

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended
June 30, 1996

Commission File No. 0-3134

PARK-OHIO INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

OHIO
(State or other jurisdiction of
incorporation or organization)34-6520107
(I.R.S. Employer
Identification No.)23000 EUCLID AVENUE
CLEVELAND, OHIO44117
(Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including
area code

216/692-7200

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, 1996: 10,970,331 including 562,500 shares held in escrow.

The Exhibit Index is located on page 16.

PARK-OHIO INDUSTRIES, INC. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Consolidated condensed balance sheets - June 30, 1996 and
December 31, 1995Consolidated condensed statements of income - Six months and
three months ended June 30, 1996 and 1995Consolidated condensed statements of cash flows - Six months
ended June 30, 1996 and 1995

Independent accountants' review report

Item 2. Management's Discussion

PART II. OTHER INFORMATION

- - - - -

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

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

SIGNATURE

- - - - -

EXHIBIT INDEX

3 2

PART I

- - - - -

FINANCIAL INFORMATION

- - - - -

4 3

CONSOLIDATED CONDENSED BALANCE SHEETS
PARK-OHIO INDUSTRIES, INC. AND SUBSIDIARIES

	(Unaudited) June 30 1996	December 31 1995
	-----	-----
	(In Thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,512	\$ 2,662
Accounts receivable, less allowances for doubtful accounts of \$1,085,000 at June 30, 1996 and \$787,000 at December 31, 1995	65,472	55,121
Inventories	76,801	80,702
Deferred taxes	8,000	8,000
Other current assets	3,749	3,935
	-----	-----
Total Current Assets	155,534	150,420
Property, Plant and Equipment	100,499	94,117
Less accumulated depreciation	52,963	49,691
	-----	-----
	47,536	44,426
Excess Purchase Price Over Net Assets Acquired, net	41,208	41,991
Net Assets Of Discontinued Operations	32,905	33,694
Deferred Taxes	11,400	15,400
Other Assets	18,195	15,816
	-----	-----
	\$ 306,778	\$ 301,747
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Trade accounts payable	\$ 21,966	\$ 30,859
Accrued expenses	16,620	17,013
Current portion of long-term liabilities	6,967	5,829
	-----	-----
Total Current Liabilities	45,553	53,701
Long-Term Liabilities, less current portion		
Long-term debt	99,045	92,450
Other postretirement benefits	29,156	30,562
Other	6,823	6,845
	-----	-----
	135,024	129,857

Convertible Senior Subordinated Debentures	22,235	22,235
Shareholders' Equity		
Capital stock, par value \$1 a share:		
Serial Preferred Stock	-0-	-0-
Common Stock	10,408	10,402
Additional paid-in capital	49,233	49,184
Retained earnings	44,325	36,368
	-----	-----
	103,966	95,954
	-----	-----
	\$ 306,778	\$ 301,747
	=====	=====

Note: The balance sheet at December 31, 1995 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. Certain amounts have been reclassified for comparative purposes.

See notes to consolidated condensed financial statements.

4

5

CONSOLIDATED CONDENSED STATEMENTS OF INCOME (UNAUDITED)
PARK-OHIO INDUSTRIES, INC. AND SUBSIDIARIES
(In Thousands - Except Per Share Data)

	Three Months Ended June 30		Six Months Ended June 30	
	1996	1995	1996	1995
	-----	-----	-----	-----
Net sales	\$90,693	\$88,311	\$181,547	\$130,642
Cost of products sold	75,262	73,364	150,587	107,488
	-----	-----	-----	-----
Gross profit	15,431	14,947	30,960	23,154
Selling, general and administrative expenses	9,360	8,867	18,832	13,722
	-----	-----	-----	-----
Operating income	6,071	6,080	12,128	9,432
Interest expense	1,959	1,668	3,851	2,274
	-----	-----	-----	-----
Income from continuing operations before income taxes	4,112	4,412	8,277	7,158
Income taxes	1,562	191	3,145	241
	-----	---	-----	---
Income from continuing operations	2,550	4,221	5,132	6,917
Income from discontinued operations, net of tax in 1996	1,326	600	2,825	1,644
	-----	---	-----	---
Net Income	\$3,876	\$4,821	\$7,957	\$8,561
	=====	=====	=====	=====
Per common share:				
Continuing operations	\$.23	\$.39	\$.46	\$.71
Discontinued operations	.12	.06	.26	.17
	---	---	---	---
Net income	\$.35	\$.45	\$.72	\$.88
	=====	=====	=====	=====
Common shares used in the computation	11,112	10,734	11,002	9,710
	=====	=====	=====	=====

See notes to consolidated condensed financial statements.

6

5

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
PARK-OHIO INDUSTRIES, INC. AND SUBSIDIARIES
(In Thousands)

	Six Months Ended June 30	
	1996	1995
OPERATING ACTIVITIES		
Net income	\$ 7,957	\$ 8,561
Adjustments to reconcile net income to net cash provided (used) by continuing operations:		
Discontinued operations	(2,825)	(1,644)
Depreciation and amortization	4,271	3,033
Deferred taxes	4,000	-0-
	13,403	9,950
Changes in operating assets and liabilities of continuing operations excluding acquisitions of businesses:		
Accounts receivable	(10,351)	(9,121)
Inventories and other current assets	4,087	(5,464)
Accounts payable and accrued expenses	(9,286)	865
Other	(4,025)	(1,917)
Net Cash Used by Continuing Operations	(6,172)	(5,687)
Net Cash Provided by Discontinued Operations	3,432	524
Net Cash Used by Operations	(2,740)	(5,163)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment, net	(6,199)	(6,446)
Cost of acquisitions, net of cash acquired	-0-	(33,394)
Net Cash Used by Investing Activities	(6,199)	(39,840)
FINANCING ACTIVITIES		
Proceeds from bank arrangements for acquisitions	-0-	33,894
Proceeds from bank arrangements for operations	9,500	11,160
Payments on bank borrowing	(1,766)	(82)
Issuance of common stock under stock option plan	55	-0-
Net Cash Provided from Financing Activities	7,789	44,972
Increase (Decrease) in Cash and Cash Equivalents	(1,150)	(31)
Cash and Cash Equivalents at Beginning of Period	2,662	2,172
Cash and Cash Equivalents at End of Period	\$ 1,512	\$ 2,141

See notes to consolidated condensed financial statements.

7

6

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed 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 and six-month periods ended June 30, 1996 are not necessarily indicative of the results that may be expected for the year ending December 31, 1996. 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, 1995. Certain amounts for the prior periods have been reclassified for comparative purposes.

NOTE B - ACQUISITION OF RB&W CORPORATION

On March 31, 1995, the Company acquired all of the shares of RB&W Corporation ("RB&W") in exchange for 2,023,000 shares of the Company's common stock (\$11.50 market value as of March 31, 1995) and cash of \$30,968,000. The transaction has been accounted for as a purchase.

The table below reflects the fair value of the net assets acquired of RB&W:

	(In thousands)
Cash	\$ 510
Accounts receivable	29,551
Inventories	36,131
Property, plant and equipment	5,591
Excess purchase price over net assets acquired	25,596
Deferred tax assets	13,300
Other assets	12,620
Notes payable	(28,739)
Trade accounts payable	(21,524)
Accrued expenses	(9,172)
Long-term liabilities	(9,622)

Total Cost of Acquisition	<u>\$54,242</u>

The following unaudited pro forma results of continuing operations assume the acquisition occurred on January 1, 1995. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of continuing operations which actually would have resulted had the acquisition occurred on the date indicated.

	Six Months Ended June 30, 1995

	(In thousands-Except per share data)
Net sales	\$177,674
Gross profit	27,774
Income from continuing operations	5,901
Income from continuing operations per common share	\$.55

NOTE C - INVENTORIES

The components of inventory consist of the following:

June 30 1996	December 31 1995
-----	-----
(In thousands)	

In process and finished goods
Raw materials and supplies

\$	55,324	\$	58,215
	21,477		22,487
\$	76,801	\$	80,702

NOTE D - INCOME TAXES

Effective December 31, 1995, the Company recorded the deferred tax assets relating to anticipated future income tax benefits from utilization of net operating loss carryforwards. As a result, as of January 1, 1996, the Company began to fully provide for Federal income taxes. Income tax expense from continuing operations for the three and six-months periods ended June 30, 1995 was reduced by \$1,500,000 and \$2,500,000, respectively due to the utilization of net operating loss carryforwards.

NOTE E - SHAREHOLDERS' EQUITY

Capital stock consists of the following:

Serial Preferred Stock:

Authorized - 632,470 shares; none issued

Common Stock:

Authorized - 20,000,000 shares

Issued and outstanding - 10,407,831 shares at June 30, 1996 and 10,401,831 at December 31, 1995. The increase in outstanding shares results from the issuance of 6,000 common shares upon the exercise of stock options.

NOTE F - NET INCOME PER COMMON SHARE

Net income per common share is based on the average number of common shares outstanding and assumes the exercise of outstanding dilutive stock options and the issuance of certain additional shares subject to earn-out provisions. On a fully diluted basis, both net income and common shares outstanding are adjusted to assume the conversion of the convertible senior subordinated debentures. Fully diluted earnings per share were as follows for the three and six-month periods ended June 30, 1996 and June 30, 1995, respectively.

	Three Months Ended June 30		Six Months Ended June 30	
	1996	1995	1996	1995
Continuing operations	\$.23	\$.39	\$.46	\$.71
Discontinued operations	.11	.05	.23	.15
Net Income	<u>\$.34</u>	<u>\$.44</u>	<u>\$.69</u>	<u>\$.86</u>
Common shares used in the computation	<u>12,263</u>	<u>11,885</u>	<u>12,243</u>	<u>10,861</u>

NOTE G - SUBSEQUENT EVENT

On July 31, 1996, the Company completed the sale of substantially all of the assets of Bennett Industries, Inc. ("Bennett"), a wholly-owned subsidiary which manufactures plastic containers, to North American Packaging Corporation, an indirect wholly-owned subsidiary of Southcorp Holdings Limited, an Australian company, for approximately \$50 million in cash, resulting in a pretax gain of approximately \$14 million to be recognized in the third quarter of 1996. The results of operations and changes in cash flows for Bennett have been classified as discontinued operations for all periods presented in the related Consolidated Condensed Statements of Income and the Consolidated Condensed Statements of Cash Flows, respectively. Interest expense has been allocated to discontinued operations based on the ratio of net assets discontinued to the total net assets of the consolidated entity plus consolidated debt. The assets and liabilities of Bennett have been classified in the Consolidated Condensed Balance Sheets as Net Assets of Discontinued Operations. The Company now operates in two industry segments: manufactured products and logistics.

Summary operating results of the discontinued operations for the three and six-month periods ended June 30, 1996 were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	1996	1995	1996	1995
Sales	\$21,733	\$21,109	\$41,551	\$41,588
Costs and Expenses	19,619	20,509	37,021	39,944
Income from discontinued operations before income taxes	2,114	600	4,530	1,644
Income taxes	788	-0-	1,705	-0-
Net income from discontinued operations	\$ 1,326	\$ 600	\$ 2,825	\$ 1,644

Independent Accountants' Review Report

Board of Directors and Shareholders
Park-Ohio Industries, Inc.

We have reviewed the accompanying consolidated condensed balance sheet of Park-Ohio Industries, Inc. and subsidiaries as of June 30, 1996, and the related consolidated condensed statements of income for the three-month and six-month periods ended June 30, 1996 and 1995, and the consolidated condensed statements of cash flows for the six-month periods ended June 30, 1996 and 1995. 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 generally accepted auditing standards, 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 on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated condensed financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of Park-Ohio Industries, Inc. and subsidiaries as of December 31, 1995, 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, 1996, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated condensed balance sheet as of December 31, 1995, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

July 19, 1996
Cleveland, Ohio

MANAGEMENT'S DISCUSSION

RESULTS OF OPERATIONS

FIRST HALF 1996 VERSUS FIRST HALF 1995

On July 31, 1996, substantially all of the assets of Bennett Industries, Inc., a wholly owned subsidiary of the Company, which manufactures plastic containers, were sold to North American Packaging Corporation, an indirect wholly-owned subsidiary of Southcorp Holding Limited of Australia for

approximately \$50 million in cash. Accordingly, the results of operations and changes in cash flows of Bennett have been classified as discontinued operations for all periods presented in the consolidated condensed statements of income and cash flows. The assets and liabilities of Bennett have been classified in the consolidated condensed balance sheets as net assets of discontinued operations. The Company now operates in two industry segments: manufactured products and logistics.

Effective March 31, 1996, the Company acquired all of the shares of RB&W Corporation (RB&W) in exchange for \$31 million in cash and 2.0 million of its common shares in a transaction valued at \$54.2 million. The combination has been accounted for as a purchase and, accordingly, the operations of RB&W are included in the consolidated financial statements as of that date. The metal forming business of RB&W is included within the manufactured products segment, and the supply chain management business comprises the Company's logistics segment.

Net sales from continuing operations increased by \$50.9 million or 39% in the first six months of 1996 from the corresponding period of the prior year. Of the sales increase, approximately \$47 million pertains to incorporating RB&W in the consolidated results for the entire six months of 1996 with the remainder pertaining to acquisitions made subsequent to the second quarter of 1995.

Gross profit from continuing operations rose to \$31.0 million in the current period from \$23.2 million in the first half of 1995. RB&W accounted for practically all of the increase. Consolidated gross margins were 17.1% of sales in the current period and 17.8% in the first half of 1995.

Selling, general and administrative costs from continuing operations increased by 37% in the period primarily as a result of incorporating RB&W into the consolidated results for the entire first half of 1996. Of the total increase of \$5.1 million, 87% pertains to RB&W and the remainder to increased sales. As a percentage of sales, consolidated selling, general and administrative costs accounted for 10.4% of the sales dollar in the current period and 10.5% in the corresponding period of the prior year.

Interest expense from continuing operations increased by \$1.6 million in the current period due to higher levels of debt outstanding during the period. Average debt outstanding for the period increased from \$73.2 million in 1995 to \$123.7 million in 1996. The increase in borrowings was caused by the acquisition of RB&W and higher levels of revolving credit debt to support increased sales and production. Interest rates for the period are approximately the same as in the first six months of 1995.

As of December 31, 1995, the Company recorded the deferred tax assets relating to anticipated future income benefits from utilization of net operating loss carryforwards. As a result, as of January 1, 1996, the Company began to fully provide for Federal income taxes. At December 31, 1995, the Company and its subsidiaries had net operating loss carryforwards for tax purposes of approximately \$26.0 million available to offset future taxable income. For financial reporting purposes, the Company has additional net operating loss carryforwards relating to deductible temporary differences, the most significant of which relates to other postretirement benefits. Federal income tax expense from continuing operations for the 1995 period was reduced by \$2.5 million due to the utilization of net operating loss carryforwards.

SECOND QUARTER 1996 VERSUS SECOND QUARTER 1995

Net sales from continuing operations increased by \$2.4 million or 3% in the current period from the corresponding period of the prior year. The increased sales pertains to companies acquired subsequent to the second quarter of 1995.

Gross profit from continuing operations rose to \$15.4 million in the current period from \$14.9 million in the second quarter of 1995 and is primarily attributable to internal growth. Consolidated gross margins were approximately 17% of sales in both periods.

Selling, general and administrative costs from continuing operations increased by 6% in the period primarily as a result of increased sales. As a percentage of sales, consolidated selling, general and administrative costs approximated 10% of the sales dollar in both periods.

Interest expense from continuing operations increased by \$291 thousand in the second quarter of 1996 due to higher levels of debt outstanding during the period. Average debt outstanding for the period increased from \$102.5 million in 1995 to \$126.6 million in 1996. The increase in borrowings was caused by higher levels of revolving credit debt to support increased sales and production. Interest rates have fallen somewhat from the year earlier period when they averaged 7.65%.

LIQUIDITY AND SOURCES OF CAPITAL

Current financial resources (working capital and available bank borrowing arrangements) and anticipated funds from continuing operations are expected to

be adequate to meet current cash requirements, including capital expenditures. The Company's recent growth has largely been fueled by acquisitions. In the event additional capital resources are needed for other opportunities in the near future, the Company believes adequate financing is either in place or would be available. In addition, on July 31, 1996 the Company applied the net proceeds from the sale of Bennett (approximately \$49 million) to reduce outstanding bank borrowings. The Company currently has in place a \$125 million bank agreement of which \$55 million is borrowed as of August 5, 1996.

During the six-month period ended June 30, 1996, the Company generated \$13.4 million from continuing operations before changes in operating assets and liabilities. After giving effect to the use of \$19.6 million in the operating accounts and \$3.4 million provided from discontinued operations, the Company used \$2.7 million in operating activities. This amount coupled with capital expenditures of \$6.2 million was funded by an increase in bank borrowings of \$9.5 million.

12

13

REVIEW BY INDEPENDENT ACCOUNTANTS

The condensed consolidated financial statements at June 30, 1996, and for the three-month and six-month periods then ended have been reviewed, prior to filing, by Ernst & Young LLP, the Company's independent accountants, and their report is included herein.

13

14

PART II

OTHER INFORMATION

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

(a) The annual meeting of shareholders was held on May 23, 1996.

(c) The following matters were voted upon at the annual meeting of shareholders:

Proposal to approve the one time grant to Mr. Crawford, Chairman and Chief Executive Officer, of a non-statutory stock option to purchase 500,000 shares of common stock.

8,369,763 Affirmative votes
298,115 Negative votes
53,758 Abstentions
1,005,711 Non votes

Proposal to approve the adoption of the Company's 1996 Non-employee Director Stock Option Plan.

8,602,968 Affirmative votes
175,048 Negative votes
73,343 Abstentions
875,988 Non votes

Proposal to ratify the appointment of Ernst & Young as independent auditors for the current year ending December 31, 1996.

9,679,248 Affirmative votes
23,582 Negative votes
24,517 Abstentions
-0- Non votes

ITEM 5. OTHER INFORMATION

On July 31, 1996 (the "Closing Date"), substantially all of the assets of Bennett Industries, Inc. ("Bennett"), a wholly owned subsidiary of the Company, were sold to North American Packaging Corporation ("NAMPAC"), an indirect wholly-owned subsidiary of Southcorp Holdings Limited, pursuant to the Asset Purchase Agreement, dated as of May 28, 1996, (the "Agreement"), among the Company, Bennett, and NAMPAC. NAMPAC also acquired the stock of two wholly-owned subsidiaries of Bennett which held certain intangible assets and certain operating assets, and NAMPAC assumed certain liabilities identified in the Agreement. In consideration of the sale of the assets and stock, NAMPAC paid Bennett \$48,502,955 in cash and \$1,500,000 in cash was placed in escrow on the Closing Date. The escrow will be released after final determination of the net tangible assets acquired on the Closing Date. The consideration paid by NAMPAC to acquire the assets of Bennett was determined by arm's length negotiation between NAMPAC, Bennett and the Company.

The assets of Bennett acquired by NAMPAC include real property, machinery and equipment, accounts receivable, inventory, proprietary rights, executory agreements, books and records, and permits.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

The following exhibits are included herein:

- (2) Asset Purchase Agreement dated as of May 28, 1996 among North American Packaging Corporation, as Buyer, Bennett Industries, Inc. as Seller, and Park-Ohio Industries, Inc.
- (11) Computation of net income per common share
- (15) Letter re: unaudited financial information
- (27) Financial data schedule (Electronic Filing Only)

14

15

- (99) Unaudited pro forma condensed financial statements

The Company did not file any reports on Form 8-K during the three months ended June 30, 1996.

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 INDUSTRIES, INC.

(Registrant)

By /s/ J.S. WALKER

Name: J.S. Walker

Title: Vice President and Chief
Financial Officer

Dated August 14, 1996

15

16

EXHIBIT INDEX

QUARTERLY REPORT ON FORM 10-Q

PARK-OHIO INDUSTRIES, INC. AND SUBSIDIARIES
FOR THE QUARTER ENDED JUNE 30, 1996

EXHIBIT

- - - - -

- 2 Asset Purchase Agreement dated as of May 28, 1996 among North American Packaging Corporation, as Buyer, Bennett Industries, Inc. as Seller, and Park-Ohio Industries, Inc.
- 11 Computation of net income per common share
- 15 Letter re: unaudited financial information

27	Financial data schedule (Electronic filing only)
99	Unaudited pro forma condensed financial statements

