

10-Q

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PARK OHIO INDUSTRIES, INC./ QUARTERLY REPORT 10-Q

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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
MARCH 31, 1997

COMMISSION FILE NO. 0-3134

PARK-OHIO INDUSTRIES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

OHIO

34-6520107

(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

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 April 30, 1997: 10,995,462 including 187,500 shares held in
escrow and 306,171 held in treasury.

The Exhibit Index is located on page 12.

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PARK OHIO INDUSTRIES, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Consolidated condensed balance sheets March 31, 1997 and December 31, 1996

Consolidated condensed statements of income Three months ended March 31, 1997
and 1996

Consolidated condensed statements of cash flows Three months ended March 31,
1997 and 1996

Notes to consolidated condensed financial statements March 31, 1997

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Item 6. Exhibits and Reports on Form 8-K

SIGNATURE

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PART I

FINANCIAL INFORMATION

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CONSOLIDATED CONDENSED BALANCE SHEETS

PARK OHIO INDUSTRIES, INC. AND SUBSIDIARIES

(UNAUDITED)
MARCH 31 DECEMBER 31
1997 1996

(DOLLARS IN THOUSANDS)

ASSETS

Current Assets

Cash and cash equivalents.....	\$ 1,681	\$ 4,659
—Accounts receivable, less allowances for doubtful accounts of \$1,189 at March 31, 1997 and \$1,048 at December 31, 1996.....	64,998	58,764
Inventories.....	85,742	83,758
Deferred taxes.....	3,000	3,000
Other current assets.....	7,334	5,718

Total Current Assets.....	162,755	155,899
Property, Plant and Equipment.....	113,388	106,862
Less accumulated depreciation.....	54,848	53,054

58,540 53,888

Other Assets

Excess purchase price over net assets acquired, net.....	44,209	40,305
Deferred taxes.....	14,100	14,100
Other.....	20,673	18,798
	\$ 300,277	\$282,910

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities

Trade accounts payable.....	\$ 31,122	\$ 28,545
Accrued expenses.....	19,398	20,695
Current portion of long term liabilities.....	6,936	6,936

Total Current Liabilities.....	57,456	56,176
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Long Term Liabilities, less current portion

Long term debt.....	67,794	55,571
Other postretirement benefits.....	28,055	28,442
Other.....	4,787	4,788

100,636 88,801

Convertible Senior Subordinated Debentures.....	22,235	22,235
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Shareholders' Equity

—Capital stock, par value \$1 a share:

Serial Preferred Stock.....	0	0
Common Stock.....	10,808	10,433
Additional paid in capital.....	52,937	49,337
Retained earnings.....	59,945	57,703
Treasury stock, at cost.....	(3,740)	(1,775)

119,950 115,698

\$ 300,277 \$282,910

Note: The balance sheet at December 31, 1996 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.

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See notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF INCOME (UNAUDITED)

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PARK OHIO INDUSTRIES, INC. AND SUBSIDIARIES

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(Dollars in thousands except per share data)

	THREE MONTHS ENDED MARCH 31	
	1997	1996
Net sales.....	\$93,806	\$90,854
Cost of products sold.....	78,763	75,324
Gross profit.....	15,043	15,530
Selling, general and administrative expenses.....	9,862	9,473
Interest expense.....	1,623	1,893
Income from continuing operations before income taxes.....	3,558	4,164
Income taxes.....	1,316	1,582
Income from continuing operations.....	2,242	2,582
Income from discontinued operations.....	0	1,499
Net Income.....	\$ 2,242	\$ 4,081
Net income per common share:		
Continuing operations.....	\$.20	\$.24
Discontinued operations.....	0	.14
Net income.....	\$.20	\$.38
Common shares used in the computation.....	11,097	10,816

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See notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

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PARK OHIO INDUSTRIES, INC. AND SUBSIDIARIES

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(Dollars in thousands)

		THREE MONTHS ENDED MARCH 31	
		1997	1996
<hr/>			
OPERATING ACTIVITIES			
Net income.....	\$ 2,242	\$ 4,081	
Adjustments to reconcile net income to net cash provided (used) by continuing operations:			
Discontinued operations.....	0	(1,499)	
Depreciation and amortization.....	2,248	2,648	
Deferred income taxes.....	0	1,200	
	4,490	6,430	
Changes in operating assets and liabilities of continuing operations excluding acquisitions of businesses:			
Accounts receivable.....	(5,578)	(8,301)	
Inventories and other current assets.....	(2,597)	(167)	
Accounts payable and accrued expenses.....	(251)	(1,296)	
Other.....	(439)	(2,495)	
Net Cash Used by Continuing Operations.....	(4,375)	(5,829)	
Net Cash Provided by Discontinued Operations.....	0	1,911	
Net Cash Used by Operations.....	(4,375)	(3,918)	
INVESTING ACTIVITIES			
Purchases of property, plant and equipment, net.....	(3,438)	(3,611)	
Costs of acquisitions, net of cash acquired.....	(4,100)	0	
Investments.....	(1,323)	0	
Net Cash Used by Investing Activities.....	(8,861)	(3,611)	
FINANCING ACTIVITIES			
Proceeds from bank arrangements for acquisitions.....	4,100	0	
Proceeds from bank arrangements for operations.....	9,400	7,500	
Payments on long term debt.....	(1,277)	(71)	
Purchase of treasury stock.....	(1,965)	0	
Issuance of common stock under stock option plan.....	0	45	
Net Cash Provided by Financing Activities.....	10,258	7,474	
Decrease in Cash and Cash Equivalents.....	(2,978)	(55)	
Cash and Cash Equivalents at Beginning of Period.....	4,659	2,662	
Cash and Cash Equivalents at End of Period.....	\$ 1,681	\$ 2,607	

See notes to consolidated condensed financial statements.

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PARK OHIO INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

MARCH 31, 1997

(Dollars in thousands except per share data)

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 months ended March 31, 1997 are not necessarily indicative of the results that may be expected for the year ending December 31, 1997. 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, 1996.

NOTE B SALE OF BENNETT INDUSTRIES

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 America Packaging Corporation, an indirect wholly owned subsidiary of Southcorp Holdings Limited, an Australian company, for \$50.8 million in cash, resulting in a pretax gain of \$13.8 million recognized in the third quarter of 1996. The results of operations and changes in cash flows for Bennett for the three months ended March 31, 1996 have been classified as discontinued operations. 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.

Summary operating results of the discontinued operations, excluding the above gain on sale, for the three months ended March 31, 1996 were as follows:

Sales.....	\$19,818
Costs and expenses.....	17,401
Income from discontinued operations before income taxes.....	2,417
Income taxes.....	918
Net income from discontinued operations.....	\$ 1,499

NOTE C INVENTORIES

The components of inventory consist of the following:

	MARCH 31 1997	DECEMBER 31 1996
In process and finished goods.....	\$62,228	\$60,587
Raw materials and supplies.....	23,514	23,171
	\$85,742	\$83,758

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PARK OHIO INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

NOTE D 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 10,807,962 shares at March 31, 1997 and 10,432,998 at December 31, 1996. The increase in outstanding shares results from the issuance of 375,000 common shares relating to the earn-out provision of the acquisition of General Aluminum Mfg. Company.

NOTE E NET INCOME PER COMMON SHARE

Net income per common share is based on the weighted 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 for the three months ended March 31, 1997 and March 31, 1996 were as follows:

	THREE MONTHS ENDED MARCH 31	
	1997	1996
Continuing operations.....	\$.20	\$.24
Discontinued operations.....	0	.12
Net Income.....	\$.20	\$.36
Common shares used in the computation.....	12,248	12,022

— In February 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings per Share", which is required to be adopted on December 31, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. The impact is expected to result in no change in primary earnings per share for the three months ended March 31, 1997 and March 31, 1996. The impact of Statement 128 on the calculation of fully diluted earnings per share for these quarters is not expected to be material.

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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 March 31, 1997, and the related consolidated condensed statements of income and cash flows for the three month periods ended March 31, 1997 and 1996. 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, 1996, 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 17, 1997, 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, 1996, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

— /s/ ERNST & YOUNG LLP

April 21, 1997
Cleveland, Ohio

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MANAGEMENT'S DISCUSSION

RESULTS OF OPERATIONS FIRST THREE MONTHS 1997 VERSUS FIRST THREE MONTHS 1996

— On July 31, 1996, the Company completed the sale of substantially all of

the assets of Bennett Industries, Inc., a wholly owned subsidiary of the Company, which manufactures plastic containers, to North America Packaging Corporation, an indirect wholly owned subsidiary of Southcorp Holdings Limited, an Australian company, for \$50.8 million in cash, resulting in a pre-tax gain of \$13.8 million recognized in the third quarter of 1996. The results of operations and changes in cash flows of Bennett for the three months ended March 31, 1996 have been classified as discontinued operations.

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Net sales from continuing operations increased by \$3.0 million or 3% in the first three months of 1997 from the corresponding period of the prior year. The increase was divided between internally generated sales increases and two small acquisitions made in the first quarter of 1997.

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Gross profit from continuing operations declined by \$487 thousand in the current period as compared to the first quarter of 1996. This decline is largely attributable to certain operations included in the manufactured products segment not achieving their sales goals due to shipments being extended into the balance of 1997, thereby increasing the amount of unabsorbed burden for the period. Consolidated gross margins were 16% of sales in the current period versus 17% in the first three months of 1996.

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Selling, general and administrative costs from continuing operations increased by \$389 thousand to \$9.9 million from \$9.5 million in the first quarter of 1996. The increase in costs is primarily related to increased sales for the period. As a percentage of sales, consolidated selling, general and administrative costs accounted for 10.5% of the sales dollar in the current period compared to 10.4% in the corresponding period of the prior year.

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Interest expense from continuing operations decreased by \$270 thousand in the current period due to lower levels of debt outstanding during the period. Average debt outstanding for the period decreased by approximately \$32.6 million from \$121.5 million in 1996 to \$88.9 million in 1997. The decrease resulted from applying the net proceeds from the Bennett disposition to outstanding bank debt. Interest rates were approximately the same in both periods.

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At December 31, 1996, subsidiaries of the Company have net operating loss carryforwards for tax purposes of approximately \$15.0 million, subject to certain limitations which expire in 2001 to 2007.

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LIQUIDITY AND SOURCES OF CAPITAL

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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. The Company currently has a credit agreement with a group of banks (\$90 million revolving credit commitment and a \$31.2 million term loan) of which \$75.2 million is borrowed as of April 30, 1997.

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During the three-month period ended March 31, 1997, the Company generated \$4.5 million from continuing operations before changes in operating assets and liabilities. After giving effect to the use of \$8.9 million in the operating accounts, the Company used \$4.4 million for operating activities. During the period, the Company invested \$3.4 million in capital expenditures and \$5.4 million for acquisitions and investments. During the quarter, the Company also bought 148,746 shares of its common stock in the open market for \$2.0 million. As of March 31, 1997, the Company has 274,971 shares of its common stock in the treasury. These activities were funded by a net increase in bank borrowings of \$12.2 million and a use of cash of \$3.0 million.

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REVIEW BY INDEPENDENT ACCOUNTANTS

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The consolidated condensed financial statements as of March 31, 1997, and for the three-month periods ended March 31, 1997 and 1996, have been reviewed, prior to filing, by Ernst & Young LLP, the Company's independent accountants, and their report is included herein.

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PART II

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OTHER INFORMATION

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

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There were no matters submitted to a vote of security holders during the

~~first quarter of 1997.~~

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~~ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K~~

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~~The following exhibits are included herein:~~

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~~_____~~

~~(11) Computation of net income per common share~~

~~(15) Letter re: unaudited financial information~~

~~(27) Financial data schedule (Electronic Filing Only)~~

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~~The Company did not file any reports on Form 8-K during the three months ended March 31, 1997.~~

~~-~~

~~_____ 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.~~

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~~_____ PARK OHIO INDUSTRIES, INC.~~

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~~_____ (Registrant)~~

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~~_____ By /s/ J. S. WALKER~~

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~~_____ Name: J. S. Walker
_____ Title: Vice President and Chief
_____ Financial Officer~~

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~~_____ Dated May 13, 1997~~

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~~_____ EXHIBIT INDEX~~

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~~_____ QUARTERLY REPORT ON FORM 10-Q~~

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~~_____ PARK OHIO INDUSTRIES, INC. AND SUBSIDIARIES
_____ FOR THE QUARTER ENDED MARCH 31, 1997~~

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EXHIBIT

- - - - -

~~11 Computation of net income per common share~~

~~15 Letter re: unaudited financial information~~

~~27 Financial data schedule (Electronic filing only)~~

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~~_____ 12~~

EX-11

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EXHIBIT 11

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~~_____ EXHIBIT 11~~

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~~_____ PARK OHIO INDUSTRIES, INC. AND SUBSIDIARIES~~

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~~_____ COMPUTATION OF NET INCOME PER COMMON SHARE~~

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~~_____ (Dollars in thousands Except per share data)~~

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	THREE MONTHS ENDED	
	MARCH 31	
	1997	1996
Income from continuing operations.....	\$ 2,242	\$ 2,582
Amortization of imputed goodwill associated with the earnout shares.....	(21)	(21)
Income from continuing operations related to shareholders of Common Stock		
— (Primary).....	2,221	2,561
Interest associated with Convertible Senior Subordinated Debentures, net		
— of income taxes.....	250	274
Income from continuing operations related to shareholders of Common Stock		
— (Fully diluted).....	\$ 2,471	\$ 2,835
Discontinued operations.....	\$ 0	\$ 1,499
Net income related to shareholders of Common Stock (Primary).....	\$ 2,221	\$ 4,060
Net income related to shareholders of Common Stock (Fully diluted).....	\$ 2,471	\$ 4,334
PRIMARY COMPUTATION		
Average shares outstanding during the period.....	10,666	10,404
— Effect of General Aluminum Mfg. Company earnout shares deemed to be		
— issued.....	188	188
— Effect of dilutive stock options based on the treasury stock method		
— using the average market price for the period.....	243	224
Shares used.....	11,097	10,816
— Per share of Common Stock:		
Continuing operations.....	\$.20	\$.24
Discontinued operations.....	0	.14
Net income.....	\$.20	\$.38
FULLY DILUTED COMPUTATION		
Average shares outstanding per primary computation above.....	11,097	10,816
— Additional effect of dilutive stock options based on the treasury stock		
— method using the end of period market price, if higher than the		
— average market price.....	0	55
— Effect of assuming conversion of the Convertible Senior Subordinated		
— Debentures.....	1,151	1,151
Shares used.....	12,248	12,022
— Per share of Common Stock:		
Continuing operations.....	\$.20	\$.24
Discontinued operations.....	0	.12
Net income.....	\$.20	.36

EX-15
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EXHIBIT 15

EXHIBIT 15

EXHIBIT (15) LETTER RE: UNAUDITED FINANCIAL INFORMATION

Board of Directors and Shareholders
Park Ohio Industries, Inc.

We are aware of the incorporation by reference in the Registration
Statements on Form S-3 and Forms S-8, relating to the 1992 Stock Option Plan and

the Individual Account Retirement Plan, of Park Ohio Industries, Inc. for the registration of 363,094 shares, 350,000 shares and 1,500,000 shares, respectively, of its common stock of our report dated April 21, 1997, relating to the unaudited condensed consolidated interim financial statements of Park Ohio Industries, Inc., which are included in its Form 10-Q for the quarter ended March 31, 1997.

Pursuant to Rule 436(c) of the Securities Act of 1933 our report is not a part of the registration statement prepared or certified by accountants within the meaning of Section 7 or 11 of the Securities Act of 1933.

/s/ ERNST & YOUNG LLP

May 9, 1997
Cleveland, Ohio

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EX-27
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EXHIBIT-27

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PARK OHIO INDUSTRIES, INC.
1000
U.S. DOLLARS

3-MOS	
DEC-31-1997	
JAN-01-1997	
MAR-31-1997	
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	1,681
	0
	64,998
	1,189
	85,742
	162,755
	113,388
	54,848
	300,277
	57,456
	90,029
	10,808
	0
	0
	109,142
	300,277
	93,806
	93,806
	78,763
	78,763
	0
	0
	1,623
	3,558
	1,316
	2,242
	0
	0
	0
	2,242
	.20
	.20