PARK OHIO HOLDINGS CORP
Form 10-K
March 16, 2007

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FORM 10-K

PARK-OHIO HOLDINGS CORP.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THESECURITIES EXCHANGE ACT OF 1934**
	For the fiscal year ended December 31, 2006
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THESECURITIES 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	**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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, Par Value $1.00 Per Share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None

Park-Ohio Holdings Corp. is a successor issuer to Park-Ohio Industries, Inc.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 12 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

Aggregate market value of the voting stock held by non-affiliates of the registrant: Approximately $137,892,000, based on the closing price of $17.27 per share of the registrant s Common Stock on June 30, 2006.

Number of shares outstanding of the registrant s Common Stock, par value $1.00 per share, as of February 28, 2007: 11,373,867.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement for the Annual Meeting of Shareholders to be held on May 24, 2007 are incorporated by reference into Part III of this Form 10-K.

PARK-OHIO HOLDINGS CORP.

FORM 10-K ANNUAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

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Part I

Item 1. Business

Overview

Park-Ohio Holdings Corp. (Holdings) was incorporated as an Ohio corporation in 1998. Holdings, primarily through the subsidiaries owned by its direct subsidiary, Park-Ohio Industries, Inc. (Park-Ohio), is an industrial supply chain logistics and diversified manufacturing business operating in three segments: Integrated Logistics Solutions (ILS), Aluminum Products and Manufactured Products.

References herein to we or the Company include, where applicable, Holdings, Park-Ohio and Holdings other direct and indirect subsidiaries.

ILS provides our customers with integrated supply chain management services for a broad range of high-volume, specialty production components. Our Aluminum Products business manufactures cast and machined aluminum components, and our Manufactured Products business is a major manufacturer of highly-engineered industrial products. Our businesses serve large, industrial original equipment manufacturers (OEMs) in a variety of industrial sectors, including the automotive and vehicle parts, heavy-duty truck, industrial equipment, steel, rail, electrical distribution and controls, aerospace and defense, oil and gas, power sports/fitness equipment, HVAC, electrical components, appliance and semiconductor equipment industries. As of December 31, 2006, we employed approximately 3,900 persons.

The following table summarizes the key attributes of each of our business segments:

	Integrated Logistics Solutions	Aluminum Products	Manufactured Products
NET SALES[(1)]	$598.2 million (57% of total)	$154.6 million (14% of total)	$303.4 million (29% of total)
SELECTED PRODUCTS	Sourcing, planning and procurement of over 175,000 production components, including: Fasteners Pins Valves Hoses Wire harnesses Clamps and fittings Rubber and plastic components	Pump housings Clutch retainers/pistons Control arms Knuckles Master cylinders Pinion housings Brake calipers Oil pans Flywheel spacers	Induction heating and melting systems Pipe threading systems Industrial oven systems Injection molded rubber components Forging presses
SELECTED INDUSTRIES SERVED	Heavy-duty truck	Automotive	Steel

Automotive and vehicle parts Electrical distribution and controls Power sports/fitness equipment HVAC Aerospace and defense Electrical components Appliance Semiconductor equipment	Agricultural equipment Construction equipment Heavy-duty truck Marine equipment	Coatings Forging Foundry Heavy-duty truck Construction equipment Bottling Automotive Oil and gas Rail and locomotive manufacturing Aerospace and defense

(1) Results are for the year ended December 31, 2006 and exclude the results of operations related to the acquisition of NABS, Inc. prior to the date of acquisition on October 18, 2006.

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Integrated Logistics Solutions

Our ILS business provides our customers with integrated supply chain management services for a broad range of high-volume, specialty production components. Our ILS customers receive various value-added services, such as engineering and design services, 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. We operate 55 logistics service centers in the United States, Mexico, Canada, Puerto Rico, Scotland, Ireland, Hungary, China, Taiwan, Singapore and India, as well as production sourcing and support centers in Asia. Through our supply chain management programs, we supply more than 175,000 globally-sourced production components, many of which are specialized and customized to meet individual customers needs.

In October 2006, we acquired all of the capital stock of NABS, Inc. (NABS) for $21.2 million in cash. NABS is a premier international supply chain manager of production components, providing services to high technology companies in the computer, electronics, and consumer products industries. NABS has 19 operations across Europe, Asia, Mexico and the United States. The historical financial data contained throughout this annual report on Form 10-K excludes the results of operations of NABS, other than for the period from October 18, 2006 through December 31, 2006. See Note C to the consolidated financial statements included elsewhere herein.

In July 2005, we acquired substantially all of the assets of the Purchased Parts Group, Inc. (PPG), a provider of supply chain management services for a broad range of production components, operating 12 service centers in the United States, the United Kingdom and Mexico. This acquisition added significantly to our customer and supplier bases, and expanded our geographic presence. ILS has eliminated substantial overhead costs from PPG and begun the process of consolidating redundant service centers. The historical financial data contained throughout this annual report on Form 10-K exclude the results of operations of PPG, other than for the period from July 20, 2005 through December 31, 2005. See Note C to the consolidated financial statements included elsewhere herein.

Products and Services. Supply chain management services, which is ILS s primary focus for future growth, involves offering customers comprehensive, on-site management for most of their production component needs. Some production components are characterized by low per unit supplier prices relative to the indirect costs of supplier management, quality assurance, inventory management and delivery to the production line. In addition, ILS delivers an increasingly broad range of higher-cost production components including valves, fittings, steering components and many others. Applications engineering specialists and the direct sales force work closely with the engineering staff of OEM customers to recommend the appropriate production components for a new product or to suggest alternative components that reduce overall production costs, streamline assembly or enhance the appearance or performance of the end product. As an additional service, ILS recently began providing spare parts and aftermarket products to end users of its customers products.

Supply chain management services are typically provided to customers pursuant to sole-source arrangements. We believe our services distinguish us from traditional buy/sell distributors, as well as manufacturers who supply products directly to customers, because we outsource our customers high-volume production components supply chain management, providing processes customized to each customer s needs and replacing numerous current suppliers with a sole-source relationship. Our highly-developed, customized, information systems provide transparency and flexibility through the complete supply chain. This enables our customers to: (1) significantly reduce the direct and indirect cost of production component processes by outsourcing internal purchasing, quality assurance and inventory fulfillment responsibilities; (2) reduce the amount of working capital invested in inventory and floor space; (3) reduce component costs through purchasing efficiencies, including bulk buying and supplier consolidation; and (4) receive technical expertise in production component selection and design and engineering. Our sole-source arrangements foster long-term, entrenched supply relationships with our customers and, as a result, the average tenure of service for our top 50 ILS clients exceeds twelve years. ILS s

remaining sales are generated through the wholesale supply of industrial products to other manufacturers and distributors pursuant to master or authorized distributor relationships.

ILS also engineers and manufactures precision cold formed and cold extruded products, including locknuts, SPAC(R) nuts and wheel hardware, which are principally used in applications where controlled tightening is required due to high vibration. ILS produces both standard items and specialty products to customer specifications, which are used in large volumes by customers in the automotive, heavy-duty truck and rail industries.

Markets and Customers. For the year ended December 31, 2006, approximately 81% of ILS s net sales were to domestic customers. Remaining sales were primarily to manufacturing facilities of large, multinational customers located in Canada, Mexico, Europe and Asia. Supply chain management services and production components are used extensively in a variety of industries, and demand is generally related to the state of the economy and to the overall level of manufacturing activity.

ILS markets and sells its services to over 6,000 customers domestically and internationally. The principal markets served by ILS are the heavy-duty truck, automotive and vehicle parts, electrical distribution and controls, power sports/fitness equipment, HVAC, aerospace and defense, electrical components, appliance and semiconductor equipment industries. The five largest customers, within which ILS sells through sole-source contracts to multiple operating divisions or locations, accounted for approximately 43% and 40% of the sales of ILS for 2006 and 2005, respectively, with International Truck representing 22% and 20%, respectively, of segment sales. Two of the five largest customers are in the heavy-duty truck industry. The loss of the International Truck account or any two of the remaining top five customers could have a material adverse effect on the results of operations and financial condition of this segment.

Competition. There is a limited number of companies who compete with ILS for supply chain service contracts. ILS competes mainly with domestic competitors primarily on the basis of its value-added services, which include sourcing, engineering and delivery capabilities, geographic reach, extensive product selection, price and reputation for high service levels.

Aluminum Products

We believe that we are one of the few part suppliers that has the capability to provide a wide range of high-volume, high-quality products utilizing a broad range of processes, including gravity and low pressure permanent mold, die-cast and lost-foam, as well as emerging alternative casting technologies. Our ability to offer our customers this comprehensive range of capabilities at a low cost provides us with a competitive advantage. We produce our aluminum components at five manufacturing facilities in Ohio and Indiana.

Products and Services. Our Aluminum Products business casts and machines aluminum engine, transmission, brake, suspension and other components for automotive, agricultural equipment, construction equipment, heavy-duty truck and marine equipment OEMs, primarily on a sole-source basis. Aluminum Products principal products include pump housings, clutch retainers and pistons, control arms, knuckles, master cylinders, pinion housings, brake calipers, oil pans and flywheel spacers. In addition, we also provide value-added services such as design engineering, machining and part assembly. Although these parts are lightweight, they possess high durability and integrity characteristics even under extreme pressure and temperature conditions.

Demand by automotive OEMs for aluminum castings has increased in recent years as they have sought lighter alternatives to steel and iron, primarily to increase fuel efficiency without compromising structural integrity. We believe that this replacement trend will continue as end-users and the regulatory environment require greater fuel efficiency. To capitalize on this trend, in August 2004, we acquired substantially all of the assets of the Amcast

Components Group, a producer of aluminum automotive components. This acquisition significantly increased the sales and production capacity of our Aluminum Products business and added attractive new customers, product lines and production technologies. The historical financial data contained throughout this annual report on Form 10-K exclude the results of operations of the Amcast Components Group other than for the period from August 23, 2004 through December 31, 2006.

Markets and Customers. The five largest customers, within which Aluminum Products sells to multiple operating divisions through sole-source contracts, accounted for approximately 46% of Aluminum Products sales for 2006 and 53% for 2005. The loss of any one of these customers could have a material adverse effect on the results of operations and financial condition of this segment.

Competition. The aluminum castings industry is highly competitive. Aluminum Products competes principally on the basis of its ability to: (1) engineer and manufacture high-quality, cost-effective, machined castings utilizing multiple casting technologies in large volumes; (2) provide timely delivery; and (3) retain the manufacturing flexibility necessary to quickly adjust to the needs of its customers. Although there are a number of smaller domestic companies with aluminum casting capabilities, the customers stringent quality and service standards and lean manufacturing techniques enable only large suppliers with the requisite quality certifications to compete effectively. As one of these suppliers, Aluminum Products is well-positioned to benefit as customers continue to consolidate their supplier base.

Manufactured Products

Our Manufactured Products segment operates a diverse group of niche manufacturing businesses that design and manufacture a broad range of highly-engineered products, including induction heating and melting systems, pipe threading systems, rubber products and forged and machined products. We manufacture these products in eleven domestic facilities and nine international facilities in Canada, Mexico, the United Kingdom, Belgium, Germany, Poland, China and Japan. In January 2006, the Company completed the acquisition of all of the capital stock of Foundry Service GmbH (Foundry Service). In December 2005, we acquired substantially all of the assets of Lectrotherm, Inc. (Lectrotherm), which is primarily a provider of field service and spare parts for induction heating and melting systems, located in Canton, Ohio.

Products and Services. Our induction heating and melting business utilizes proprietary technology and specializes in the engineering, construction, service and repair of induction heating and melting systems, primarily for the steel, coatings, forging, foundry, automotive and construction equipment industries. Our induction heating and melting systems are engineered and built to customer specifications and are used primarily for melting, heating, and surface hardening of metals and curing of coatings. Approximately 40% to 45% of our induction heating and melting systems revenues is derived from the sale of replacement parts and provision of field service, primarily for the installed base of our own products. Our pipe threading business serves the oil and gas industry, while our industrial ovens provide heating and curing for bottling and other applications. We also engineer and install mechanical forging presses, and sell spare parts and provide field service for the large existing base of mechanical forging presses and hammers in North America. We machine, induction harden and surface finish crankshafts and camshafts, used primarily in locomotives. We forge aerospace and defense structural components such as landing gears and struts, as well as rail products such as railcar center plates and draft lugs. We injection mold rubber and silicone products, including wire harnesses, shock and vibration mounts, spark plug boots and nipples and general sealing gaskets.

Markets and Customers. We sell induction heating and other capital equipment to component manufacturers and OEMs in the steel, coatings, forging, foundry, automotive, truck, construction equipment and oil and gas industries. We sell forged and machined products to locomotive manufacturers, machining companies and sub-assemblers who finish aerospace and defense products for OEMs, and railcar builders and maintenance providers. We sell rubber products primarily to sub-assemblers in the automotive, food processing and consumer appliance industries.

Competition. We compete with small to medium-sized domestic and international equipment manufacturers on the basis of service capability, ability to meet customer specifications, delivery performance and engineering expertise.

We compete domestically and internationally with small to medium-sized forging and machining businesses on the basis of product quality and precision. We compete with other domestic small- to medium-sized manufacturers of injection molded rubber and silicone products primarily on the basis of price and product quality.

Sales and Marketing

ILS markets its products and services in the United States, Mexico, Canada, Western and Eastern Europe and East and South Asia primarily through its direct sales force, which is assisted by applications engineers who provide the technical expertise necessary to assist the engineering staff of OEM customers in designing new products and improving existing products. Aluminum Products primarily markets and sells its products in North America through internal sales personnel. Manufactured Products primarily markets and sells its products in North America through both internal sales personnel and independent sales representatives. Induction heating and pipe threading equipment is also marketed and sold in Europe, Asia, Latin America and Africa through both internal sales personnel and independent sales representatives. In some instances, the internal engineering staff assists in the sales and marketing effort through joint design and applications-engineering efforts with major customers.

Raw Materials and Suppliers

ILS purchases substantially all of its production components from third-party suppliers. Aluminum Products and Manufactured Products purchase substantially all of their raw materials, principally metals and certain component parts incorporated into their products, from third-party suppliers and manufacturers. Management believes that raw materials and component parts other than certain specialty products are available from alternative sources. ILS has multiple sources of supply for its products. An increasing portion of ILS s delivered components are purchased from suppliers in foreign countries, primarily Canada, Taiwan, China, South Korea, Singapore, India and multiple European countries. We are dependent upon the ability of such suppliers to meet stringent quality and performance standards and to conform to delivery schedules. Most raw materials required by Aluminum Products and Manufactured Products are commodity products available from several domestic suppliers.

Customer Dependence

We have thousands of customers who demand quality, delivery and service. Numerous customers have recognized our performance by awarding us with supplier quality awards. The only customer which accounted for more than 10% of our consolidated sales in any of the past three years was International Truck in all three years. In September 2005, we entered into an exclusive, multi-year agreement with International Truck to supply a wide range of production components, expiring on December 31, 2008.

Backlog

Management believes that backlog is not a meaningful measure for ILS, as a majority of ILS s customers require just-in-time delivery of production components. Management believes that Aluminum Products and Manufactured Products backlog as of any particular date is not a meaningful measure of sales for any future period as a significant portion of sales are on a release or firm order basis.

Environmental, Health and Safety Regulations

We are subject to numerous federal, state and local laws and regulations designed to protect public health and the environment, particularly with regard to discharges and emissions, as well as handling, storage, treatment and disposal, of various substances and wastes. Our failure to comply with applicable environmental laws and regulations and permit requirements could result in civil and criminal fines or penalties or enforcement actions, including regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures. Pursuant to certain environmental laws, owners or operators of facilities may be liable for the costs of response or other corrective actions for contamination identified at or emanating from current or former locations, without regard to whether the owner or operator knew of, or was responsible for, the presence of any such contamination, and for related damages to natural resources. Additionally, persons who arrange for the disposal or treatment of hazardous substances or materials may be liable for costs of response at sites where they are located, whether or not the site is owned or operated by such person.

From time to time, we have incurred and are presently incurring costs and obligations for correcting environmental noncompliance and remediating environmental conditions at certain of our properties. In general, we have not experienced difficulty in complying with environmental laws in the past, and compliance with environmental laws has not had a material adverse effect on our financial condition, liquidity and results of operations. Our capital expenditures on environmental control facilities were not material during the past five years and such expenditures are not expected to be material to us in the foreseeable future.

We are currently, and may in the future, be required to incur costs relating to the investigation or remediation of property, including property where we have disposed of our waste, and for addressing environmental conditions. For instance, we have been identified as a potentially responsible party at third-party sites under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, or comparable state laws, which provide for strict and, under certain circumstances, joint and several liability. We are participating in the cost of certain clean-up efforts at several of these sites. The availability of third-party payments or insurance for environmental remediation activities is subject to risks associated with the willingness and ability of the third party to make payments. However, our share of such costs has not been material and, based on available information, we do not expect our exposure at any of these locations to have a material adverse effect on our results of operations, liquidity or financial condition.

Information as to Industry Segment Reporting and Geographic Areas

The information contained under the heading Note B Industry Segments of the notes to the consolidated financial statements included herein relating to (1) net sales, income before income taxes, identifiable assets and other information by industry segment and (2) net sales and assets by geographic region for the years ended December 31, 2006, 2005 and 2004 is incorporated herein by reference.

Recent Developments

The information contained under the heading of Note C Acquisitions of the notes to the consolidated financial statements included herein is incorporated herein by reference.

Available Information

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other information, including amendments to these reports, with the Securities and Exchange Commission (SEC). The public can obtain copies of these materials by visiting the SEC s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549, by calling the SEC at 1-800-SEC-0330, or by accessing the SEC s website at http://www.sec.gov. In addition, as soon as reasonably practicable after such materials are filed with or furnished to the SEC, we make such materials available on our website at http://www.pkoh.com. The information on our website is not a part of this annual report on Form 10-K.

Item 1A. Risk Factors

The following are certain risk factors that could affect our business, results of operations and financial condition. These risks are not the only ones we face. If any of the following risks occur, our business, results of operations or financial condition could be adversely affected.

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The industries in which we operate are cyclical and are affected by the economy in general.

We sell products to customers in industries that experience cyclicality (expectancy of recurring periods of economic growth and slowdown) in demand for products, and may experience substantial increases and decreases in business volume throughout economic cycles. Industries we serve, including the automotive and vehicle parts, heavy-duty truck, industrial equipment, steel, rail, electrical distribution and controls, aerospace and defense, power sports/fitness equipment, HVAC, electrical components, appliance and semiconductor equipment industries, are affected by consumer spending, general economic conditions and the impact of international trade. A downturn in any of the industries we serve, particularly the domestic automotive or heavy-duty truck industry, could have a material adverse effect on our financial condition, liquidity and results of operations.

Because a significant portion of our sales is to the automotive and heavy-duty truck industries, a decrease in the demand of these industries or the loss of any of our major customers in these industries could adversely affect our financial health.

Demand for certain of our products is affected by, among other things, the relative strength or weakness of the automotive and heavy-duty truck industries. The domestic automotive and heavy-duty truck industries are highly cyclical and may be adversely affected by international competition. In addition, the automotive and heavy-duty truck industries are significantly unionized and subject to work slowdowns and stoppages resulting from labor disputes. We derived 19% and 30% of our net sales during the year ended December 31, 2006 from the automobile and heavy-duty truck industries, respectively. International Truck, our largest customer, accounted for approximately 14% of our net sales for the year ended December 31, 2006. The loss of a portion of business to International Truck or any of our other major automotive or heavy-duty truck customers could have a material adverse effect on our financial condition, cash flow and results of operations. We cannot assure you that we will maintain or improve our relationships in these industries or that we will continue to supply this customer at current levels.

Our ILS customers are generally not contractually obligated to purchase products and services from us.

Most of the products and services are provided to our ILS customers under purchase orders as opposed to long-term contracts. When we do enter into long-term contracts with our customers, many of them only establish pricing terms and do not obligate our customers to buy required minimum amounts from us or to buy from us exclusively. Accordingly, many of our ILS customers may decrease the amount of products and services that they purchase from us or even stop purchasing from us altogether, either of which could have a material adverse effect on our net sales and profitability.

We are dependent on key customers.

We rely on several key customers. For the year ended December 31, 2006, our top seven customers accounted for approximately 31% of our net sales and our top customer, International Truck, accounted for approximately 14% of our net sales. Many of our customers place orders for products on an as-needed basis and operate in cyclical industries and, as a result, their order levels have varied from period to period in the past and may vary significantly in the future. Due to competitive issues, we have lost key customers in the past and may again in the future. Customer orders are dependent upon their markets and may be subject to delays or cancellations. As a result of dependence on our key customers, we could experience a material adverse effect on our business and results of operations if any of the following were to occur:

- the loss of any key customer, in whole or in part;

the insolvency or bankruptcy of any key customer;

a declining market in which customers reduce orders or demand reduced prices; or a strike or work stoppage at a key customer facility, which could affect both their suppliers and customers.

If any of our key customers become insolvent or file for bankruptcy, our ability to recover accounts receivable from that customer would be adversely affected and any payments we received in the preference period prior to a bankruptcy filing may be potentially recoverable, which could adversely impact our results of operations.

Three of our substantial customers filed voluntary petitions for reorganization under Chapter 11 of the bankruptcy code during 2005 and 2006. Delphi Corp. and Dana Corporation, which are primarily customers of our Manufactured Products and Aluminum Products segments, filed in 2005, while Werner Ladder, which is primarily a customer of the ILS segment, filed in 2006. Collectively, these bankruptcies reduced our operating income in the aggregate by $1.8 million during 2005 and 2006.

We operate in highly competitive industries.

The markets in which all three of our segments sell their products are highly competitive. Some of our competitors are large companies that have greater financial resources than we have. We believe that the principal competitive factors for our ILS segment are an approach reflecting long-term business partnership and reliability, sourced product quality and conformity to customer specifications, timeliness of delivery, price and design and engineering capabilities. We believe that the principal competitive factors for our Aluminum Products and Manufactured Products segments are product quality and conformity to customer specifications, design and engineering capabilities, product development, timeliness of delivery and price. The rapidly evolving nature of the markets in which we compete may attract new entrants as they perceive opportunities, and our competitors may foresee the course of market development more accurately than we do. In addition, our competitors may develop products that are superior to our products or may adapt more quickly than we do to new technologies or evolving customer requirements.

We expect competitive pressures in our markets to remain strong. These pressures arise from existing competitors, other companies that may enter our existing or future markets and, in some cases, our customers, which may decide to internally produce items we sell. We cannot assure you that we will be able to compete successfully with our competitors. Failure to compete successfully could have a material adverse effect on our financial condition, liquidity and results of operations.

The loss of key executives could adversely impact us.

Our success depends upon the efforts, abilities and expertise of our executive officers and other senior managers, including Edward Crawford, our Chairman and Chief Executive Officer, and Matthew Crawford, our President and Chief Operating Officer, as well as the president of each of our operating units. An event of default occurs under our revolving credit facility if Messrs. E. Crawford and M. Crawford or certain of their related parties own less than 15% of our outstanding common stock, or if they own less than 15% of such stock, then if either Mr. E. Crawford or Mr. M. Crawford ceases to hold the office of chairman, chief executive officer or president. The loss of the services of Messrs. E. Crawford and M. Crawford, senior and executive officers, and/or other key individuals could have a material adverse effect on our financial condition, liquidity and results of operations.

We may encounter difficulty in expanding our business through targeted acquisitions.

We have pursued, and may continue to pursue, targeted acquisition opportunities that we believe would complement our business, such as the acquisitions of NABS in 2006 and PPG in 2005. We cannot assure you that we will be successful in consummating any acquisitions.

Any targeted acquisitions will be accompanied by the risks commonly encountered in acquisitions of businesses. We may not successfully overcome these risks or any other problems encountered in connection with any of our acquisitions, including the possible inability to integrate an acquired business operations, IT technologies, services and products into our business, diversion of management s attention, the assumption of unknown liabilities, increases in our indebtedness, the failure to achieve the strategic objectives of those acquisitions and other unanticipated problems, some or all of which could materially and adversely affect us. The process of integrating operations could cause an interruption of, or loss of momentum in, our activities. Any delays or difficulties encountered in connection with any acquisition and the integration of our operations could have a material adverse effect on our business, results of operations, financial condition or prospects of our business.

Our ILS business depends upon third parties for substantially all of our component parts.

ILS purchases substantially all of its component parts from third-party suppliers and manufacturers. Our business is subject to the risk of price fluctuations and periodic delays in the delivery of component parts. Failure by suppliers to continue to supply us with these component parts on commercially reasonable terms, or at all, would have a material adverse effect on us. We depend upon the ability of these suppliers, among other things, to meet stringent performance and quality specifications and to conform to delivery schedules. Failure by third-party suppliers to comply with these and other requirements could have a material adverse effect on our financial condition, liquidity and results of operations.

The raw materials used in our production processes and by our suppliers of component parts are subject to price and supply fluctuations that could increase our costs of production and adversely affect our results of operations.

Our supply of raw materials for our Aluminum Products and Manufactured Products businesses could be interrupted for a variety of reasons, including availability and pricing. Prices for raw materials necessary for production have fluctuated significantly in the past and significant increases could adversely affect our results of operations and profit margins. While we generally attempt to pass along increased raw materials prices to our customers in the form of price increases, there may be a time delay between the increased raw materials prices and our ability to increase the price of our products, or we may be unable to increase the prices of our products due to pricing pressure or other factors.

Our suppliers of component parts, particularly in our ILS business, may significantly and quickly increase their prices in response to increases in costs of the raw materials, such as steel, that they use to manufacture our component parts. We may not be able to increase our prices commensurate with our increased costs. Consequently, our results of operations and financial condition may be materially adversely affected.

The energy costs involved in our production processes and transportation are subject to fluctuations that are beyond our control and could significantly increase our costs of production.

Our manufacturing process and the transportation of raw materials, components and finished goods are energy intensive. Our manufacturing processes are dependent on adequate supplies of electricity and natural gas. A substantial increase in the cost of transportation fuel, natural gas or electricity could have a material adverse effect on our margins. We experienced widely fluctuating natural gas costs in 2005 and in 2006. We may experience higher than anticipated gas costs in the future, which could adversely affect our results of operations. In addition, a disruption or curtailment in supply could have a material adverse effect on our production and sales levels.

Potential product liability risks exist from the products which we sell.

Our businesses expose us to potential product liability risks that are inherent in the design, manufacture and sale of our products and products of third-party vendors that we use or resell. While we currently maintain what we believe to be suitable and adequate product liability insurance, we cannot assure you that we will be able to maintain our insurance on acceptable terms or that our insurance will provide adequate protection against potential liabilities. In the event of a claim against us, a lack of

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sufficient insurance coverage could have a material adverse effect on our financial condition, liquidity and results of operations. Moreover, even if we maintain adequate insurance, any successful claim could have a material adverse effect on our financial condition, liquidity and results of operations.

Some of our employees belong to labor unions, and strikes or work stoppages could adversely affect our operations.

As of December 31, 2006, we were a party to eight collective bargaining agreements with various labor unions that covered approximately 690 full-time employees. Our inability to negotiate acceptable contracts with these unions could result in, among other things, strikes, work stoppages or other slowdowns by the affected workers and increased operating costs as a result of higher wages or benefits paid to union members. If the unionized workers were to engage in a strike, work stoppage or other slowdown, or other employees were to become unionized, we could experience a significant disruption of our operations and higher ongoing labor costs, which could have a material adverse effect on our business, financial condition and results of operations.

We operate and source internationally, which exposes us to the risks of doing business abroad.

Our operations are subject to the risks of doing business abroad, including the following:

- fluctuations in currency exchange rates;
- limitations on ownership and on repatriation of earnings;
- transportation delays and interruptions;
- political, social and economic instability and disruptions;
- government embargoes or foreign trade restrictions;
- the imposition of duties and tariffs and other trade barriers;
- import and export controls;
- labor unrest and current and changing regulatory environments;
- the potential for nationalization of enterprises;
- difficulties in staffing and managing multinational operations;
- limitations on our ability to enforce legal rights and remedies; and
- potentially adverse tax consequences.

Any of these events could have an adverse effect on our operations in the future by reducing the demand for our products and services, decreasing the prices at which we can sell our products or otherwise having an adverse effect on our business, financial condition or results of operations. We cannot assure you that we will continue to operate in compliance with applicable customs, currency exchange control regulations, transfer pricing regulations or any other laws or regulations to which we may be subject. We also cannot assure you that these laws will not be modified.

We are subject to significant environmental, health and safety laws and regulations and related compliance expenditures and liabilities.

Our businesses are subject to many foreign, federal, state and local environmental, health and safety laws and regulations, particularly with respect to the use, handling, treatment, storage, discharge and disposal of substances and hazardous wastes used or generated in our manufacturing processes. Compliance with these laws and regulations is a significant factor in our business. We have incurred and expect to continue to incur significant expenditures to comply with applicable environmental laws and regulations. Our failure to comply with applicable environmental laws and regulations and permit requirements

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could result in civil or criminal fines or penalties or enforcement actions, including regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, installation of pollution control equipment or remedial actions.

We are currently, and may in the future be, required to incur costs relating to the investigation or remediation of property, including property where we have disposed of our waste, and for addressing environmental conditions. Some environmental laws and regulations impose liability and responsibility on present and former owners, operators or users of facilities and sites for contamination at such facilities and sites without regard to causation or knowledge of contamination. In addition, we occasionally evaluate various alternatives with respect to our facilities, including possible dispositions or closures. Investigations undertaken in connection with these activities may lead to discoveries of contamination that must be remediated, and closures of facilities may trigger compliance requirements that are not applicable to operating facilities. Consequently, we cannot assure you that existing or future circumstances, the development of new facts or the failure of third parties to address contamination at current or former facilities or properties will not require significant expenditures by us.

We expect to continue to be subject to increasingly stringent environmental and health and safety laws and regulations. It is difficult to predict the future interpretation and development of environmental and health and safety laws and regulations or their impact on our future earnings and operations. We anticipate that compliance will continue to require increased capital expenditures and operating costs. Any increase in these costs, or unanticipated liabilities arising for example out of discovery of previously unknown conditions or more aggressive enforcement actions, could adversely affect our results of operations, and there is no assurance that they will not exceed our reserves or have a material adverse effect on our financial condition.

If our information systems fail, our business will be materially affected.

We believe that our information systems are an integral part of the ILS segment and, to a lesser extent, the Aluminum Products and Manufactured Products segments. We depend on our information systems to process orders, manage inventory and accounts receivable collections, purchase products, maintain cost-effective operations, route and re-route orders and provide superior service to our customers. We cannot assure you that a disruption in the operation of our information systems used by ILS, including the failure of the supply chain management software to function properly, or those used by Aluminum Products and Manufactured Products will not occur. Any such disruption could have a material adverse effect on our financial condition, liquidity and results of operations.

Operating problems in our business may materially adversely affect our financial condition and results of operations.

The occurrence of material operating problems at our facilities may have a material adverse effect on our operations as a whole, both during and after the period of operational difficulties. We are subject to the usual hazards associated with manufacturing and the related storage and transportation of raw materials, products and waste, including explosions, fires, leaks, discharges, inclement weather, natural disasters, mechanical failure, unscheduled downtime and transportation interruption or calamities.

Our Chairman of the Board and Chief Executive Officer and our President and Chief Operating Officer collectively beneficially own a significant portion of our company s outstanding common stock and their interests may conflict with yours.

As of February 28, 2007, Edward Crawford, our Chairman of the Board and Chief Executive Officer, and Matthew Crawford, our President and Chief Operating Officer, collectively beneficially owned approximately 28% of our common stock. Mr. E. Crawford is Mr. M. Crawford s father. Their interests could conflict with your interests. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of Messrs. E. Crawford and M. Crawford may conflict with your interests as a shareholder.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2006, our operations included numerous manufacturing and supply chain logistics services facilities located in 23 states in the United States and in Puerto Rico, as well as in Asia, Canada, Europe and Mexico. Approximately 89% of the available square footage was located in the United States. Approximately 46% of the available square footage was owned. In 2006, approximately 35% of the available domestic square footage was used by the ILS segment, 45% was used by the Manufactured Products segment and 20% by the Aluminum Products segment. Approximately 46% of the available foreign square footage was used by the ILS segment and 54% was used by the Manufactured Products segment. In the opinion of management, our facilities are generally well maintained and are suitable and adequate for their intended uses.

The following table provides information relative to our principal facilities as of December 31, 2006.

Related Industry Segment	Location	Owned or Leased	Approximate Square Footage	Use
ILS(1)	Cleveland, OH	Leased	60,350(2)	ILS Corporate Office
	Dayton, OH	Leased	112,960	Logistics
	Lawrence, PA	Leased	116,000	Logistics and Manufacturing
	St. Paul, MN	Leased	104,425	Logistics
	Allentown, PA	Leased	69,755	Logistics
	Atlanta, GA	Leased	56,000	Logistics
	Dallas, TX	Leased	49,985	Logistics
	Memphis, TN	Leased	48,750	Logistics
	Louisville, KY	Leased	46,230	Logistics
	Nashville, TN	Leased	44,900	Logistics
	Tulsa, OK	Leased	40,000	Logistics
	Austin, TX	Leased	30,000	Logistics
	Kent, OH	Leased	225,000	Manufacturing
	Mississauga, Ontario, Canada	Leased	117,000	Manufacturing
	Solon, OH	Leased	42,600	Logistics
	Dublin, VA	Leased	40,000	Logistics
	Delaware, OH	Owned	45,000	Manufacturing
ALUMINUM PRODUCTS	Conneaut, OH(3)	Leased/Owned	304,000	Manufacturing
	Huntington, IN	Leased	132,000	Manufacturing
	Fremont, IN	Owned	108,000	Manufacturing
	Wapakoneta, OH	Owned	188,000	Manufacturing
	Richmond, IN	Leased/Owned	97,300	Manufacturing

MANUFACTURED PRODUCTS(4)	Cuyahoga Hts., OH	Owned	427,000	Manufacturing
	Le Roeulx, Belgium	Owned	120,000	Manufacturing
	Euclid, OH	Leased	154,000	Manufacturing
	Wickliffe, OH	Owned	110,000	Manufacturing
	Boaz, AL	Owned	100,000	Manufacturing
	Warren, OH	Owned	195,000	Manufacturing
	Canton, OH	Leased	125,000	Manufacturing
	Madison Heights, MI	Leased	128,000	Manufacturing
	Newport, AR	Leased	111,300	Manufacturing
	Cicero, IL	Owned	45,000	Manufacturing
	Cleveland, OH	Leased	150,000	Manufacturing
	Shanghai, China	Leased	20,500	Manufacturing

(1) ILS has 48 other facilities, none of which is deemed to be a principal facility.

(2) Includes 11,000 square feet used by Park-Ohio s corporate office.

(3) Includes three leased properties with square footage of 82,300, 64,000 and 45,700, respectively, and two owned properties with 91,800 and 20,200 square feet, respectively.

(4) Manufactured Products has 14 other owned and leased facilities, none of which is deemed to be a principal facility.

Item 3. Legal Proceedings

We are subject to various pending and threatened lawsuits in which claims for monetary damages are asserted in the ordinary course of business. While any litigation involves an element of uncertainty, in the opinion of management, liabilities, if any, arising from currently pending or threatened litigation are not expected to have a material adverse effect on our financial condition, liquidity or results of operations.

At December 31, 2006, we were a co-defendant in approximately 365 cases asserting claims on behalf of approximately 8,500 plaintiffs alleging personal injury as a result of exposure to asbestos. These asbestos cases generally relate to production and sale of asbestos-containing products and allege various theories of liability, including negligence, gross negligence and strict liability and seek compensatory and, in some cases, punitive damages.

In every asbestos case in which we are named as a party, the complaints are filed against multiple named defendants. In substantially all of the asbestos cases, the plaintiffs either claim damages in excess of a specified amount, typically a minimum amount sufficient to establish jurisdiction of the court in which the case was filed (jurisdictional minimums generally range from $25,000 to $75,000), or do not specify the monetary damages sought. To the extent that any specific amount of damages is sought, the amount applies to claims against all named defendants.

There are only four asbestos cases, involving 21 plaintiffs, that plead specified damages. In each of the four cases, the plaintiff is seeking compensatory and punitive damages based on a variety of potentially alternative causes of action. In three cases, the plaintiff has alleged compensatory damages in the amount of $3.0 million for four separate causes of action and $1.0 million for another cause of action and punitive damages in the amount of $10.0 million. In another case, the plaintiff has alleged compensatory damages in the amount of $20.0 million for three separate causes of action and $5.0 million for another cause of action and punitive damages in the amount of $20.0 million.

Historically, we have been dismissed from asbestos cases on the basis that the plaintiff incorrectly sued one of our subsidiaries or because the plaintiff failed to identify any asbestos-containing product manufactured or sold by us or our subsidiaries. We intend to vigorously defend these asbestos cases, and believe we will continue to be successful in being dismissed from such cases. However, it is not possible to predict the ultimate outcome of asbestos-related lawsuits, claims and proceedings due to the unpredictable nature of personal injury litigation. Despite this uncertainty, and although our results of operations and cash flows for a particular period could be adversely affected by asbestos-related lawsuits, claims and proceedings, management believes that the ultimate resolution of these matters will not have a material adverse effect on our financial condition, liquidity or results of operations. Among the factors management considered in reaching this conclusion were: (a) our historical success in being dismissed from these types of lawsuits on the bases mentioned above; (b) many cases have been improperly filed against one of our subsidiaries; (c) in many cases , the plaintiffs have been unable to establish any causal relationship to us or our products or premises; (d) in many cases, the plaintiffs have been unable to demonstrate that they have suffered any identifiable injury or compensable loss at all, that any injuries that they have incurred did in fact result from alleged exposure to asbestos; and (e) the complaints assert claims against multiple defendants and, in most cases, the damages alleged are not attributed to individual defendants. Additionally, we do not believe that the amounts claimed in any of the asbestos cases are meaningful indicators of our potential exposure because the amounts claimed typically bear no relation to the extent of the plaintiff s injury, if any.

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Our cost of defending these lawsuits has not been material to date and, based upon available information, our management does not expect its future costs for asbestos-related lawsuits to have a material adverse effect on our results of operations, liquidity or financial position.

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

There were no matters submitted to a vote of security holders during the fourth quarter of 2006.

Item 4A. Executive Officers of the Registrant

Information with respect to the executive officers of the Company is as follows:

Name	Age	Position
Edward F. Crawford	67	Chairman of the Board, Chief Executive Officer and Director
Matthew V. Crawford	37	President and Chief Operating Officer and Director
Richard P. Elliott	50	Vice President and Chief Financial Officer
Robert D. Vilsack	46	Secretary and General Counsel
Patrick W. Fogarty	45	Director of Corporate Development

Mr. E. Crawford has been a director and our Chairman of the Board and Chief Executive Officer since 1992. He has also served as the Chairman of Crawford Group, Inc., a management company for a group of manufacturing companies, since 1964 and is also a Director of Continental Global Group, Inc.

Mr. M. Crawford has been President and Chief Operating Officer since 2003 and joined us in 1995 as Assistant Secretary and Corporate Counsel. He was also our Senior Vice President from 2001 to 2003. Mr. M. Crawford became one of our directors in August 1997 and has served as President of Crawford Group, Inc. since 1995. Mr. E. Crawford is the father of Mr. M. Crawford.

Mr. Elliott has been Vice President and Chief Financial Officer since joining us in May 2000. Mr. Elliott held various positions, including partner, at Ernst & Young LLP, an accounting firm, from January 1986 to April 2000. At Ernst & Young, Mr. Elliott did not perform services for us.

Mr. Vilsack has been Secretary and General Counsel since joining us in 2002. From 1999 until his employment with us, Mr. Vilsack was engaged in the private practice of law. From 1997 to 1999, Mr. Vilsack was Vice President, General Counsel and Secretary of Medusa Corporation, a manufacturer of Portland cement, and prior to that he was Vice President, General Counsel and Secretary of Figgie International Inc., a manufacturing conglomerate.

Mr. Fogarty has been Director of Corporate Development since 1997 and served as Director of Finance from 1995 to 1997.

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Part II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company s common stock, par value $1.00 per share, trades on the Nasdaq Global Market under the symbol PKOH . The table below presents the high and low sales prices of the common stock during the periods presented. No dividends were paid during the five years ended December 31, 2006. There is no present intention to pay dividends. Additionally, the terms of the Company s revolving credit facility and the indenture governing the Company s 8.375% senior subordinated notes restrict the Company s ability to pay dividends.

Quarterly Common Stock Price Ranges

	2006		2005	
Quarter	**High**	**Low**	**High**	**Low**
1st	$ 21.23	$ 13.25	$ 30.90	$ 18.00
2nd	21.36	14.87	19.80	12.88
3rd	18.37	12.72	21.68	16.29
4th	17.61	12.96	17.78	13.52

The number of shareholders of record for the Company s common stock as of February 28, 2007 was 1,431.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Program
October 1 October 31, 2006	-0-	$ -0-	-0-	1,000,000
November 1 November 30, 2006	-0-	-0-	-0-	1,000,000
December 1 December 31, 2006(2)	1,246	15.33	-0-	1,000,000
TOTAL	1,246	$ 15.33	-0-	1,000,000

(1) The Company has a share repurchase program whereby the Company may repurchase up to 1.0 million shares of its common stock. No shares were purchased under this program during the quarter ended December 31, 2006.

(2)

Consists of shares of common stock the Company acquired from recipients of restricted stock awards at the time of vesting of such awards in order to settle recipient withholding tax liabilities.

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Item 6. Selected Financial Data

(Dollars in thousands, except per share data)

	Year Ended December 31, 2006	2005	2004	2003	2002
Selected Statement of Operations Data(a):					
Net sales	$ 1,056,246	$ 932,900	$ 808,718	$ 624,295	$ 634,455
Cost of products sold(b)	908,095	796,283	682,658	527,586	546,857
Gross profit	148,151	136,617	126,060	96,709	87,598
Selling, general and administrative expenses	90,296	82,133	77,048	62,667	57,830
Restructuring and impairment charges (credits)(b)	(809)	943	-0-	18,808	13,601
Operating income(b)	58,664	53,541	49,012	15,234	16,167
Interest expense(c)	31,267	27,056	31,413	26,151	27,623
Income (loss) before income taxes and cumulative effect of accounting change	27,397	26,485	17,599	(10,917)	(11,456)
Income taxes (benefit)(d)	3,218	(4,323)	3,400	904	897
Income (loss) before cumulative effect of accounting change(e)	24,179	30,808	14,199	(11,821)	(12,353)
Cumulative effect of accounting change	-0-	-0-	-0-	-0-	(48,799)
Net income (loss)	$ 24,179	$ 30,808	$ 14,199	$ (11,821)	$ (61,152)
<u>Amounts per common share basic</u>:					
Income (loss) before cumulative effect of accounting change	$ 2.20	$ 2.82	$ 1.34	$ (1.13)	$ (1.18)
Cumulative effect of accounting change	$ -0-	$ -0-	$ -0-	$ -0-	$ (4.68)
Net income (loss)	$ 2.20	$ 2.82	$ 1.34	$ (1.13)	$ (5.86)
<u>Amounts per common share diluted</u>:					
Income (loss) before cumulative effect of accounting change	$ 2.11	$ 2.70	$ 1.27	$ (1.13)	$ (1.18)
Cumulative effect of accounting change	$ -0-	$ -0-	$ -0-	$ -0-	$ (4.68)
Net income (loss)	$ 2.11	$ 2.70	$ 1.27	$ (1.13)	$ (5.86)

	Year Ended December 31,				
	2006	2005	2004	2003	2002
Other Financial Data:					
Net cash flows provided by operating activities	$ 6,063	$ 34,501	$ 1,633	$ 13,305	$ 28,578
Net cash flows used by investing activities	(31,407)	(31,376)	(21,952)	(3,529)	(17,993)
Net cash flows provided (used) by financing activities	28,285	8,414	23,758	(14,870)	(5,645)
Depreciation and amortization	20,140	17,346	15,468	15,562	16,307
Capital expenditures, net	20,756	20,295	11,955	10,869	14,731
Selected Balance Sheet Data (as of period end):					
Cash and cash equivalents	$ 21,637	$ 18,696	$ 7,157	$ 3,718	$ 8,812
Working capital	268,434	208,051	169,836	148,919	148,151
Property, plant and equipment	104,585	113,810	110,673	96,151	113,124
Total assets	784,142	662,854	610,022	507,452	540,858
Total debt	374,800	346,649	338,307	310,225	325,122
Shareholders equity	138,737	103,521	72,393	56,025	62,899

(a) The selected consolidated financial data is not directly comparable on a year-to-year basis, primarily due to acquisitions and divestitures we made throughout the five years ended December 31, 2006, which include the following acquisitions:

2006 Foundry Service and NABS

2005 PPG and Lectrotherm

2004 Amcast Components Group and Jamco

2002 Ajax Magnethermic

All of the acquisitions were accounted for as purchases. During 2003, the Company sold substantially all of the assets of Green Bearing and St. Louis Screw and Bolt. During 2002, the Company sold substantially all the assets of Castle Rubber.

(b) In each of the years ended December 31, 2006, 2005, 2003 and 2002, we recorded restructuring and asset impairment charges related to exiting product lines and closing or consolidating operating facilities. The restructuring charges related to the write-down of inventory have no cash impact and are reflected by an increase in cost of products sold in the applicable period. The restructuring charges relating to asset impairment attributable to the closing or consolidating of operating facilities have no cash impact and are reflected in the restructuring and impairment charges. The charges for restructuring and severance and pension curtailment are accruals for cash expenses. We made cash payments of $.3 million, $.3 million, $2.1 million, $2.5 million and $5.7 million in the years ended December 31, 2006, 2005, 2004, 2003, and 2002, respectively, related to our severance and pension curtailment accrued liabilities. The table below provides a summary of these restructuring and impairment charges.

	Year Ended December 31,			
	2006	2005	2003	2002
	(Dollars in thousands)			
Non-cash charges:				
Cost of products sold (inventory write-down)	$ 800	$ 833	$ 638	$ 5,589
Asset impairment	-0-	391	16,051	5,302
Restructuring and severance	-0-	400	990	5,599
Pension and postretirement benefits curtailment (credits)	(809)	152	1,767	2,700
Total	$ (9)	$ 1,776	$ 19,446	$ 19,190
Charges reflected as restructuring and impairment charges (credits) on income statement	$ (809)	$ 943	$ 18,808	$ 13,601

(c) In 2004, the Company issued $210 million of 8.375% senior subordinated notes. Proceeds from the issuance of this debt were used to fund the tender and early redemption of the 9.25% senior subordinated notes due 2007. The Company incurred debt extinguishment costs and wrote off deferred financing costs associated with the 9.25% senior subordinated notes totaling $6.0 million.

(d) In 2006 and 2005, the Company reversed $5.0 and $7.3 million, respectively, of its domestic deferred tax asset valuation allowances as it has been determined the realization of these amounts is more likely than not.

(e) Upon the adoption of FAS 142 (as defined below) in 2002, we recorded a non-cash charge of $48.8 million to reduce the carrying amount of goodwill to its fair value.

No dividends were paid during the five years ended December 31, 2006.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Our consolidated financial statements include the accounts of Park-Ohio Holdings Corp. and its subsidiaries. All significant intercompany transactions have been eliminated in consolidation. The historical financial information is not directly comparable on a year-to-year basis, primarily due to the reversal of a tax valuation allowance in 2006 and 2005, restructuring and unusual charges in 2006 and 2005, and debt extinguishment costs and writeoff of deferred financing costs associated with the tender and early redemption during 2004 of our 9.25% senior subordinated notes, acquisitions and divestitures during the three years ended December 31, 2006.

Executive Overview

We are an industrial supply chain logistics and diversified manufacturing business, operating in three segments: ILS, Aluminum Products and Manufactured Products. ILS provides customers with integrated supply chain management services for a broad range of high-volume, specialty production components. ILS customers receive various value-added services, such as engineering and design services, 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 and ongoing technical support. The principal customers of ILS are in the heavy-duty truck, automotive and vehicle parts, electrical distribution and controls, power sports/fitness equipment, HVAC, aerospace and defense, electrical components, appliance and semiconductor equipment industries. Aluminum Products casts and machines aluminum engine, transmission, brake, suspension and other components such as pump housings, clutch retainers/pistons, control arms, knuckles, master cylinders, pinion housings, brake calipers, oil pans and flywheel spacers for automotive, agricultural equipment, construction equipment, heavy-duty truck and marine equipment OEMs, primarily on a sole-source basis. Aluminum Products also provides value-added services such as design and engineering and assembly. Manufactured Products operates a diverse group of niche manufacturing businesses that design and manufacture a broad range of highly-engineered products including induction heating and melting systems, pipe threading systems, industrial oven systems, injection molded rubber components, and forged and machined products. Manufactured Products also produces and provides services and spare parts for the equipment it manufactures. The principal customers of Manufactured Products are OEMs, sub-assemblers and end users in the steel, coatings, forging, foundry, heavy-duty truck, construction equipment, bottling, automotive, oil and gas, rail and locomotive manufacturing and aerospace and defense industries. Sales, earnings and other relevant financial data for these three segments are provided in Note B to the consolidated financial statements.

Sales and profitability continued to grow substantially in 2006, continuing the trend of the prior year, as the domestic and international manufacturing economies continued to grow. Net sales increased 13% in 2006 compared to 2005, while operating income increased 10%. Net income declined in 2006 because the reversal of the Company s tax valuation allowance was larger in 2005 than in 2006 ($7.3 million and $5.0 million, respectively) and because of higher interest expense in 2006. The tax valuation allowance has now been substantially eliminated, so no further significant reversals are expected to affect income in future years. During 2005, net sales increased 15%, and operating income increased 9% as compared to 2004. 2005 operating income was reduced by $1.8 million of restructuring charges ($.8 million reflected in Cost of products sold and $1.0 million in Restructuring and impairment charges).

During 2004, we reinforced our long-term availability and attractive pricing of funds by refinancing both of our major sources of borrowed funds: senior subordinated notes and our revolving credit facility. In November 2004, we sold $210.0 million of 8.375% senior subordinated notes due 2014. We used the net proceeds to fund the tender and early redemption of $199.9 million of our 9.25% senior subordinated notes due 2007. We incurred debt extinguishment costs primarily related to premiums and other transaction costs associated with the tender offer and early redemption and wrote off deferred financing costs totaling $6.0 million associated with the repurchased 9.25% senior subordinated notes.

In December 2004 and subsequently in 2005 and 2006 we amended our revolving credit facility, extending its maturity so that it now expires in December 2010, increasing the credit limit so that we may borrow up to $230.0 million subject to an asset-based formula, and providing lower interest rate levels. Borrowings under the revolving credit facility are secured by substantially all our assets. We had approximately $40.0 million of unused borrowing availability at December 31, 2006. Funds provided by operations plus available borrowings under the revolving credit facility are expected to be adequate to meet our cash requirements.

In October 2006, we acquired all of the capital stock of NABS, Inc. for $21.2 million in cash. NABS is a premier international supply chain manager of production components, providing services to high technology companies in the computer, electronics, and consumer products industries. NABS has 14 international operations in China, India, Taiwan, Singapore, Ireland, Hungary, Scotland and Mexico plus five locations in the United States.

In January 2006, we completed the acquisition of all of the capital stock of Foundry Service GmbH for approximately $3.2 million in cash, which resulted in additional goodwill of $2.3 million. The acquisition was funded with borrowings from foreign subsidiaries of the Company.

In December 2005, we acquired substantially all of the assets of Lectrotherm, which is primarily a provider of field service and spare parts for induction heating and melting systems, located in Canton, Ohio, for $5.1 million cash funded with borrowings under our revolving credit facility. This acquisition augments our existing, high-margin aftermarket induction business. Lectrotherm had no significant affect on 2005 earnings.

In July 2005, we acquired substantially all the assets of PPG, a provider of supply chain management services for a broad range of production components for $7.0 million cash funded with borrowings from our revolving credit facility, $.5 million in a short-term note payable and the assumption of approximately $13.3 million of trade liabilities. This acquisition added significantly to the customer and supplier bases, and expanded our geographic presence of our ILS segment. ILS has already eliminated substantial overhead cost and begun the process of consolidating redundant service centers.

In August 2004, we acquired substantially all of the assets of the Amcast Components Group (Amcast), a producer of aluminum automotive products, for $10.0 million cash and the assumption of approximately $9.0 million of operating liabilities. This acquisition significantly increased the sales and production capacity of our Aluminum Products business and added attractive new customers, product lines and production technologies.

In April 2004, we acquired the remaining 66% of the common stock of Japan Ajax Magnethermic Company (Jamco), now a Japanese-located subsidiary of our induction heating and melting equipment business, for cash existing on the balance sheet of Jamco at that date.

Accounting Changes and Goodwill

We elected to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees (APB 25), and related interpretations. Under APB 25, because the exercise price of our employee stock options equals the fair market value of the underlying stock on the date of grant, no compensation expense was recognized. Compensation expense resulting from fixed awards of restricted shares was measured at the date of grant and expensed over the vesting period.

An alternative method of accounting for stock-based compensation would have been the fair value method defined by Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (FAS 123). FAS 123 permitted use of the intrinsic value method and did not require companies to account for employee stock options using the fair value method. If compensation cost for stock options granted had been determined based on the fair value method of FAS 123, our net income (loss) and diluted income (loss) per share would have been (decreased) or increased by $0.2 million ($.02 per share) in 2005 and $(0.3) million ($(.03) per share) in 2004.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 123 (revised), Share-Based Payment (FAS 123R). FAS 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements and establishes a fair-value measurement objective in determining the value of such a cost. FAS 123R was effective as of January 1, 2006. FAS 123R is a revision of FAS 123 and supersedes APB 25. The adoption of fair-value recognition provisions for stock options increased the Company s fiscal 2006 compensation expense by $0.3 million (before tax).

In accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (FAS 142), we review goodwill annually for potential impairment. This review was performed as of October 1, 2006, 2005 and 2004, using forecasted discounted cash flows, and it was determined that no impairment is required. At December 31, 2006, our balance sheet reflected $98.2 million of goodwill. In 2006, discount rates used ranged from 11.5% to 12.5%, and 4% long-term revenue growth rates were used.

Results of Operations

2006 versus 2005

Net Sales by Segment:

	Year Ended December 31, 2006	2005	Change	Percent Change	Acquired/ (Divested) Sales
ILS	$ 598.2	$ 532.6	$ 65.6	12%	$ 38.7
Aluminum products	154.6	159.1	(4.5)	(3)%	0.0
Manufactured products	303.4	241.2	62.2	26%	22.9
Consolidated Net Sales	$ 1,056.2	$ 932.9	$ 123.3	13%	$ 61.6

Net sales increased by 13% in 2006 compared to 2005. ILS sales increased primarily due to the October 2006 acquisition of NABS, 2006 s full-year s sales of PPG (acquired in July 2005), general economic growth, particularly as a result of significant growth in the heavy-duty truck industry, the addition of new customers and increases in product range to existing customers. Aluminum Products sales decreased in 2006 primarily due to contraction of automobile and light truck production in North America. Manufactured Products sales increased in 2006 primarily in the induction equipment, pipe threading equipment and forging businesses. Of this increase, $22.9 million was due to the acquisitions of Lectrotherm and Foundry Service by the induction business in December 2005 and January 2006, respectively.

Cost of Products Sold & Gross Profit:

	Year Ended December 31, 2006	Year Ended December 31, 2005	Change	Percent Change
Consolidated cost of products sold	$ 908.1	$ 796.3	$ 111.8	14%
Consolidated gross profit	$ 148.1	$ 136.6	$ 11.5	8%
Gross Margin	14.0%	14.6%		

Cost of products sold increased 14% in 2006 compared to 2005, while gross margin decreased to 14.0% from 14.6% in 2005. ILS gross margin decreased primarily due to PPG restructuring costs. Aluminum Products gross margin decreased due to volume reductions, product mix and pricing changes, plus the cost of preparations for new contracts due to start production in early 2007. Gross margin in the Manufactured Products segment decreased slightly, primarily as a result of operational and pricing issues in the Company s rubber products business.

Selling, General & Administrative (SG&A) Expenses:

	Year Ended December 31, 2006	Year Ended December 31, 2005	Change	Percent Change
Consolidated SG&A expenses	$ 90.3	$ 82.1	$ 8.2	10%
SG&A percent	8.5%	8.8%		

Consolidated SG&A expenses increased by 10%, or $8.2 million, in 2006 compared to 2005, representing a .3% reduction in SG&A expenses as a percent of sales. Approximately $5.7 million of the SG&A increase was due to acquisitions, primarily NABS, Foundry Service, Lectrotherm and PPG. SG&A expenses increased in 2006 compared to 2005 by a $.8 million decrease in net pension credits reflecting reduced returns on pension plan assets. These increases in SG&A expenses from acquisitions and reduced pension credits were partially offset by cost reductions.

Interest Expense:

	Year Ended December 31, 2006	Year Ended December 31, 2005	Change	Percent Change
Interest expense	$ 31.3	$ 27.1	$ 4.2	15%
Average outstanding borrowings	$ 376.5	$ 357.1	$ 19.4	5%
Average borrowing rate	8.31%	7.59%	72	basis points

Interest expense increased in 2006 compared to 2005, due to both higher average outstanding borrowings and higher average interest rates during 2006. The increase in average borrowings in 2006 resulted primarily from growth-driven higher working capital requirements and the purchase of NABS, Foundry Service, Lectrotherm and PPG in October and January 2006, and December and July 2005, respectively. The higher average borrowing rate in 2006 was due primarily to increased interest rates under our revolving credit facility compared to 2005, which increased as a result of actions by the Federal Reserve.

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Income Taxes:

	Year Ended December 31, 2006	2005
Income before income taxes	$ 27.4	$ 26.5
Income taxes (benefit)	$ 3.2	$ (4.3)
Reversal of tax valuation allowance included in income	(5.0)	(7.3)
Income taxes, excluding reversal of tax valuation allowance (non GAAP)	$ 8.2	$ 3.0
Effective income tax (benefit) rate	12%	(16)%
Effective income tax rate excluding reversal of tax valuation allowance (non GAAP)	30%	11%

In the fourth quarters of 2006 and 2005, the Company reversed $5.0 million and $7.3 million, respectively, of its deferred tax asset valuation allowance, substantially eliminating this reserve. Based on strong recent and projected earnings, the Company has determined that it is more likely than not that its deferred tax asset will be realized. The tax valuation allowance reversals resulted in increases to net income for both of these quarters. In 2006, the Company began recording a quarterly provision for federal income taxes, resulting in a total effective income tax rate of approximately 30%. The Company s net operating loss carryforward precluded the payment of cash federal income taxes in 2006, and should significantly reduce cash payments in 2007.

The provision for income taxes was $3.2 million in 2006 while income tax benefits were $4.3 million in 2005, including the reversals of our deferred tax asset valuation allowance. The effective income tax rate was 12% in 2006 compared to an effective tax benefit rate of (16%) in 2005. Excluding reversals of the tax valuation allowance, in 2006, the Company provided $8.2 million of income taxes, a 30% effective income tax rate, compared to providing $3.0 million of income taxes in 2005, an 11% effective income tax rate. In 2006, these taxes consisted of federal, state and foreign income taxes, while federal income tax was not provided in 2005. At December 31, 2006, our subsidiaries had $34.9 million of net operating loss carryforwards for federal tax purposes. We are presenting taxes and tax rates without the tax benefit of the tax valuation allowance reversal to facilitate comparison between the periods.

Results of Operations

2005 versus 2004

Net Sales by Segment:

	Year Ended December 31, 2005	2004	Change	Percent Change	Acquired/ (Divested) Sales
ILS	$ 532.6	$ 453.2	$ 79.4	18%	$ 31.4
Aluminum Products	159.1	135.4	23.7	18%	34.5
Manufactured Products	241.2	220.1	21.1	10%	3.5

Consolidated net sales	$ 932.9	$ 808.7	$ 124.2	15%	$ 69.4

Net sales increased by 15% in 2005 compared to 2004. ILS sales increased primarily due to the July 20, 2005 acquisition of PPG, general economic growth, particularly as a result of significant growth in the heavy-duty truck industry, the addition of new customers and increases in product range to existing customers. Aluminum Products sales increased in 2005 primarily due to sales from manufacturing plants acquired in August 2004 from the Amcast, partially offset by volume decreases in the automotive industry. Manufactured Products sales increased in 2005 primarily in the induction equipment, pipe threading equipment and forging businesses. Of this increase, $3.5 million was due to the April 2004 acquisition of the remaining 66% of the common stock of Jamco.

Cost of Products Sold & Gross Profit:

	Year Ended December 31, 2005	Year Ended December 31, 2004	Change	Percent Change
Consolidated cost of products sold	$ 796.3	$ 682.6	$ 113.7	17%
Consolidated gross profit	$ 136.6	$ 126.1	$ 10.5	8%
Gross margin	14.6%	15.6%		

Cost of products sold increased 17% in 2005 compared to 2004, while gross margin decreased to 14.6% from 15.6% in 2004. ILS gross margin decreased primarily due to steel price increases and mix changes partially offset by the absence of the negative impact of $1.1 million in 2004 of the bankruptcy of a customer, Murray, Inc. Aluminum Products gross margin decreased due to the addition of the lower-margin Amcast business, product mix and pricing changes and the increased cost of natural gas. Gross margin in the Manufactured Products segment increased, primarily as a result of increased sales and overhead efficiencies achieved in the induction equipment, pipe threading equipment and forging businesses, and also due to $.8 million writeoff of inventory associated with discontinued product lines.

SG&A Expenses:

	Year Ended December 31, 2005	Year Ended December 31, 2004	Change	Percent Change
Consolidated SG&A expenses	$ 82.1	$ 77.0	$ 5.1	7%
SG&A percent	8.8%	9.5%		

Consolidated SG&A expenses increased by 7% in 2005 compared to 2004. Approximately $3.6 million of the SG&A increase was due to acquisitions, primarily PPG, Amcast and Jamco, while bonus expenses of $1.4 million and charges relating to the Delphi and Dana bankruptcies totaling $1.2 million also contributed to the increase in SG&A expenses. SG&A expenses were reduced in 2005 compared to 2004 by a $.4 million increase in net pension credits reflecting improved returns on pension plan assets. Other than these changes, SG&A expenses remained essentially flat, despite increased sales and production volumes. SG&A expenses as a percent of sales decreased by .7 of a percentage point.

Interest Expense:

	Year Ended December 31, 2005	Year Ended December 31, 2004	Change	Percent Change
Interest expense	$ 27.1	$ 31.4	$(4.3)	(14)%

Debt extinguishment costs included in interest expense	-0-	$ 6.0	$(6.0)	
Average outstanding borrowings	$ 357.1	$ 328.9	$28.2	9%
Average borrowing rate	7.59%	7.72%	(13) basis points	

Interest expense decreased in 2005 compared to 2004, primarily due to the fourth quarter 2004 debt extinguishment costs. These costs primarily related to premiums and other transaction costs associated with the tender offer and early redemption and writeoff of deferred financing costs associated with the 9.25% senior subordinated notes. Excluding these 2004 costs, interest increased in 2005 due to higher average outstanding borrowings, partially offset by lower average interest rates during 2005. The increase in average borrowings in 2005 resulted primarily from higher working capital requirements and the purchase of Amcast Components Group and PPG in August 2004 and July 2005, respectively. The lower average borrowing rate in 2005 was due primarily to the lower interest rate of 8.375% on our senior subordinated notes sold in November 2004 compared to the 9.25% interest rate on the senior subordinated notes outstanding during the first eleven months of 2004. The lower average borrowing rate in 2005 included increased interest rates under our revolving credit facility compared to 2004, which increased primarily as a result of actions by the Federal Reserve.

Income Taxes:

	Year Ended December 31,	
	2005	2004
Income before income taxes	$ 26.5	$ 17.6
Income taxes (benefit)	$ (4.3)	$ 3.4
Reversal of tax valuation allowance included in 2005 income tax benefit	(7.3)	
2005 Income taxes excluding reversal of tax valuation allowance (non GAAP)	$ 3.0	
Effective income tax (benefit) rate	(16)%	19%
Effective income tax rate excluding reversal of tax valuation allowance (non GAAP)	11%	

In fourth quarter 2005, the Company reversed $7.3 million of its $12.3 million year-end 2005 domestic deferred tax valuation allowance. Based on strong recent and projected earnings, the Company has determined that it is more likely than not that this portion of the deferred tax asset will be realized. The tax valuation allowance reversal resulted in an increase to net income for the quarter. In 2006, the Company began recording a quarterly provision for federal income taxes. The Company s significant net operating loss carryforward should preclude the payment of cash federal income taxes in 2006 and 2007, and possibly beyond.

We had income tax benefits of $4.3 million in 2005, including a $7.3 million reversal of our deferred tax asset valuation allowance. This was an effective income tax benefit rate of (16%). The provision for income taxes was $3.4 million in 2004, an effective income tax rate of 19%. Excluding the reversal of the $7.3 million tax valuation allowance, in 2005 we provided $3.0 million of income taxes, an 11% effective income tax rate. In both years, these taxes consisted primarily of state and foreign taxes on profitable operations. In neither year did the income tax provision include federal income taxes. At December 31, 2005, our subsidiaries had $41.0 million of net operating loss carryforwards for federal tax purposes. We are presenting taxes and tax rates without the tax benefit of the tax valuation allowance reversal to facilitate comparison between the periods.

Liquidity and Sources of Capital

Our liquidity needs are primarily for working capital and capital expenditures. Our primary sources of liquidity have been funds provided by operations and funds available from existing bank credit arrangements and the sale of our senior subordinated notes. On July 30, 2003, we entered into a new revolving credit facility with a group of banks that provided for availability of up to $165.0 million, subject to an asset-based formula. In September 2004, December 2004, June 2006 and October 2006, we amended our revolving credit facility to progressively increase the availability up to $230 million subject to an asset-based formula. The December 2004 amendment also extended the maturity from July 30, 2007 to December 31, 2010, while in May 2006 the revolving credit facility was amended to reduce the pricing applicable to LIBOR-based interest rates by 50 basis points effective as of April 1, 2006. The revolving credit facility is secured by substantially all our assets in the United States, Canada and the United Kingdom. Borrowings from this revolving credit facility will be used for general corporate purposes.

Amounts borrowed under the revolving credit facility may be borrowed at the Company s election at either (i) LIBOR plus .75% to 1.75% or (ii) the bank s prime lending rate. The LIBOR-based interest rate is dependent on the Company s debt service coverage ratio, as defined in the revolving credit facility. Under the revolving credit facility, a detailed borrowing base formula provides borrowing availability to the Company based on percentages of eligible accounts receivable, inventory and fixed assets. As of

December 31, 2006, the Company had $156.7 million outstanding under the revolving credit facility, and approximately $40.0 million of unused borrowing availability.

Current financial resources (working capital and available bank borrowing arrangements) and anticipated funds from operations are expected to be adequate to meet current cash requirements. The future availability of bank borrowings under the revolving credit facility is based on the Company s ability to meet a debt service ratio covenant, which could be materially impacted by negative economic trends. Failure to meet the debt service ratio could materially impact the availability and interest rate of future borrowings.

At December 31, 2006, the Company was in compliance with the debt service ratio covenant and other covenants contained in the revolving credit facility.

The ratio of current assets to current liabilities was 2.23 at December 31, 2006 versus 2.12 at December 31, 2005. Working capital increased by $60.3 million to $268.4 million at December 31, 2006 from $208.1 million at December 31, 2005. Major components of working capital, including accounts receivable, inventories, other current assets, trade accounts payable and accrued expenses, increased substantially during 2006 due primarily to significant revenue growth and the acquisitions of NABS, PPG, and Lectrotherm.

During 2006, the Company provided $6.1 million from operating activities as compared to providing $34.5 million in 2005. The decrease in cash provision of $28.4 million was primarily the result of a much larger increase in net operating assets, net of the impact of acquisitions, in 2006 compared to 2005 ($34.7 million compared to $9.6 million, respectively), and a decrease in net income of $6.6 million. Approximately $4.6 million of the decrease in net income was due to noncash changes in deferred income taxes, partially offset by noncash restructuring and impairment charges. During 2006, the Company also invested $20.8 million in capital expenditures, received $9.4 million from the sale of facilities which were subsequently leased back, received $3.2 million from the sale of assets held for sale, borrowed an additional $28.2 million under its revolving credit facilities and invested $23.3 million in acquisitions.

During 2005, the Company provided $34.5 million from operating activities as compared to providing $1.6 million in 2004. The increase in cash provision of $32.9 million was primarily the result of a much smaller increase in net operating assets, net of the impact of acquisitions, in 2005 compared to 2004 ($9.6 million compared to $29.2 million, respectively), and an increase in net income of $16.6 million. Approximately $6.5 million of the increase in net income was due to noncash changes in deferred income taxes, partially offset by noncash restructuring and impairment charges. During 2005, the Company also invested $20.3 million in capital expenditures and $12.2 million in acquisitions and borrowed an additional $8.3 million under its revolving credit facilities.

Off-Balance Sheet Arrangements

We do not have off-balance sheet arrangements, financing or other relationships with unconsolidated entities or other persons. There are occasions whereupon we enter into forward contracts on foreign currencies, primarily the euro, purely for the purpose of hedging exposure to changes in the value of accounts receivable in those currencies against the U.S. dollar. At December 31, 2006, none were outstanding. We currently have no other derivative instruments.

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The following table summarizes our principal contractual obligations and other commercial commitments over various future periods as of December 31, 2006:

		Payments Due or Commitment Expiration Per Period			
(In Thousands)	**Total**	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**More than 5 Years**
Long-term debt obligations	$ 374,800	$ 3,310	$ 1,521	$	