PARK OHIO HOLDINGS CORP
Form 10-Q
November 15, 2010

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

Form 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended September 30, 2010**
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to**

Commission file number 0-3134

Park-Ohio Holdings Corp.
(Exact name of registrant as specified in its charter)

Ohio *(State or other jurisdiction of incorporation or organization)*	**34-1867219** *(I.R.S. Employer Identification No.)*
6065 Parkland Boulevard, Cleveland, Ohio *(Address of principal executive offices)*	**44124** *(Zip Code)*

440/947-2000
(Registrant s telephone number, including area code)

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer þ (Do not check if a smaller reporting company) Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Number of shares outstanding of registrant s Common Stock, par value $1.00 per share, as of October 31, 2010: 11,819,512.

The Exhibit Index is located on page 26.

PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

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PART I. Financial Information

ITEM 1. ***Financial Statements***

PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2010	December 31, 2009
	(Dollars in thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 35,749	$ 23,098
Accounts receivable, less allowances for doubtful accounts of $4,268 at September 30, 2010 and $8,388 at December 31, 2009	137,024	104,643
Inventories	193,021	182,116
Deferred tax assets	8,104	8,104
Unbilled contract revenue	10,209	19,411
Other current assets	8,332	12,700
Total Current Assets	392,439	350,072
Property, Plant and Equipment	255,866	245,240
Less accumulated depreciation	184,013	168,609
	71,853	76,631
Other Assets		
Goodwill	8,586	4,155
Other	75,071	71,410
	$ 547,949	$ 502,268
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Trade accounts payable	$ 97,476	$ 75,083
Accrued expenses	61,865	39,150
Current portion of long-term debt	12,115	10,894
Current portion of other postretirement benefits	2,197	2,197
Total Current Liabilities	173,653	127,324
Long-Term Liabilities, less current portion		
8.375% Senior Subordinated Notes due 2014	183,835	183,835
Revolving credit and term loan facility	121,000	134,600

Other long-term debt	5,407	4,668
Deferred tax liability	7,200	7,200
Other postretirement benefits and other long-term liabilities	21,993	21,831
	339,435	352,134
Shareholders Equity		
Capital stock, par value $1 a share:		
Serial Preferred Stock	-0-	-0-
Common Stock	13,369	13,274
Additional paid-in capital	67,476	66,323
Retained deficit	(22,565)	(34,230)
Treasury stock, at cost	(18,397)	(17,443)
Accumulated other comprehensive (loss)	(5,022)	(5,114)
	34,861	22,810
	$ 547,949	$ 502,268

Note: The balance sheet at December 31, 2009 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 accompanying notes to these unaudited condensed consolidated financial statements. The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(Amounts in thousands, except per share data)			
Net sales	$ 202,986	$ 168,597	$ 592,990	$ 513,252
Cost of products sold	168,006	145,938	495,374	437,402
Gross profit	34,980	22,659	97,616	75,850
Selling, general and administrative expenses	22,150	21,701	65,455	66,538
Asset impairment charge	3,539	-0-	3,539	-0-
Operating income	9,291	958	28,622	9,312
Gain on purchase of 8.375% senior subordinated notes	-0-	(2,011)	-0-	(5,108)
Gain on acquisition of business	(2,210)	-0-	(2,210)	-0-
Interest expense	6,469	5,897	18,072	17,996
Income (loss) before income taxes	5,032	(2,928)	12,760	(3,576)
Income taxes	(1,152)	296	1,095	1,838
Net income (loss)	$ 6,184	$ (3,224)	$ 11,665	$ (5,414)
Amounts per common share:				
Basic	$ .54	$ (.29)	$ 1.03	$ (.50)
Diluted	$ .52	$ (.29)	$ .99	$ (.50)
Common shares used in the computation:				
Basic	11,386	11,011	11,282	10,931
Diluted	11,824	11,011	11,773	10,931

See accompanying notes to these unaudited condensed consolidated financial statements. The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY (UNAUDITED)

	Common Stock	Additional Paid-In Capital	Retained Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
			(Dollars in thousands)			
Balance at January 1, 2010	$ 13,274	$ 66,323	$ (34,230)	$ (17,443)	$ (5,114)	$ 22,810
Comprehensive income:						
Net income			11,665			11,665
Foreign currency translation adjustment					(745)	(745)
Pension and post retirement benefit adjustments, net of tax					837	837
Comprehensive income						11,757
Amortization of restricted stock		1,025				1,025
Restricted share units exchanged for restricted stock	13	(13)				-0-
Restricted stock awards	96	(96)				-0-
Restricted stock cancelled	(14)	14				-0-
Purchase of treasury stock (80,027 shares)				(954)		(954)
Share-based compensation		223				223
Balance at September 30, 2010	$ 13,369	$ 67,476	$ (22,565)	$ (18,397)	$ (5,022)	$ 34,861

See accompanying notes to these unaudited condensed consolidated financial statements. The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(Dollars in thousands)	
OPERATING ACTIVITIES		
Net income (loss)	$ 11,665	$ (5,414)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	12,105	14,121
Share-based compensation expense	1,248	1,861
Gain on acquisition of business	(2,210)	-0-
Asset impairment charge	3,539	-0-
Gain on purchase of 8.375% senior subordinated notes	-0-	(5,107)
Changes in operating assets and liabilities, net of businesses acquired:		
Accounts receivable	(21,403)	42,928
Inventories and other current assets	20,418	49,000
Accounts payable and accrued expenses	36,899	(67,625)
Other	(12,562)	(560)
Net Cash Provided by Operating Activities	49,699	29,204
INVESTING ACTIVITIES		
Purchases of property, plant and equipment, net	(2,153)	(4,594)
Acquisitions	(16,000)	-0-
Purchases of marketable securities	-0-	(62)
Sales of marketable securities	-0-	865
Net Cash Used by Investing Activities	(18,153)	(3,791)
FINANCING ACTIVITIES		
Payments on debt, net	(13,800)	(19,441)
Debt issue costs	(4,141)	-0-
Purchase of treasury stock	(954)	-0-
Purchase of 8.375% senior subordinated notes	-0-	(5,108)
Exercise of stock options	-0-	688
Net Cash Used by Financing Activities	(18,895)	(23,861)
Increase (Decrease) in Cash and Cash Equivalents	12,651	1,552
Cash and Cash Equivalents at Beginning of Period	23,098	17,825
Cash and Cash Equivalents at End of Period	$ 35,749	$ 19,377
Taxes paid	$ 1,241	$ 2,577
Interest paid	13,169	12,506

See accompanying notes to these condensed consolidated financial statements. The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010
(Dollars and shares in thousands, except per share amounts)

NOTE A Basis of Presentation

The condensed 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 condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted 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 accounting principles generally accepted in the United States 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, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. 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, 2009.

NOTE B Segments

The Company operates through three segments: Supply Technologies, Aluminum Products and Manufactured Products. Supply Technologies provides our customers with Total Supply Management^{tm} services for a broad range of high-volume, specialty production components. Total Supply Management^{tm} manages the efficiencies of every aspect of supplying production parts and materials to our customers manufacturing floor, from strategic planning to program implementation and includes such services as engineering and design support, part usage and cost analysis, supplier selection, quality assurance, bar coding, product packaging and tracking, just-in-time and point-of-use delivery, electronic billing services and ongoing technical support. Aluminum Products manufactures cast aluminum components for automotive, agricultural equipment, construction equipment, heavy-duty truck and marine equipment industries. 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.

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PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Results by business segment were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net sales:				
Supply Technologies	$ 103,885	$ 82,464	$ 295,308	$ 242,879
Aluminum products	35,554	31,663	109,714	75,656
Manufactured products	63,547	54,470	187,968	194,717
	$ 202,986	$ 168,597	$ 592,990	$ 513,252
Income (loss) before income taxes:				
Supply Technologies	$ 6,428	$ 2,078	$ 16,223	$ 5,509
Aluminum products	1,913	(1,337)	6,148	(6,793)
Manufactured products	8,258	3,413	20,787	20,498
	16,599	4,154	43,158	19,214
Corporate expenses	(3,769)	(3,196)	(10,997)	(9,901)
Gain on purchase of 8.375% senior subordinated notes	-0-	2,011	-0-	5,107
Gain on acquisition of business	2,210	-0-	2,210	-0-
Asset impairment charge	(3,539)	-0-	(3,539)	-0-
Interest expense	(6,469)	(5,897)	(18,072)	(17,996)
Income (loss) before income taxes	$ 5,032	$ (2,928)	$ 12,760	$ (3,576)

	September 30, 2010	December 31, 2009
Identifiable assets were as follows:		
Supply Technologies	$ 244,494	$ 207,729
Aluminum products	86,430	76,443
Manufactured products	182,336	178,715
General corporate	34,689	39,381
	$ 547,949	$ 502,268

NOTE C Recent Accounting Pronouncements

Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Update (ASU) No. 2010-06, Improving Disclosure about Fair Value Measurements , requires enhanced disclosures about recurring and nonrecurring fair-value measurements including significant transfers in and out of Level 1 and Level 2 fair-value measurements and information on purchases, sales, issuances and settlements on a gross basis of Level 3 fair-value measurements. ASU No. 2010-06 was adopted January 1, 2010, except for the requirement to separately disclose purchases, sales, issuances and settlements of recurring Level 3 fair value measurements, which is effective January 1, 2011.

In October 2009, the FASB issued ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements, which amends ASC Topic 605, Revenue Recognition. ASU No. 2009-13 amends the ASC to eliminate the residual method of allocation for multiple-deliverable revenue arrangements, and requires that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method. The ASU also establishes a selling price hierarchy for determining the selling price of a deliverable, which includes: (1) vendor-specific objective evidence if available, (2) third-party evidence if vendor-specific objective evidence is

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PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

not available, and (3) estimated selling price if neither vendor-specific nor third-party evidence is available. Additionally, ASU No. 2009-13 expands the disclosure requirements related to a vendor s multiple-deliverable revenue arrangements. The Company is currently evaluating the potential impact, if any, of the adoption of this guidance on its Consolidated Financial Statements, which is effective for the Company on January 1, 2011.

In June 2009, the FASB issued guidance as codified in ASC 810-10, Consolidation of Variable Interest Entities (previously Statement of Financial Accounting Standards (SFAS) No. 167, Amendments to FASB Interpretation No. 46(R)). This guidance is intended to improve financial reporting by providing additional guidance to companies involved with variable interest entities (VIEs) and by requiring additional disclosures about a company s involvement with variable interest entities. This guidance is generally effective for annual periods beginning after November 15, 2009 and for interim periods within that first annual reporting period. The adoption of this guidance did not have a material impact on the financial statements of the Company.

NOTE D Inventories

The components of inventory consist of the following:

	September 30, 2010	December 31, 2009
Finished goods	$ 118,199	$ 100,309
Work in process	24,319	26,778
Raw materials and supplies	50,503	55,029
	$ 193,021	$ 182,116

NOTE E Shareholders Equity

At September 30, 2010, 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 13,369,174 shares were issued, of which 11,815,178 were outstanding and 1,553,996 were treasury shares.

NOTE F Net Income Per Common Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
NUMERATOR				
Net income (loss)	$ 6,184	$ (3,224)	$ 11,665	$ (5,414)

DENOMINATOR				
Denominator for basic earnings per share weighted average shares	11,386	11,011	11,282	10,931
Effect of dilutive securities:				
Employee stock options(a)	438	-0-	491	-0-
Denominator for diluted earnings per share weighted average shares and assumed conversions	11,824	11,011	11,773	10,931
Amounts per common share:				
Basic	$ .54	$ (.29)	$ 1.03	$ (.50)
Diluted	$ .52	$ (.29)	$ .99	$ (.50)

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PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(a) No employee stock options were added for this period as the addition of 358,000 shares in the nine months ended September 30, 2009 and 478,000 shares in the three months ended September 30, 2009 would result in anti-dilution because the Company reported a net loss in that period.

Basic earnings per common share is computed as net income available to common shareholders divided by the weighted average basic shares outstanding. Diluted earnings per common share is computed as net income available to common shareholders divided by the weighted average diluted shares outstanding.

Pursuant to ASC 260, Earnings Per Share, when a loss is reported the denominator of diluted earnings per share cannot be adjusted for the dilutive impact of stock options and awards because doing so will result in anti-dilution. Therefore, for the nine months ended September 30, 2009, basic weighted-average shares outstanding are used in calculating diluted earnings per share.

Outstanding stock options with exercise prices greater than the average price of the common shares are anti-dilutive and are not included in the computation of diluted earnings per share. Stock options on 206,000 and 207,000 shares were excluded in the three months and nine months ended September 30, 2010, respectively, because they were anti-dilutive.

NOTE G Stock-Based Compensation

Total stock compensation expense recorded in the first nine months of 2010 and 2009 was $1,248 and $1,861, respectively. Total stock compensation expense recorded in the third quarter of 2010 and 2009 was $409 and $658, respectively. There were 624,450 shares of restricted stock awarded during the nine months ended September 30, 2009 at prices ranging from $3.18 to $3.74 per share, of which 34,950 shares were awarded in the three months ended September 30, 2009. There were no stock options awarded during the nine months ended September 30, 2010 and 2009. There were 76,000 shares of restricted stock awarded during the three months and nine months ended September 30, 2010 at prices ranging from $11.65 to $14.73. As of September 30, 2010, there was $2,297 of unrecognized compensation cost related to non-vested stock-based compensation, which cost is expected to be recognized over a weighted average period of 1.75 years.

NOTE H Pension Plans and Other Postretirement Benefits

The components of net periodic benefit cost recognized during interim periods was as follows:

	Pension Benefits				Postretirement Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009	2010	2009	2010	2009
Service costs	$ 81	$ 123	$ 243	$ 369	$ 9	$ 24	$ 27	$ 72
Interest costs	643	694	1,929	2,082	248	296	744	888
	(1,984)	(1,758)	(5,952)	(5,275)	-0-	-0-	-0-	-0-

Expected return on plan assets								
Transition obligation	(10)	(10)	(30)	(30)	-0-	-0-	-0-	-0-
Amortization of prior service cost	15	32	45	96	(24)	-0-	(72)	-0-
Recognized net actuarial loss	82	231	246	693	107	119	321	357
Benefit (income) costs	$ (1,173)	$ (688)	$ (3,519)	$ (2,065)	$ 340	$ 439	$ 1,020	$ 1,317

During March 2009, the Company suspended indefinitely its voluntary contribution to its 401(k) defined contribution plan covering substantially all U.S. employees.

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PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE I Comprehensive Income

Total comprehensive income (loss) was as follows:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net income (loss)	$ 6,184	$ (3,224)	$ 11,665	$ (5,414)
Foreign currency translation	5,084	2,245	(745)	1,893
Unrealized loss on marketable securities, net of tax	-0-	-0-	-0-	413
Pension and post retirement benefit adjustments, net of tax	447	373	837	1,082
Total comprehensive income (loss)	$ 11,715	$ (606)	$ 11,757	$ (2,026)

The components of accumulated comprehensive loss at September 30, 2010 and December 31, 2009 are as follows:

	September 30, 2010	December 31, 2009
Foreign currency translation adjustment	$ 6,205	$ 6,950
Pension and postretirement benefit adjustments, net of tax	(11,227)	(12,064)
	$ (5,022)	$ (5,114)

NOTE J Accrued Warranty Costs

The Company estimates the amount of warranty claims on sold products that may be incurred based on current and historical data. The actual warranty expense could differ from the estimates made by the Company based on product performance. The following table presents the changes in the Company s product warranty liability:

	2010	2009
Balance at January 1	$ 2,760	$ 5,402
Claims paid during the year	(789)	(2,456)
Additional warranties issued during the first nine months	1,416	1,312
Balance at September 30	$ 3,387	$ 4,258

NOTE K Income Taxes

The Company s tax provision for interim periods is determined using an estimate of its annual effective income tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter, the Company updates the estimated annual effective income tax rate, and if the estimated income tax rate changes, a cumulative adjustment is made.

The 2010 annual effective income tax rate is estimated to be approximately 18% and is lower than the 35% United States federal statutory rate primarily due to anticipated income in the United States for which the Company will record no tax expense and anticipated income earned in jurisdictions outside of the United States where the effective income tax rate is lower than in the United States.

The effective income tax rate in the first nine months of 2010 and 2009 was 9% and (51)%, respectively. The primary reason for the variance in the effective income tax rate is because the Company anticipates full-year 2010 income in the United States with no income taxes at September 30, 2010 and anticipated full-year 2009 losses in the United States with no tax benefit at September 30, 2009. Additionally, during the third quarter of 2010, the Company recognized a $1,354 tax benefit due to a reversal of a portion of the valuation allowance against its U.S. net deferred tax assets.

PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

There have been no material changes to the balance of unrecognized tax benefits reported at December 31, 2009.

NOTE L Fair Value Measurements

The Company measures financial assets and liabilities at fair value in three levels of inputs. The three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is:

Level 1 Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 Valuations based on unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

The fair value of the 8.375% Subordinated Notes due 2014 is estimated based on a third party s bid price. The fair value approximated $180,618 at September 30, 2010. The fair value of term loans A and B approximated book value at September 30, 2010.

NOTE M Asset Impairment

During the third quarter of 2010, the Company reviewed one of its investments and determined there was dimunition in value and therefore recorded an asset impairment charge of $3,539.

NOTE N Financing Arrangement

The Company is a party to a credit and security agreement dated November 5, 2003, as amended (Credit Agreement), with a group of banks, under which it may borrow or issue standby letters of credit or commercial letters of credit. On March 8, 2010, and subsequently on August 31, 2010, the Credit Agreement was amended and restated to, among other things, extend its maturity date to April 30, 2014 and reduce the loan commitment from $270,000 to $210,000, which includes a term loan A for $28,000 that is secured by real estate and machinery and equipment and an unsecured term loan B for $12,000. Amounts borrowed under the revolving credit facility may be borrowed at either (i) LIBOR plus 2.25% to 3.25% or (ii) the bank s prime lending rate minus (.25)% to plus .75%, at the Company s election. The interest rate is dependent on the Company s debt service coverage ratio, as defined in the Credit Agreement. Under the Credit Agreement, a detailed borrowing base formula provides borrowing availability to the Company based on percentages of eligible accounts receivable and inventory. Interest on the term loan A is at either (i) LIBOR plus 3.25% to 4.25% or (ii) the bank s prime lending rate plus .75% to 1.75%, at the Company s election. Interest on the term loan B is at either (i) LIBOR plus 5.25% to 6.25% or (ii) the bank s prime lending rate plus 3.25% to 4.25%, at the Company s election. The term loan A is amortized based on a ten-year schedule with the balance due at maturity. The term loan B is amortized over a two-year period, plus 50% of debt service coverage excess capped at $3,500.

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PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Long-term debt consists of the following:

	September 30, 2010	December 31, 2009
8.375% senior subordinated notes due 2014	$ 183,835	$ 183,835
Revolving credit	92,400	101,200
Term loan A	26,600	28,000
Term loan B	9,600	12,000
Other	9,922	8,962
	322,357	333,997