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PARK OHIO HOLDINGS CORP. FORM 10-Q

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

FORM 10-Q

(MARK ONE)

~~[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1999, OR~~

~~[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ____________ TO ____________~~

~~COMMISSION FILE NO. 0-3134~~

~~PARK-OHIO HOLDINGS CORP.~~
~~(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)~~

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

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

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

~~(1) Has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports):~~
~~and~~
~~(2) Has been subject to such filing requirements for the past 90 days.~~
~~YES [X] NO [ ]~~

~~Number of shares outstanding of registrant's Common Stock, par value $1.00 per share, as of May 10, 1999: 11,147,462 including 373,806 shares in treasury.~~

~~The Exhibit Index is located on page 19.~~

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

~~INDEX~~

~~PART I~~

~~FINANCIAL INFORMATION~~

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

~~CONSOLIDATED BALANCE SHEETS~~

	(UNAUDITED) MARCH 31 1999	DECEMBER 31 1998
	(DOLLARS IN THOUSANDS)	
~~ASSETS~~		
~~Current Assets~~		
~~Cash and cash equivalents~~	~~$ 4,489~~	~~$ 4,320~~
~~Accounts receivable, less allowances for doubtful accounts of $3,060 at March 31, 1999 and $2,803 at December 31, 1998~~	~~101,761~~	~~95,718~~
~~Inventories~~	~~168,072~~	~~150,052~~
~~Deferred tax assets~~	~~2,232~~	~~2,232~~
~~Other current assets~~	~~6,614~~	~~5,468~~
~~Total Current Assets~~	~~283,168~~	~~257,790~~
~~Property, Plant and Equipment~~	~~198,909~~	~~160,625~~
~~Less accumulated depreciation~~	~~74,488~~	~~70,468~~
	~~124,421~~	~~90,157~~
~~Other Assets~~		
~~Excess purchase price over net assets acquired, net of accumulated amortization of $8,919 at March 31, 1999 and $8,105 at December 31, 1998~~	~~109,873~~	~~99,351~~
~~Deferred taxes~~	~~8,900~~	~~8,900~~
~~Other~~	~~38,814~~	~~33,356~~
	~~$565,176~~	~~$489,554~~
~~LIABILITIES AND SHAREHOLDERS' EQUITY~~		
~~Current Liabilities~~		
~~Trade accounts payable~~	~~$ 62,066~~	~~$ 46,410~~
~~Accrued expenses~~	~~54,990~~	~~32,076~~
~~Current portion of long-term liabilities~~	~~2,034~~	~~2,372~~
~~Total Current Liabilities~~	~~119,090~~	~~80,858~~
~~Long-Term Liabilities, less current portion~~		
~~Long-term debt~~	~~270,032~~	~~237,483~~
~~Other postretirement benefits~~	~~26,152~~	~~26,286~~
~~Other~~	~~4,572~~	~~3,740~~
	~~300,756~~	~~267,509~~
~~Shareholders' Equity~~		
~~Capital stock, par value $1 a share:~~		
~~Serial Preferred Stock~~	~~-0-~~	~~-0-~~
~~Common Stock~~	~~11,148~~	~~11,148~~
~~Additional paid-in capital~~	~~55,755~~	~~55,755~~
~~Retained earnings~~	~~84,768~~	~~80,420~~
~~Treasury stock, at cost~~	~~(5,008)~~	~~(4,554)~~
~~Accumulated other comprehensive earnings (loss)~~	~~(1,333)~~	~~(1,582)~~
	~~145,330~~	~~141,187~~
	~~$565,176~~	~~$489,554~~

~~Note: The balance sheet at December 31, 1998 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.~~

~~See notes to consolidated financial statements.~~

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

~~CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)~~

	THREE MONTHS ENDED MARCH 31	
	1999	1998
	(DOLLARS IN THOUSANDS -- EXCEPT PER SHARE DATA)	
Net sales	$171,403	$136,503
Cost of products sold	140,436	113,171
Gross profit	30,967	23,332
Selling, general and administrative expenses	17,952	14,137
Operating income	13,015	9,195
Interest expense	5,378	4,152
Income before income taxes	7,637	5,043
Income taxes	3,289	2,169
Net income	$ 4,348	$ 2,874
Net income per common share:		
Basic	$ .40	$ .26
Diluted	$ .40	$ .26
Common shares used in the computation:		
Basic	10,793	10,996
Diluted	10,938	11,246

See notes to consolidated financial statements.

PARK OHIO HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	ACCUMULATED OTHER COMPREHENSIVE EARNINGS (LOSS)	TOTAL
				(DOLLARS IN THOUSANDS)		
Balance January 1, 1999	$11,148	$55,755	$80,420	$(4,554)	$(1,582)	$141,187
Comprehensive income:						
Net income			4,348			4,348
Foreign currency translation adjustment					249	249
Comprehensive income						4,597
Purchase of treasury stock				(454)		(454)
Balance March 31, 1999	$11,148	$55,755	$84,768	$(5,008)	$(1,333)	$145,330

See notes to consolidated financial statements.

PARK OHIO HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	THREE MONTHS ENDED MARCH 31	
	1999	1998
	(DOLLARS IN THOUSANDS)	
OPERATING ACTIVITIES		
Net income	$ 4,348	$ 2,874
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	4,984	3,731
	9,332	6,605
Changes in operating assets and liabilities excluding acquisitions of businesses:		
Accounts receivable	2,002	(9,348)
Inventories and other current assets	(8,737)	(17,148)
Accounts payable and accrued expenses	11,419	10,249
Other	(2,629)	(2,296)
Net Cash Provided (Used) by Operating Activities	11,387	(11,938)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment, net	(6,304)	(6,254)
Costs of acquisitions, net of cash acquired	(29,146)	-0-
Purchase of investments	(446)	(101)
Net Cash (Used) by Investing Activities	(35,896)	(6,355)
FINANCING ACTIVITIES		
Proceeds from bank arrangements for acquisitions	29,000	-0-
Proceeds from bank arrangements for operations	-0-	17,500
Payments on debt	(3,868)	(74)
Purchase of treasury stock	(454)	(237)
Issuance of common stock under stock option plan	-0-	73
Net Cash Provided by Financing Activities	24,678	17,262
Increase (Decrease) in Cash and Cash Equivalents	169	(1,031)
Cash and Cash Equivalents at Beginning of Period	4,320	1,814
Cash and Cash Equivalents at End of Period	$ 4,489	$ 783

See notes to consolidated financial statements.

PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MARCH 31, 1999

(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 period ended March 31, 1999 are not necessarily indicative of the results that may be expected for the year ending December 31, 1999. 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, 1998.

NOTE B -- ACQUISITIONS AND DISPOSITION

During April 1998, the Company completed the acquisition of Direct Fasteners Limited ("Direct") located in Ontario, Canada. The transaction was accounted for as a purchase. Direct is a distributor of fasteners. The aggregate purchase price and the results of operations of Direct prior to the date of acquisition were not material to the Company.

During September 1998, the Company completed the sale of the assets of Friendly and Safe Packaging Systems, Inc. to Kerr Group. The transaction had an immaterial effect on the consolidated results of operation and financial position of the Company.

During October 1998, the Company acquired all of the shares of GIS Industries, Inc. ("Gateway"). The transaction has been accounted for as a purchase. Gateway is a distributor of fasteners and a manufacturer of fabricated metal products and fasteners. The aggregate purchase price and the results of operations of Gateway prior to the date of acquisition were not material to the Company.

During 1999, the Company acquired all of the shares of The Metalloy Corporation ("Metalloy") and substantially all of the assets of St. Louis Screw and Bolt ("St. Louis Screw") and PMC Industries, Inc. ("PMC") for cash. Metalloy is a full service aluminum casting and machining company. St. Louis Screw is a manufacturer of bolts and PMC provides capital equipment and associated parts for the oil drilling industry. Each of these transactions has been accounted for as a purchase. The purchase price and the results of operations of Metalloy and the two other businesses prior to the date of acquisition were not material to the Company.

NOTE C -- INVENTORIES

The components of inventory consist of the following:

	MARCH 31 1999	DECEMBER 31 1998
In process and finished goods..............................	$135,709	$124,783
Raw materials and supplies.................................	32,363	25,269
	$168,072	$150,052

NOTE D -- SHAREHOLDERS' EQUITY

At March 31, 1999, 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 11,147,462 shares were issued and outstanding including 367,706 shares held in treasury.

NOTE E -- CORPORATE REORGANIZATION

At the 1998 Annual Meeting of Shareholders of Park-Ohio Industries, Inc. ("Park-Ohio") held on May 28, 1998, the shareholders of Park-Ohio approved an agreement of Merger ("Merger Agreement") dated February 20, 1998 by and among Park-Ohio, PKOH Holding Corp. ("Holdings") and PKOH Merger Corp. ("Merger Corp.") providing for a reorganization of Park-Ohio into a holding company form of ownership with Holdings as its sole parent. On June 10, 1998, Holdings amended and restated its articles of incorporation to increase its authorized shares from 100 shares of common stock, $1.00 par value per share, to 40,000,000 shares of common stock and 632,470 shares of preferred stock, all $1.00 par value per share, and changed its name from PKOH Holding Corp. to Park-Ohio Holdings Corp. Effective as of the close of business on June 15, 1998, Merger Corp. was merged with and into Park-Ohio upon the terms and conditions of the Merger Agreement. At the effective time of the Merger, (i) all of the shares of Park-Ohio's common stock issued and outstanding immediately prior to the Merger were converted into an equal number of shares of Holdings' common stock (on a share-for-share basis), (ii) all of the shares of Merger Corp.'s common stock issued and outstanding immediately prior to the Merger were converted into 100 shares of Park-Ohio's common stock and (iii) all of the shares of Holdings' common stock issued and outstanding immediately prior to the Merger were canceled.

~~Prior to the Merger, there was no public market for Holdings' common stock, and Park-Ohio's common stock was listed for trading on the NASDAQ National Market under the symbol "PKOH". Upon the opening of the market after the effective time of the Merger: (i) Holdings' common stock was registered under Section 12 (g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and was listed for trading on the NASDAQ National Market under the symbol "PKOH"; (ii) Park-Ohio common stock was simultaneously delisted from the NASDAQ National Market and ceased to be registered under Section 12 (g) of the Exchange Act; and (iii) Holdings assumed Park-Ohio's reporting obligations under the Exchange Act.~~

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

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

	THREE MONTHS ENDED MARCH 31 1999	THREE MONTHS ENDED MARCH 31 1998
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA)	
~~NUMERATOR~~		
~~Net income~~	~~$4,348~~	~~$2,874~~
~~DENOMINATOR~~		
~~Denominator for basic earnings per share-weighted average shares~~	~~10,793~~	~~10,996~~
~~Effect of dilutive securities:~~		
~~Employee stock options~~	~~145~~	~~250~~
~~Denominator for diluted earnings per share adjusted weighted average shares and assumed conversions~~	~~10,938~~	~~11,246~~
~~Net income per common share-basic~~	~~$ .40~~	~~$ .26~~
~~Net income per common share-diluted~~	~~$ .40~~	~~$ .26~~

~~NOTE G -- ACCOUNTING PRONOUNCEMENTS~~

~~In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use". The SOP requires companies to capitalize qualifying computer software costs incurred during the application development stage. This statement is applied prospectively and is effective for financial statements for fiscal years beginning after December 15, 1998. The Company adopted the SOP in the first quarter of 1999. The impact of this new standard did not have a significant effect on the Company's financial position or results of operations.~~

~~In April 1998, the AICPA issued SOP 98-5, "Accounting for the Costs of Start-up Activities". The SOP requires that costs of start-up activities be expensed as incurred. The SOP is effective for fiscal years beginning after December 15, 1998. The Company adopted the SOP in the first quarter of 1999. The impact of adoption of the SOP on the Company's financial position, results of operations or cash flows was immaterial.~~

~~The Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" was issued in June 1998. Statement 133 requires derivatives to be recorded on the balance sheet at fair value and establishes accounting for three different types of hedges: hedges of changes in fair value of assets, liabilities, or firm commitments; hedges of the variable cash flows of forecasted transactions; and hedges of foreign currency exposures of net investments in foreign operations. Statement 133 is effective for years beginning after June 15, 1999 and is not expected to have a significant impact~~

on the Company's financial position or results of operations.

NOTE H -- SEGMENTS

During the first quarter of 1999 the Company, upon completion of the acquisition of Metalloy, a full service aluminum casting and machining company, redefined its operating segments. The Company retained its Integrated Logistics Solutions ("ILS") segment and further segregated its former Manufactured Products segment into an Aluminum Products segment and a Manufactured Products segment. ILS is a leading national supplier of fasteners (e.g. nuts, bolts and screws) and other industrial products to original equipment

manufacturers, other manufacturers and distributors. In connection with the supply of such industrial products, ILS provides a variety of value added, cost-effective procurement solutions. Aluminum Products manufactures cast aluminum critical components primarily for automotive original equipment manufacturers. In addition, Aluminum Products also provides value added services such as design and engineering, machining and assembly. Manufactured Products is a diverse group of manufacturing businesses that design and manufacture a broad range of high quality products for specific customer applications.

Results by Business Segment were as follows:

	THREE MONTHS ENDED MARCH 31	
	1999	1998
Net sales, including intersegment sales:		
ILS	$106,412	$ 91,794
Aluminum products	31,619	9,904
Manufactured products	33,372	34,805
	$171,403	$136,503
Income before income taxes:		
ILS	$ 10,965	$ 7,920
Aluminum products	2,971	633
Manufactured products	972	2,087
	14,908	10,640
Amortization of excess purchase price over net assets acquired	(814)	(381)
Corporate costs	(1,079)	(1,064)
Interest expense	(5,378)	(4,152)
	$ 7,637	$ 5,043

	MARCH 31, 1999	DECEMBER 31, 1998
Identifiable assets were as follows:		
ILS	$307,369	$288,713
Aluminum products	96,118	40,063
Manufactured products	155,496	147,009
General corporate	6,193	13,769
	$565,176	$489,554

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors and Shareholders

~~Park-Ohio Holdings Corp.~~

~~We have reviewed the accompanying consolidated balance sheet of Park-Ohio Holdings Corp. and subsidiaries as of March 31, 1999, and the related consolidated statements of income for the three months ended March 31, 1999 and 1998, the consolidated statement of shareholders' equity for the three months ended March 31, 1999 and the consolidated statements of cash flows for the three months ended March 31, 1999 and 1998. 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 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 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 generally accepted accounting principles.~~

~~We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of Park-Ohio Holdings Corp. and subsidiaries as of December 31, 1998 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 15, 1999, 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, 1998, 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~~
~~April 20, 1999~~

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

~~The consolidated financial statements of the Company include the accounts of Park-Ohio Holdings Corp. and its subsidiaries. All significant intercompany transactions have been eliminated in consolidation. The financial information for the three month period ended March 31, 1999 is not directly comparable on a period-to-period basis to the financial information for the three month period ended March 31, 1998 due to acquisitions made subsequent to the first quarter of 1998. During 1998, the Company acquired two businesses for $40.2 million. During October, 1998, the Company acquired all of the shares of GIS Industries, Inc. ("Gateway"). Gateway is a distributor of fasteners and a manufacturer of metal products and fasteners. During April, 1998, the Company acquired all of the shares of Direct Fasteners Limited ("Direct"), a distributor of fasteners located in Ontario, Canada. During 1999, the Company acquired all of the shares of The Metalloy Corporation ("Metalloy") and St. Louis Screw and Bolt ("St. Louis") and the assets of PMC Industries, Inc. ("PMC") for $29.1 million ("the 1999 Acquisitions"). Metalloy is a full service aluminum casting and machining company. St. Louis Screw is a manufacturer of bolts and PMC provides capital equipment and associated parts for the oil drilling industry. All acquisitions are accounted for as purchases and consequently their results are included in the consolidated financial statements from their respective dates of acquisition.~~

~~OVERVIEW~~

~~The Company operates diversified manufacturing and logistics businesses that serve a wide variety of industrial markets. The Company defines its businesses into three operating segments: Integrated Logistics Solutions ("ILS"), Aluminum Products, and Manufactured Products. ILS is a leading national supplier of fasteners (e.g., nuts, bolts and screws) and other industrial products to original equipment manufacturers ("OEMs"), other manufacturers and distributors. In connection with the supply of such industrial products, ILS provides a variety of value-added, cost-effective procurement solutions. The principal customers of ILS are in the transportation, industrial, electrical and lawn and garden equipment industries. Aluminum Products also manufactures cast~~

aluminum critical components primarily for automotive OEMs. Aluminum Products provides value added services such as design and engineering, machining and assembly. Manufactured Products operates a diverse group of niche manufacturing businesses that design and manufacture a broad range of high quality products engineered for specific customer applications. The principal customers of Manufactured Products are OEMs and end-users in the automotive, railroad, truck and aerospace industries.

Between 1993 and 1998, the Company has grown significantly, both internally and through acquisitions. Over this period, the Company's net sales increased at a 42% compounded annual growth rate ("CAGR"), from $94.5 million to $551.8 million, and income from continuing operations on a fully taxed basis increased at a 40% CAGR from $2.4 million to $12.9 million.

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

Between January 1, 1994 and March 31, 1999, the Company's continuing operations incurred $70.5 million of capital expenditures, the majority of which was used to expand and upgrade existing manufacturing facilities and enhance the Company's management information systems.

RESULTS OF OPERATIONS

THREE MONTHS 1999 VERSUS THREE MONTHS 1998

Net sales increased by $34.9 million, or 26%, from $136.5 million for the first three months of 1998 to $171.4 million for the three months ended March 31, 1999. This growth results from acquisitions that the

Company made subsequent to March 31, 1998 and relates primarily to the ILS and the Aluminum Products segments. For ILS, the growth in net sales from acquisitions amounted to $12.7 million and related to Gateway and Direct. For Aluminum Products, net sales increased by $21.7 million and related primarily to the acquisition of Metalloy.

Gross profit increased by $7.6 million, or 33%, from $23.3 million for the first three months of 1998 to $30.9 million for the first three months of 1999 and is directly related to acquisitions made in the preceding twelve months. The Company's consolidated gross margin increased to 18.1% for the first three months of 1999 from 17.1% for the first three months of 1998. This increase in consolidated gross margin was due to increased margins in both the Aluminum Products and ILS segments more than offsetting a decline in gross margins in the Manufactured Products segment. The increase in the Aluminum Products segment gross margin was due to increased production at General Aluminum thereby allocating fixed manufacturing overhead over a greater production base and to the acquisition of Metalloy which has a higher overall gross margin than the existing business. The increase in margins in the ILS segment is a result of spreading operating costs over a growing revenue base resulting from the recent acquisitions in ILS and favorable raw material sourcing. The decline in margins in the Manufactured Products segment results primarily from reduced production activity at Ajax Manufacturing Company which caused fixed overhead costs to be spread over a lesser production base.

Selling, general and administrative costs increased by 28% to $18.0 million for the first three months of 1999 from $14.1 million for the first three months of 1998. This increase was related to the acquisitions that have been consummated subsequent to the first quarter of 1998. Consolidated selling, general and administrative expenses as a percentage of net sales was approximately the same for both periods.

Interest expense increased by $1.2 million from $4.2 million for the three-month period ended March 31, 1998 to $5.4 million for the three-month period ended March 31, 1999 due to higher average debt outstanding during the current period offset by lower average interest rates in 1999 versus 1998. For the three-month period ended March 31, 1999, the Company averaged outstanding borrowings of $265.2 million as compared to $182.6 million outstanding for the three months ended March 31, 1998. The $82.6 million increase related primarily

~~to acquisitions completed during the latter part of 1998 and the first quarter of 1999 with the remainder primarily related to working capital increases to support the realized and anticipated growth in business and to capital expenditures to support growth in the business. The average borrowing rate of 8.1% for the three months ended March 31, 1999 is 1.0% lower than the average rate of 9.1% for the three months ended March 31, 1998 primarily because of averaging increased borrowings under the Company's bank revolving credit which carry lower effective interest rates with the Company's subordinated debt which carries a higher coupon rate.~~

~~The effective income tax rate for the three month periods ended March 31, 1999 and 1998 was 43%. At December 31, 1998, subsidiaries of the Company had $1.1 million of net operating loss carryforwards for tax purposes.~~

~~LIQUIDITY AND SOURCES OF CAPITAL~~

~~The Company's liquidity needs are primarily for working capital and capital expenditures. The Company's primary sources of liquidity have been funds provided by operations and funds available from existing bank credit arrangements. On November 2, 1998, Park-Ohio amended and restated its credit agreement with a group of banks under which it may borrow up to $150 million on an unsecured basis. The New Credit Agreement, the proceeds of which will be used for general corporate purposes, expires on April 30, 2001. Amounts borrowed under the New Credit Agreement may be borrowed at Park-Ohio's election at either (i) the bank's prime lending rate less 100-30 basis points or (ii) LIBOR plus 90-170 basis points depending on the aggregate amount borrowed under the New Credit Agreement. As of April 30, 1999, $113 million was outstanding under the facility.~~

~~Current financial resources (working capital and available bank borrowing arrangements) and anticipated funds from operations are expected to be adequate to meet current cash requirements. Capital expenditures for 1999 are projected to be approximately $15 million which will be used to invest in the Company's current~~

~~facilities for projected new business and for scheduled improvements and new equipment to expand existing products.~~

~~The ratio of current assets to current liabilities was 2.38 at March 31, 1999 versus 3.19 at December 31, 1998. Working capital decreased by $12.8 million to $164.1 million at March 31, 1999 from $176.9 million at December 31, 1998 largely as a result of implementing systems throughout the Company to more efficiently utilize and minimize levels of working capital necessary to operate the Company's diverse and separate operations and to purchase accounting adjustments related to the 1999 Acquisitions.~~

~~During the first three months of 1999, the Company generated $9.3 million from operations before changes in operating assets and liabilities. After giving effect to the generation of $2.1 million in the operating accounts, the Company provided $11.4 million from operating activities. During the period, the Company invested $6.3 million in capital expenditures, used $29.1 for acquisitions and used $900 thousand for other purposes. These activities were primarily funded by a net increase in bank borrowings of $25.1 million.~~

~~We have signed letters of intent to acquire two fastener logistics companies located in the eastern United States. These two companies had combined 1998 net sales of approximately $35 million. We believe these two acquisition candidates will enhance Integrated Logistics Solutions by providing new customers, geographic expansion on the east coast and an experienced sales and operating management team. We expect to borrow approximately $30 million under our revolving credit facility to complete these two acquisitions. We expect to close these two acquisitions by June 30, 1999.~~

~~YEAR 2000 CONVERSION~~

~~The Year 2000 ("Y2K") issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Company's computer programs or hardware that have date sensitive software or embedded chips may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruption of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.~~

~~During 1996, the Company developed a Y2K Task Force, which was established to monitor and track the Y2K compliance at its operating units. The Task Force developed a Y2K plan in order to minimize the risk to the Company's operating~~

units and its customers. The plan to resolve the Y2K issues involves four phases: assessment, remediation, testing and implementation.

To date, the Task Force has completed its assessment of the Company's computer hardware and software applications, process control equipment, and other non-information technology equipment. After taking into consideration investments in new equipment and systems that have already been made, this assessment has determined that with only a few exceptions, the systems are Y2K compliant. The exceptions require upgrades of software programs or changes to existing programs. The remediation and testing phases are currently underway, and upgrades and software corrections are being completed. Essentially, the target for completion for all phases of the Company's primary systems is by June 30, 1999. Based upon the assessments and remediations completed to date, the Company does not expect that the Y2K issue will have a material effect on its business operations, consolidated financial condition, cash flows, or results of operations.

In addition, the Task Force is reviewing the Y2K compliance of the Company's key suppliers, customers and service providers ("significant third parties") in an effort to reduce the potential adverse effect on its operations from non-compliance by such parties. This significant third party review has begun and is expected to be completed by June 30, 1999. Interfaces to external suppliers and customers are part of this assessment and validation process. As these significant third parties are reviewed, the Task Force intends to develop contingency plans, if necessary, for significant third parties that exhibit possible Y2K problems. If Y2K compliance is not achieved by these significant third parties, over which the Company has no control, it could, depending on duration, have a material adverse effect on the Company's operations. While the Company has not yet identified any potential exposure to the failure of such suppliers to become Y2K compliant, and currently believe such exposure is minimal, the reasonably likely worst case scenario is that the failure of

suppliers to become compliant could cause delays in the receipt of raw materials or supplies. This may result in interruptions in production of certain products for a period of time which may delay shipments by the Company. The reasonably likely worst case scenario if customers fail to become compliant could cause sales orders to be delayed or not received which may cause a reduction in sales and shipments by the Company. The reasonably likely worst case scenario if the Company's systems are not Y2K compliant would be that operational and administrative costs could increase if automated functions become limited or would need to be performed manually.

The Company is utilizing both internal and external resources to remedy, test, and implement the software and operating equipment for Y2K modifications. The total cost to achieve Y2K compliance is estimated at $9 million. Approximately 75% of this cost represents new systems, which the Company may have initiated during the period, notwithstanding the Y2K issue. To date, the Company has incurred approximately $8.0 million for new systems and equipment, with the majority of these costs for the conversion/development of systems. The remaining $1.0 million will be funded through operating cash flows. The Company does not separately identify the direct costs of internal employees working on Y2K projects.

SEASONALITY; VARIABILITY OF OPERATING RESULTS

As a result of the significant growth in the Company's net sales and operating income in recent years, seasonal fluctuations have been substantially mitigated. The Company, however, performs scheduled plant maintenance in the third quarter to coincide with customer plant shut downs.

The timing of orders placed by the Company's 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 the Company's business units. Such 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 levels and funding of capital expenditures and the Y2K conversion. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of the Company, that 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 and quality; 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 and tax rates; increasingly stringent domestic and foreign governmental regulations including those affecting the environment; inherent uncertainties involved in assessing the Company's potential liability for environmental remediation related activities; the outcome of pending and future litigation and other claims; dependence on the automotive industry; dependence on key management; dependence on information systems; and the ability of the Company, its vendors and customers to achieve Y2K compliance. Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes 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 the Company that the Company's plans and objectives will be achieved.

REVIEW BY INDEPENDENT ACCOUNTANTS

The consolidated financial statements at March 31, 1999, and for the three-month periods ended March 31, 1999 and 1998, have been reviewed, prior to filing, by Ernst & Young LLP, the Company's 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 $111.5 million at March 31, 1999. A 100 basis point increase in the interest rate would result in an increase in interest expense of $.3 million during the period.

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 first quarter of 1999.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

The following exhibits are included herein:

(15) Letter re: unaudited financial information

(27) Financial data schedule (Electronic filing only)

The Company did not file any reports on Form 8-K during the three months ended March 31, 1999.

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/ J. S. WALKER

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

Dated May 11, 1999

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EX-15
2
EXHIBIT 15

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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 April 20, 1999 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 March 31, 1999.

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

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

/s/ Ernst & Young LLP

Cleveland, Ohio
May 10, 1999

EX-27
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EXHIBIT 27

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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PARK-OHIO HOLDINGS CORP.
1,000

3-MOS
DEC-31-1999
JAN-01-1999
MAR-31-1999
4,489
0
101,761

3,060
168,072
283,168
198,909
74,488
565,176
119,090
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134,182
565,176
171,403
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140,436
140,436
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7,637
3,289
4,348
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4,348
.40
.40