destroyed equipment and tooling. The remaining cash used, along with an increase in cash of \$.3 million, was offset by an increase in borrowings of \$6.9 million.

SEASONALITY, VARIABILITY OF OPERATING RESULTS

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 anticipated amounts of restructuring charges, credit availability and trends for the fourth quarter. 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: general business conditions, competitive factors, including pricing pressures and product innovation; raw material availability and pricing; changes in the Company's relationships with customers and suppliers; the ability of the Company to successfully integrate recent and future acquisitions into its existing operations; changes in general domestic economic conditions such as inflation rates, interest rates, tax rates and adverse impacts to the Company, its suppliers and customers from acts of terrorism or hostilities; the ability of the Company to meet various covenants, including financial covenants, contained in its credit agreement and the indenture governing the Senior Subordinated Notes; increasingly stringent domestic and foreign governmental regulations including those affecting the environment; inherent uncertainties involved in assessing our potential liability for environmental remediation related activities; the outcome of pending and future litigation and other claims; dependence on the automotive and heavy truck industries; 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.

16

REVIEW BY INDEPENDENT ACCOUNTANTS

The consolidated financial statements at September 30, 2001, and for the three month and nine month periods ended September 30, 2001 and 2000, have been reviewed by Ernst & Young LLP, 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 \$145.0 million at September 30, 2001. 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, 2001.

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 2001.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

The following exhibits are included herein:

(15) Letter re: unaudited financial information

The Company did not file any reports on Form 8-K during the three months ended September 30, 2001.

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 P. ELLIOTT

Name: Richard P. Elliott
Title: Vice President and Chief
Financial Officer (Principal
Accounting and Financial
Officer)

Dated November 14, 2001

EXHIBIT INDEX

QUARTERLY REPORT ON FORM 10-Q

PARK OHIO HOLDINGS CORP. AND SUBSIDIARIES
FOR THE QUARTER ENDED SEPTEMBER 30, 2001

EXHIBIT

- - - - -

(15) Letter re: unaudited financial information

EX-15
3
190950cex15.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 November 12, 2001 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, 2001.~~

REGISTRATION STATEMENT	DESCRIPTION	SHARE REGISTERED
-----	-----	-----
Form S-8 (33-01047)	Individual Account Retirement Plan	1,500,000
Form S-8 (333-58161)	1998 Long-Term Incentive Plan	550,000

~~-----~~ /s/ Ernst & Young LLP
~~Cleveland, Ohio~~
~~November 13, 2001~~