PARK OHIO HOLDINGS CORP
Form 10-K
March 17, 2008

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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, 2007
OR
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ___________ to ___________

Commission file number 0-3134
PARK-OHIO HOLDINGS CORP.
(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code: (440) 947-2000
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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Aggregate market value of the voting stock held by non-affiliates of the registrant: Approximately $221,246,000, based on the closing price of $27.30 per share of the registrant s Common Stock on June 29, 2007.

Number of shares outstanding of the registrant s Common Stock, par value $1.00 per share, as of February 29, 2008: 11,404,198.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement for the Annual Meeting of Shareholders to be held on May 20, 2008 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, 2007

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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: Supply Technologies (formerly known as 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.

Supply Technologies provides our customers with Total Supply 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, 2007, we employed approximately 3,700 persons.

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

	Supply Technologies	Aluminum Products	Manufactured Products
NET SALES(1)	$531.4 million (49% of total)	$169.1 million (16% of total)	$370.9 million (35% 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 and vehicle parts, Electrical distribution	Automotive, Agricultural equipment, Construction equipment, Heavy-duty truck, Marine equipment	Steel, Coatings, Forging, Foundry, Heavy-duty truck

and controls	Construction equipment
Power sports/fitness equipment	Bottling
HVAC	Automotive
Aerospace and defense	Oil and gas
Electrical components	Rail and locomotive manufacturing
Appliance	Aerospace and defense
Semiconductor equipment	

Supply Technologies

In November 2007, our ILS business changed its name to Supply Technologies to better reflect its breadth of services and focus on driving efficiencies throughout the total supply management process.

Our Supply Technologies business provides our customers with Total Supply Management^{tm}, a proactive solutions approach that manages the efficiencies of every aspect of supplying production parts and materials to our customers manufacturing floor, from strategic planning to program implementation. Total Supply Management^{tm} includes such services as engineering and design support, part usage and cost analysis, supplier selection, quality assurance, bar coding, product packaging and tracking, just-in-time and point-of-use delivery, electronic billing services and ongoing technical support. We operate 51 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 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 17 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 prior to October 18, 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. At acquisition date, PPG operated 12 service centers in the United States, of which 9 have since been amalgamated into other Supply Technologies operations, and also serves customers in the United Kingdom and Mexico. This acquisition added significantly to our customer and supplier bases, and expanded our geographic presence. Supply Technologies has eliminated substantial overhead costs from PPG through 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 prior to July 20, 2005. See Note C to the consolidated financial statements included elsewhere herein.

Products and Services. Total Supply Management^{tm} provides our customers with an expert partner in strategic planning, global sourcing, technical services, parts and materials, logistics, distribution and inventory management of production components. 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, Supply Technologies delivers an increasingly broad range of higher-cost production components including valves, electro-mechanical hardware, 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, Supply Technologies recently began providing spare parts and aftermarket products to end users of its customers products.

Total Supply Management^{tm} 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 Supply Technologies clients exceeds twelve years. Supply Technologies remaining sales are generated through the wholesale supply of industrial products to other manufacturers and distributors pursuant to master or authorized distributor relationships.

The Supply Technologies segment also engineers and manufactures precision cold formed and cold extruded products, including locknuts, SPAC® nuts and wheel hardware, which are principally used in applications where controlled tightening is required due to high vibration. Supply Technologies 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, 2007, approximately 76% of Supply Technologies net sales were to domestic customers. Remaining sales were primarily to manufacturing facilities of large, multinational customers located in Canada, Mexico, Europe and Asia. Total Supply 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.

Supply Technologies markets and sells its services to over 6,000 customers domestically and internationally. The principal markets served by Supply Technologies are the heavy-duty truck, automotive and vehicle parts, electrical distribution and controls, consumer electronics, power sports/fitness equipment, HVAC, agricultural and construction equipment, semiconductor equipment, plumbing, aerospace and defense, and appliance industries. The five largest customers, within which Supply Technologies sells through sole-source contracts to multiple operating divisions or locations, accounted for approximately 33% and 43% of the sales of Supply Technologies for 2007 and 2006, respectively, with International Truck representing 13% and 22%, 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. A limited number of companies compete with Supply Technologies to provide supply management services for production parts and materials. Supply Technologies competes in North America, Mexico, Europe and Asia, primarily on the basis of its Total Supply Management™ services, including engineering and design support, part usage and cost analysis, supplier selection, quality assurance, bar coding, product packaging and tracking, just-in-time and point-of-use delivery, electronic billing services and ongoing technical support, and its geographic reach, extensive product selection, price and reputation for high service levels. Numerous North American and foreign companies compete with Supply Technologies in manufacturing cold-formed and cold-extruded products.

Aluminum Products

We believe that we are one of the few aluminum component 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.

Markets and Customers. The five largest customers, within which Aluminum Products sells to multiple operating divisions through sole-source contracts, accounted for approximately 55% of Aluminum Products sales for 2007 and 46% for 2006. 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 serving North America 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 35% to 40% of our induction heating and melting systems revenues are 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.

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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

Supply Technologies 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

Supply Technologies 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. Supply Technologies has multiple sources of supply for its products. An increasing portion of Supply Technologies 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 2006 and 2005. 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 Supply Technologies, as a majority of Supply Technologies 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, 2007, 2006 and 2005 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.

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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.

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 24% and 11% of our net sales during the year ended December 31, 2007 from the automobile and heavy-duty truck industries, respectively. International Truck, our largest customer, accounted for approximately 7% of our net sales for the year ended December 31, 2007. 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 Supply Technologies customers are generally not contractually obligated to purchase products and services from us.

Most of the products and services are provided to our Supply Technologies 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 Supply Technologies 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, 2007, our top seven customers accounted for approximately 21% of our net sales and our top customer, International Truck, accounted for approximately 7% 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

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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 Supply Technologies 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 Supply Technologies 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.

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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 Supply Technologies business depends upon third parties for substantially all of our component parts.

Supply Technologies 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 Supply Technologies 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 2006 and in 2007. 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 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, 2007, we were a party to seven collective bargaining agreements with various labor unions that covered approximately 550 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.

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Unexpected delays in the shipment of large, long-lead industrial equipment could adversely affect our results of operations in the period in which shipment was anticipated.

Long-lead industrial equipment contracts are a significant and growing part of our business. We primarily use the percentage of completion method to account for these contracts. Nevertheless, under this method, a large proportion of revenues and earnings on such contracts are recognized close to shipment of the equipment. Unanticipated shipment delays on large contracts could postpone recognition of revenue and earnings into future periods. Accordingly, if shipment was anticipated in the fourth quarter of a year, unanticipated shipment delays could adversely affect results of operations in that year.

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 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 Supply Technologies 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 Supply Technologies, 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.

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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 29, 2008, Edward Crawford, our Chairman of the Board and Chief Executive Officer, and Matthew Crawford, our President and Chief Operating Officer, collectively beneficially owned approximately 26% 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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2007, 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 45% of the available square footage was owned. In 2007, approximately 33% of the available domestic square footage was used by the Supply Technologies segment, 45% was used by the Manufactured Products segment and 23% by the Aluminum Products segment. Approximately 46% of the available foreign square footage was used by the Supply Technologies 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, 2007.

Related Industry Segment	Location	Owned or Leased	Approximate Square Footage	Use
SUPPLY TECHNOLOGIES(1)	Cleveland, OH	Leased	60,450(2)	Supply Technologies 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	60,075	Logistics
	Atlanta, GA	Leased	56,000	Logistics
	Dallas, TX	Leased	49,985	Logistics
	Memphis, TN	Leased	48,750	Logistics
	Louisville, KY	Leased	30,000	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	62,700	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
	Cicero, IL	Owned	450,000	Manufacturing
	Le Roeulx, Belgium	Owned	120,000	Manufacturing
	Euclid, OH	Leased	60,000	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	200,000	Manufacturing
	Cleveland, OH	Leased	150,000	Manufacturing
	Shanghai, China	Leased	20,500	Manufacturing

(1) Supply Technologies has 43 other facilities, none of which is deemed to be a principal facility.

(2) Includes 20,150 square feet used by Park-Ohio s corporate office.

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

(4) Manufactured Products has 16 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, 2007, we were a co-defendant in approximately 385 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.

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 2007.

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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	68	Chairman of the Board, Chief Executive Officer and Director
Matthew V. Crawford	38	President and Chief Operating Officer and Director
Richard P. Elliott	51	Vice President and Chief Financial Officer
Robert D. Vilsack	47	Secretary and General Counsel
Patrick W. Fogarty	46	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.

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, 2007. 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

	2007		2006	
Quarter	**High**	**Low**	**High**	**Low**
1st	$ 19.30	$ 15.90	$ 21.23	$ 13.25
2nd	28.58	18.53	21.36	14.87
3rd	32.00	22.01	18.37	12.72
4th	28.40	20.40	17.61	12.96

The number of shareholders of record for the Company s common stock as of February 29, 2008 was 763.

Issuer Purchases of Equity Securities

Set forth below is information regarding the Company s stock repurchases during the fourth quarter of the fiscal year ended December 31, 2007.

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, 2007	-0-	$ -0-	-0-	1,000,000
November 1 November 30, 2007	55,516	22.18	54,412	945,588
December 1 December 31, 2007	2,108	22.76	1,434	944,154
TOTAL	57,624	$ 22.20	55,846	944,154

(1) The Company has a share repurchase program whereby the Company may repurchase up to 1.0 million shares of its common stock. Shares acquired that were not purchased as part of a publicly announced plan consist 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, 2007	2006	2005	2004	2003
Selected Statement of Operations Data(a):					
Net sales	$ 1,071,441	$ 1,056,246	$ 932,900	$ 808,718	$ 624,295
Cost of products sold(b)	912,337	908,095	796,283	682,658	527,586
Gross profit	159,104	148,151	136,617	126,060	96,709
Selling, general and administrative expenses	98,679	90,296	82,133	77,048	62,667
Restructuring and impairment charges (credits)(b)	-0-	(809)	943	-0-	18,808
Gain on sale of assets held for sale	(2,299)	-0-	-0-	-0-	-0-
Operating income(b)	62,724	58,664	53,541	49,012	15,234
Interest expense(c)	31,551	31,267	27,056	31,413	26,151
Income (loss) before income taxes	31,173	27,397	26,485	17,599	(10,917)
Income taxes (benefit)(d)	9,976	3,218	(4,323)	3,400	904
Net income (loss)	$ 21,197	$ 24,179	$ 30,808	$ 14,199	$ (11,821)
Amounts per common share:					
Basic	$ 1.91	$ 2.20	$ 2.82	$ 1.34	$ (1.13)
Diluted	$ 1.82	$ 2.11	$ 2.70	$ 1.27	$ (1.13)

	Year Ended December 31, 2007	2006	2005	2004	2003
Other Financial Data:					
Net cash flows provided by operating activities	$ 31,466	$ 6,063	$ 34,501	$ 1,633	$ 13,305
Net cash flows used by investing activities	(21,991)	(31,407)	(31,376)	(21,952)	(3,529)
Net cash flows provided (used) by financing activities	(16,600)	28,285	8,414	23,758	(14,870)
Depreciation and amortization	20,611	20,140	17,346	15,468	15,562
Capital expenditures, net	21,876	20,756	20,295	11,955	10,869

Selected Balance Sheet Data (as of period end):					
Cash and cash equivalents	$ 14,512	$ 21,637	$ 18,696	$ 7,157	$ 3,718
Working capital	270,939	268,825	208,051	169,836	148,919
Property, plant and equipment	105,557	101,085	110,310	107,173	92,651
Total assets	769,189	783,751	662,854	610,022	507,452
Total debt	360,049	374,800	346,649	338,307	310,225
Shareholders equity	171,478	138,737	103,521	72,393	56,025

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(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, 2007, which include the following acquisitions:

2006 Foundry Service and NABS

2005 PPG and Lectrotherm

2004 Amcast Components Group and Jamco

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.

(b) In each of the years ended December 31, 2007, 2006, 2005 and 2003, 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, $.3 million, $2.1 million and $2.5 million in the years ended December 31, 2007, 2006, 2005, 2004 and 2003, 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,			
	2007	2006	2005	2003
	(Dollars in thousands)			
Non-cash charges:				
Cost of products sold (inventory write-down)	$ 2,214	$ 800	$ 833	$ 638
Asset impairment	-0-	-0-	391	16,051
Restructuring and severance	-0-	-0-	400	990
Pension and postretirement benefits curtailment (credits)	-0-	(809)	152	1,767
Total	$ 2,214	$ (9)	$ 1,776	$ 19,446
Charges reflected as restructuring and impairment charges (credits) on income statement	$ -0-	$ (809)	$ 943	$ 18,808

(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.

No dividends were paid during the five years ended December 31, 2007.

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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 reversals of a tax valuation allowance in 2006 and 2005, restructuring and unusual charges in 2006 and 2005, and acquisitions during the three years ended December 31, 2007.

Executive Overview

We are an industrial Total Supply Management^{tm} and diversified manufacturing business, operating in three segments: Supply Technologies, Aluminum Products and Manufactured Products. In November 2007, our ILS business changed its name to Supply Technologies to better reflect its breadth of services and focus on driving efficiencies throughout the total supply management process. Our Supply Technologies business provides our customers with Total Supply Management^{tm}, a proactive solutions approach that manages the efficiencies of every aspect of supplying production parts and materials to our customers manufacturing floor, from strategic planning to program implementation. Total Supply Management^{tm} includes such services as engineering and design support, part usage and cost analysis, supplier selection, quality assurance, bar coding, product packaging and tracking, just-in-time and point-of-use delivery, electronic billing services and ongoing technical support. The principal customers of Supply Technologies are in the heavy-duty truck, automotive and vehicle parts, electrical distribution and controls, consumer electronics, power sports/fitness equipment, HVAC, agricultural and construction equipment, semiconductor equipment, plumbing, aerospace and defense, and appliance 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 pre-tax income continued to grow in 2007, as growth in the Manufactured Products segment and new customers in the Supply Technologies and Aluminum Products segments exceeded declines in Supply Technologies segment sales to the heavy-duty truck market caused by the introduction of new environmental standards at the beginning of 2007. New customers in the Supply Technologies segment came both from the October, 2006 acquisition of NABS and from organic sales, while new sales in the Aluminum Products segment primarily reflect new contracts. Sales increased 1%, while operating income increased 7% and income before income taxes increased 14%. Net income declined in 2007 because 2006 earnings were increased by the reversal of the remaining $5.0 million of the Company s tax valuation allowance.

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 of $5.0 million in 2006 was smaller than the reversal of the valuation allowance of $7.3 million in 2005, and because of higher interest expense in 2006. The tax valuation allowance was substantially eliminated by December 31, 2006, so no further significant reversals occurred to affect income in 2007 or are anticipated in later 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 the years 2004 through 2007, 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 have amended our revolving credit facility, most recently in June 2007, to extend its maturity to December 2010, increase the credit limit to $270.0 million subject to an asset-based formula and provide lower interest rate levels.

In October 2006, we acquired all of the capital stock of 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 had 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.

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 Supply Technologies segment.

Accounting Changes and Goodwill

On December 31, 2006, the Company adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (FAS 158). FAS 158 required the Company to recognize the funded status (i.e. , the difference between the Company s fair value of plan assets and the projected benefit obligations) of its defined benefit pension and postretirement benefit plans (collectively, the postretirement benefit plans) in the December 31, 2006 Consolidated Balance Sheet, with a corresponding adjustment to accumulated other comprehensive income, net of tax. The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial losses, unrecognized prior service costs and unrecognized transition obligation remaining from the initial adoption of FAS 87 and FAS 106, all of which were previously netted against the plans funded status in the Company s Consolidated Balance Sheet in accordance with the provisions of FAS 87 and FAS 106. These amounts will be subsequently recognized as net periodic benefit cost in accordance with the Company s historical accounting policy for amortizing these amounts. In addition, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic benefit cost on the same basis as the amounts recognized in accumulated other comprehensive income at adoption of FAS 158.

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 and diluted income per share would have been decreased by $0.2 million ($.02 per share) in 2005.

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 2007 and 2006 compensation expense by $0.4 million and $0.3 million (before tax), respectively.

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, 2007, 2006 and 2005, using forecasted discounted cash flows, and it was determined that no impairment is required. At December 31, 2007, our balance sheet reflected $101.0 million of goodwill. In 2007, discount rates used ranged from 11.0% to 14.0%, and long-term revenue growth rates ranging from 3.5% to 4.0% were used.

On July 13, 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes, and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has a 50% or less likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 as of January 1, 2007. See Note H to the consolidated financial statements, included elsewhere herein, for the impact on the Company s financial statements and related disclosures.

Results of Operations

2007 versus 2006

Net Sales by Segment:

	Year-Ended December 31, 2007	Year-Ended December 31, 2006	Change	Percent Change	Acquired/ (Divested) Sales
Supply Technologies	$ 531.4	$ 598.2	$ (66.8)	(11)%	$ 29.5
Aluminum Products	169.1	154.6	14.5	9%	0.0

Manufactured Products	370.9	303.4	67.5	22%	0.0
Consolidated Net Sales	$ 1,071.4	$ 1,056.2	$ 15.2	1%	$ 29.5

Consolidated net sales increased by 1% in 2007 compared to 2006, as growth in the Manufactured Products segment and new customers in the Supply Technologies and Aluminum Products segments exceeded declines in Supply Technologies segment sales to the heavy-duty truck market caused by the introduction of new environmental standards at the beginning of 2007. Supply Technologies sales decreased 11% primarily due to volume reductions in the heavy-duty truck industry, partially offset by $29.5 million of additional sales from the October 2006 acquisition of NABS, the addition of new customers and increases in product range to existing customers. New customers in the Supply Technologies segment came from organic sales, while new sales in the Aluminum Products segment primarily reflect sales to new customers. Aluminum Products sales increased 9% as the sales volumes from new contracts starting production ramp-up exceeded the end of production of other parts and the general decline in auto industry sales volumes. Manufactured Products sales increased 22%, primarily in the induction equipment, pipe threading equipment and forging businesses, due largely to worldwide strength in the steel, oil and gas, aerospace and rail industries. At the end of fourth quarter 2007, the Company adjusted downward the amount initially recorded for revenue by approximately $18.0 million to reflect the exclusion of certain costs from suppliers and subcontractors from the percentage of completion calculation that is used to account for long-term industrial equipment contracts. See Selected Quarterly Financial Data (Unaudited) on page 63 for additional information.

Cost of Products Sold & Gross Profit:

	Year-Ended December 31, 2007	Year-Ended December 31, 2006	Change	Percent Change
Consolidated cost of products sold	$ 912.3	$ 908.1	$ 4.2	0%
Consolidated gross profit	$ 159.1	$ 148.1	$ 11.0	7%
Gross margin	14.8%	14.0%		

Cost of products sold was relatively flat in 2007 compared to 2006, while gross margin increased to 14.8% from 14.0% in 2006. Supply Technologies gross margin increased slightly, as the margin benefit from sales from the NABS acquisition and new customers outweighed the effect of reduced heavy-truck sales volume and higher restructuring charges in 2007. Supply Technologies 2006 and 2007 cost of products sold included $.8 million and $2.2 million, respectively of inventory related restructuring charges associated with the closure of a manufacturing plant. Aluminum Products gross margin decreased primarily due to the costs associated with starting up new contracts and the slow ramp-up of new contract volume. Gross margin in the Manufactured Products segment increased primarily due to increased sales volume.

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

	Year-Ended December 31, 2007	Year-Ended December 31, 2006	Change	Percent Change
Consolidated SG&A expenses	$ 98.7	$ 90.3	$ 8.4	9%
SG&A percent	9.2%	8.5%		

Consolidated SG&A expenses increased $8.4 million in 2007 compared to 2006, representing a .7% increase in SG&A expenses as a percent of sales. SG&A increased approximately $5.3 million due to the acquisition of NABS. SG&A increased further primarily due to increased expenses related to stock options and restricted stock, the new office building, legal and professional fees and franchise taxes, partially offset by a $1.1 million increase in net pension credits, reflecting higher return on pension plan assets.

Interest Expense:

	Year-Ended December 31, 2007	Year-Ended December 31, 2006	Change	Percent Change
Interest expense	$ 31.6	$ 31.3	$ 0.3	1%
Average outstanding borrowings	$ 383.6	$ 376.5	$ 7.1	2%
Average borrowing rate	8.23%	8.31%	8	basis points

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Interest expense increased $.3 million in 2007 compared to 2006, due to higher average outstanding borrowings, partially offset by lower average interest rates during 2007. The increase in average borrowings in 2007 resulted primarily from higher working capital and the purchase of NABS in October 2006. The lower average borrowing rate in 2007 was due primarily to decreased interest rates under our revolving credit facility compared to 2006, which increased as a result of actions by the Federal Reserve.

Income Taxes:

	Year-Ended December 31, 2007	Year-Ended December 31, 2006
Income before income taxes	$ 31.2	$ 27.4
Income taxes	$ 10.0	$ 3.2
Reversal of tax valuation allowance included in income	0.0	(5.0)
Income taxes excluding reversal of tax valuation allowance	$ 10.0	$ 8.2
Effective income tax rate	32%	12%
Effective income tax rate excluding reversal of tax valuation allowance (Non-GAAP)	32%	30%

In the fourth quarter of 2006, the Company reversed $5.0 million of its deferred tax asset valuation allowance, increasing net income for that year and substantially eliminating this reserve. Based on strong recent and projected earnings, the Company determined that it was more likely than not that its deferred tax asset would be realized.

The provision for income taxes was $10.0 million in 2007 compared to $3.2 million in 2006, which was reduced by the $5.0 million reversal of our deferred tax asset valuation allowance. The effective income tax rate was 32% in 2007, compared to 12% in 2006. Excluding the reversal of the tax valuation allowance in 2006, the Company provided $8.2 million of income taxes, a 30% effective income tax rate. We are presenting taxes and tax rates without the tax benefit of the tax valuation allowance reversal to facilitate comparison between the periods.

The Company s net operating loss carryforward precluded the payment of most cash federal income taxes in both 2007 and 2006, and should similarly preclude such payments in 2008 and substantially reduce them in 2009. At December 31, 2007, the Company had net operating loss carryforwards for federal income tax purposes of approximately $41.6 million, which will expire between 2021 and 2027.

Results of Operations

2006 versus 2005

Net Sales by Segment:

	Year Ended December 31, 2006	Year Ended December 31, 2005	Change	Percent Change	Acquired/ (Divested) Sales

Supply Technologies	$	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. Supply Technologies sales increased primarily due to the October 2006 acquisition of NABS, a full year of sales of PPG in 2006 (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

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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. Supply Technologies 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.

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 rate (benefit)	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.

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.

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. In 2003, we entered into a revolving credit facility with a group of banks which, as subsequently amended, matures at December 31, 2010 and provides for availability of up to $270 million subject to an asset-based formula. 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, 2007, the Company had $145.4 million outstanding under the revolving credit facility, and approximately $70.4 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, 2007, 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 2.40 at December 31, 2007 versus 2.24 at December 31, 2006. Working capital increased by $2.1 million to $270.9 million at December 31, 2007 from $268.8 million at December 31, 2006.

During 2007, the Company provided $31.5 million from operating activities as compared to providing $6.1 million in 2006. The increase in cash provision of $25.4 million was primarily the result of a smaller increase in net operating assets in 2007 compared to 2006 ($19.0 million compared to $35.0 million, respectively), a deferred income tax provision of $4.3 million in 2007 compared to a $4.4 million deferred tax benefit in 2006, partially offset by a decrease in net income of $3.0 million. The decrease in net income was partially offset by approximately $2.2 million of noncash restructuring and impairment charges in 2007. During 2007, the Company also invested $21.9 million in capital expenditures, received $4.4 million from the sale of assets held for sale, paid back $14.8 million on its bank and other debt, invested $5.1 million in marketable securities and purchased $2.2 million of treasury stock.

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 ($34.9 million compared to $9.2 million, respectively), and a decrease in net income of $6.6 million. Approximately $4.3 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.

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, 2007, none were outstanding. We currently have no other derivative instruments.

The following table summarizes our principal contractual obligations and other commercial commitments over various future periods as of December 31, 2007:

		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	$ 360,048	$ 2,362	$ 147,662	$ 24	$ 210,000
Interest obligations(1)	120,915	17,588	35,175	35,175	32,977
Capital lease obligations	-0-	-0-	-0-	-0-	-0-
Operating lease obligations	54,760	13,400	19,444	9,117	12,799
Purchase obligations	141,731	141,373	358	-0-	-0-
Postretirement obligations(2)	19,057	2,242	4,408	4,089	8,318
Standby letters of credit	24,691	20,473	4,218	-0-	-0-

Total	$ 721,202	$ 197,438	$ 211,265	$ 48,405	$ 264,094

(1) Interest obligations are included on the 8.375% senior subordinated notes due 2014 only and assume notes are paid at maturity. The calculation of interest on debt outstanding under our revolving credit facility and other variable rate debt ($8,957 based on 6.16% average interest rate and outstanding

borrowings of $145,400 at December 31, 2007) is not included above due to the subjectivity and estimation required.

(2) Postretirement obligations include projected postretirement benefit payments to participants only through 2017.

The table above excludes the liability for unrecognized income tax benefits disclosed in Note H to the consolidated financial statements, since the Company cannot predict with reasonable reliability, the timing of potential cash settlements with the respective taxing authorities.

We expect that funds provided by operations plus available borrowings under our revolving credit facility to be adequate to meet our cash requirements for at least the next twelve months.

Critical Accounting Policies

Preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions which affect amounts reported in our consolidated financial statements. Management has made their best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. We do not believe that there is great likelihood that materially different amounts would be reported under different conditions or using different assumptions related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

Revenue Recognition: The Company recognizes revenue, other than from long-term contracts, when title is transferred to the customer, typically upon shipment. Revenue from long-term contracts (approximately 10% of consolidated revenue) is accounted for under the percentage of completion method, and recognized on the basis of the percentage each contract s cost to date bears to the total estimated contract cost. Revenue earned on contracts in process in excess of billings is classified in other current assets in the accompanying consolidated balance sheet. The Company s revenue recognition policies are in accordance with the SEC s Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition.

Allowance for Doubtful Accounts: Accounts receivable have been reduced by an allowance for amounts that may become uncollectible in the future. Allowances are developed by the individual operating units based on historical losses, adjusting for economic conditions. Our policy is to identify and reserve for specific collectibility concerns based on customers financial condition and payment history. The establishment of reserves requires the use of judgment and assumptions regarding the potential for losses on receivable balances. Writeoffs of accounts receivable have historically been low.

Allowance for Obsolete and Slow Moving Inventory: Inventories are stated at the lower of cost or market value and have been reduced by an allowance for obsolete and slow-moving inventories. The estimated allowance is based on management s review of inventories on hand with minimal sales activity, which is compared to estimated future usage and sales. Inventories identified by management as slow-moving or obsolete are reserved for based on estimated selling prices less disposal costs. Though we consider these allowances adequate and proper, changes in economic conditions in specific markets in which we operate could have a material effect on reserve allowances required.

Impairment of Long-Lived Assets: Long-lived assets are reviewed by management for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. During 2005 and 2003, the Company decided to exit certain under-performing product lines and to close or consolidate certain operating facilities and, accordingly, recorded restructuring and impairment charges as discussed above and in Note O to the consolidated financial statements included elsewhere herein.

Restructuring: We recognize costs in accordance with Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs incurred in a Restructuring) (EITF 94-3), and SEC Staff Accounting Bulletin No. 100, Restructuring and Impairment Charges, for charges prior to 2003. Detailed contemporaneous

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documentation is maintained and updated on a quarterly basis to ensure that accruals are properly supported. If management determines that there is a change in the estimate, the accruals are adjusted to reflect the changes.

The Company adopted Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities (FAS 146), which nullified EITF 94-3 and requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at the fair value only when the liability is incurred. FAS 146 has no effect on charges recorded for exit activities begun prior to 2002.

Goodwill: We adopted FAS 142 as of January 1, 2002. Under FAS 142, we are required to review goodwill for impairment annually or more frequently if impairment indicators arise. We have completed the annual impairment test as of October 1, 2007, 2006, 2005 and 2004 and have determined that no goodwill impairment existed as of those dates.

Deferred Income Tax Assets and Liabilities: We account for income taxes under the liability method, whereby deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and the tax bases of assets and liabilities and are measured using the currently enacted tax rates. In determining these amounts, management determined the probability of realizing deferred tax assets, taking into consideration factors including historical operating results, expectations of future earnings and taxable income and the extended period of time over which the postretirement benefits will be paid and accordingly records a tax valuation allowance if, based on the weight of available evidence it is more likely than not that some portion or all of our deferred tax assets will not be realized as required by FAS 109.

Pension and Other Postretirement Benefit Plans: We and our subsidiaries have pension plans, principally noncontributory defined benefit or noncontributory defined contribution plans and postretirement benefit plans covering substantially all employees. The measurement of liabilities related to these plans is based on management s assumptions related to future events, including interest rates, return on pension plan assets, rate of compensation increases, and health care cost trends. Pension plan asset performance in the future will directly impact our net income. We have evaluated our pension and other postretirement benefit assumptions, considering current trends in interest rates and market conditions and believe our assumptions are appropriate.

Stock-Based Compensation: We elected to account for stock-based compensation using the intrinsic value method prescribed in 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 FAS 123. FAS 123 permits 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 and diluted income per share would have been decreased by $(0.2) million (($.02) per share) in 2005.

In December 2004, the FASB issued 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 2007 and 2006 compensation expense by $.4 million and $.3 million (before-tax), respectively.

Accounting Changes: In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, which replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. The statement changes the requirements for the accounting and reporting of a change in accounting principle and is applicable to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement if that pronouncement does not include specific transition provisions. The statement requires retrospective application to prior periods financial statements of changes in accounting principle unless it is impractical to determine the period specific effects or the cumulative effect of the change. The correction of an error by the restatement of previously issued financial statements is also addressed by the statement. The Company adopted this statement effective January 1, 2006 as prescribed and its adoption did not have any impact on the Company s results of operations or financial condition.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value in GAAP and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements and is effective for the Company in 2008. The Company is currently evaluating the impact of adopting this statement on the Company s financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (FAS 159). FAS 159 permits an entity to elect fair value as the initial and subsequent measurement attribute for many financial assets and liabilities. Entities electing the fair value option would be required to recognize changes in fair value in earnings. Entities electing the fair value option would also be required to distinguish, on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. FAS 159 is effective for the Company in 2008. The adjustment to reflect the difference between the fair value and the carrying amount would be accounted for as a cumulative-effect adjustment to retained earnings as of the date of initial adoption. The Company is currently evaluating the impact of adoption of FAS 159 on the Company s financial position and results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (FAS 141(R)). FAS 141(R) provides revised guidance on how acquirers recognize and measure the consideration transferred, identifiable assets acquired, liabilities assumed, noncontrolling interests and goodwill acquired in a business combination. FAS 141(R) also expands required disclosures surrounding the nature and financial effects of business combinations. FAS 141(R) is effective, on a prospective basis, for the Company in 2009. The Company is currently evaluating the impact of adopting FAS 141(R) on the Company s financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (FAS 160). FAS 160 establishes requirements for ownership interests in subsidiaries held by parties other than the Company (sometimes called minority interests) be clearly identified, presented, and disclosed in the consolidated statement of financial position within equity, but separate from the parent s equity. All changes in the parent s ownership interests are required to be accounted for consistently as equity transactions and any noncontrolling equity investments in deconsolidated subsidiaries must be measured initially at fair value. FAS 160 is effective, on a prospective basis, for the Company in 2009. However, presentation and disclosure requirements must be retrospectively applied to comparative financial statements. The Company is currently evaluating the impact of adopting FAS 160 on the Company s financial position and results of operations.

Environmental

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. However, our share of such costs has not been material and based on available information, our management does not expect our

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exposure at any of these locations to have a material adverse effect on its results of operations, liquidity or financial condition.

We have been named as one of many defendants in a number of asbestos-related personal injury lawsuits. Our cost of defending such lawsuits has not been material to date and, based upon available information, our management does not expect our future costs for asbestos-related lawsuits to have a material adverse effect on our results of operations, liquidity or financial condition. We caution, however, that inherent in management s estimates of our exposure are expected trends in claims severity, frequency and other factors that may materially vary as claims are filed and settled or otherwise resolved.

Seasonality; Variability of Operating Results

Our results of operations are typically stronger in the first six months than the last six months of each calendar year due to scheduled plant maintenance in the third quarter to coincide with customer plant shutdowns and due to holidays in the fourth quarter.

The timing of orders placed by our customers has varied with, among other factors, orders for customers finished goods, customer production schedules, competitive conditions and general economic conditions. The variability of the level and timing of orders has, from time to time, resulted in significant periodic and quarterly fluctuations in the operations of our business units. Such variability is particularly evident at the capital equipment businesses, included in the Manufactured Products segment, which typically ship a few large systems per year.

Forward-Looking Statements

This annual report on Form 10-K contains certain statements that are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The words believes , anticipates , plans , expects , intends , estimates and similar expressions are intended to identify forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance and achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These factors include, but are not limited to the following: our substantial indebtedness; general business conditions and competitive factors, including pricing pressures and product innovation; dependence on the automotive and heavy-duty truck industries, which are highly cyclical; demand for our products and services; raw material availability and pricing; component part availability and pricing; adverse changes in our relationships with customers and suppliers; the financial condition of our customers, including the impact of any bankruptcies; our ability to successfully integrate recent and future acquisitions into existing operations; changes in general domestic economic conditions such as inflation rates, interest rates, tax rates and adverse impacts to us, our suppliers and customers from acts of terrorism or hostilities; our ability to meet various covenants, including financial covenants, contained in our revolving credit facility and the indenture governing the 8.375% senior subordinated notes due 2014; increasingly stringent domestic and foreign governmental regulations, including those affecting the environment; inherent uncertainties involved in assessing our potential liability for environmental remediation-related activities; the outcome of pending and future litigation and other claims, including, without limitation asbestos claims; our ability to negotiate acceptable contracts with labor unions; dependence on key management; dependence on information systems; and the other factors we describe under the Item 1A. Risk Factors . Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or

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otherwise. In light of these and other uncertainties, the inclusion of a forward-looking statement herein should not be regarded as a representation by us that our plans and objectives will be achieved.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk including changes in interest rates. We are subject to interest rate risk on our floating rate revolving credit facility, which consisted of borrowings of $145.4 million at December 31, 2007. A 100 basis point increase in the interest rate would have resulted in an increase in interest expense of approximately $1.4 million for the year ended December 31, 2007.

Our foreign subsidiaries generally conduct business in local currencies. During 2007, we recorded a favorable foreign currency translation adjustment of $7.3 million related to net assets located outside the United States. This foreign currency translation adjustment resulted primarily from the weakening of the U.S. dollar in relation to the Canadian dollar. Our foreign operations are also subject to other customary risks of operating in a global environment, such as unstable political situations, the effect of local laws and taxes, tariff increases and regulations and requirements for export licenses, the potential imposition of trade or foreign exchange restrictions and transportation delays.

Our largest exposures to commodity prices relate to steel and natural gas prices, which have fluctuated widely in recent years. We do not have any commodity swap agreements, forward purchase or hedge contracts for steel but have entered into forward purchase contracts for a portion of our anticipated natural gas usage through April 2008.

Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements and Supplementary Financial Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Park-Ohio Holdings Corp.

We have audited the accompanying consolidated balance sheets of Park-Ohio Holdings Corp. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders equity and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Park-Ohio Holdings Corp. and subsidiaries at December 31, 2007 and 2006 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with U.S. generally accepted accounting principles.

As discussed in Note I to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, effective January 1, 2006. As discussed in Note K to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Post Retirement Plans , effective December 31, 2006. As discussed in Note H to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Incomes Taxes , effective January 1, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Park-Ohio Holdings Corp. and subsidiaries internal control over financial reporting as of December 31, 2007, based on criteria established in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2008 expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio
March 13, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Park-Ohio Holdings Corp.

We have audited Park-Ohio Holding Corp. s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Park-Ohio Holdings Corp. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management s assessment.

> Management has identified a material weakness in controls related to the Company s revenue recognition process.

The material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2007 consolidated financial statements, and this report does not affect our report dated March 13, 2008, on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the internal control criteria, Park-Ohio Holdings Corp. has not maintained effective internal control over financial reporting as of December 31, 2007 based on the COSO criteria.

/s/ Ernst & Young LLP

Cleveland, Ohio
March 13, 2008

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Park-Ohio Holdings Corp. and Subsidiaries

Consolidated Balance Sheets

	December 31, 2007	December 31, 2006
	(Dollars in thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 14,512	$ 21,637
Accounts receivable, less allowances for doubtful accounts of $3,724 in 2007 and $4,305 in 2006	172,357	181,893
Inventories	215,409	223,936
Deferred tax assets	21,897	34,142
Unbilled contract revenue	24,817	16,886
Other current assets	15,232	7,332
Total Current Assets	464,224	485,826
Property, plant and equipment:		
Land and land improvements	3,452	3,464
Buildings	41,437	37,656
Machinery and equipment	221,333	206,945
	266,222	248,065
Less accumulated depreciation	160,665	146,980
	105,557	101,085
Other Assets:		
Goodwill	100,997	98,180
Net assets held for sale	3,330	6,568
Other	95,081	92,092
	$ 769,189	$ 783,751
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Trade accounts payable	$ 121,875	$ 132,864
Accrued expenses	67,007	78,264
Current portion of long-term debt	2,362	3,310
Current portion of other postretirement benefits	2,041	2,563
Total Current Liabilities	193,285	217,001
Long-Term Liabilities, less current portion		
8.375% senior subordinated notes due 2014	210,000	210,000
Revolving credit	145,400	156,700
Other long-term debt	2,287	4,790

Deferred tax liability	22,722	32,089
Other postretirement benefits and other long-term liabilities	24,017	24,434
	404,426	428,013
Shareholders Equity		
Capital stock, par value $1 per share		
Serial preferred stock:		
Authorized 632,470 shares; Issued and outstanding none	-0-	-0-
Common stock:		
Authorized 40,000,000 shares; Issued 12,232,859 shares in 2007 and 12,110,275 in 2006	12,233	12,110
Additional paid-in capital	61,956	59,676
Retained earnings	90,782	70,193
Treasury stock, at cost, 828,661 shares in 2007 and 736,408 shares in 2006	(11,255)	(9,066)
Accumulated other comprehensive loss	17,762	5,824
	171,478	138,737
	$ 769,189	$ 783,751

See notes to consolidated financial statements.

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Park-Ohio Holdings Corp. and Subsidiaries

Consolidated Statements of Income

	Year Ended December 31, 2007	2006	2005
	(Dollars in thousands, except per share data)		
Net sales	$ 1,071,441	$ 1,056,246	$ 932,900
Cost of products sold	912,337	908,095	796,283
Gross profit	159,104	148,151	136,617
Selling, general and administrative expenses	98,679	90,296	82,133
Restructuring and impairment charges (credits)	-0-	(809)	943
Gain on sale of assets held for sale	(2,299)	-0-	-0-
Operating income	62,724	58,664	53,541
Interest expense	31,551	31,267	27,056
Income before income taxes	31,173	27,397	26,485
Income taxes (benefit)	9,976	3,218	(4,323)
Net income	$ 21,197	$ 24,179	$ 30,808
Amounts per common share:			
Basic	$ 1.91	$ 2.20	$ 2.82
Diluted	$ 1.82	$ 2.11	$ 2.70

See notes to consolidated financial statements.

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Park-Ohio Holdings Corp. and Subsidiaries

Consolidated Statements of Shareholders Equity

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Total
	(Dollars in thousands)						
Balance at January 1, 2005	$ 11,547	$ 56,530	$ 15,206	$ (8,864)	$ (1,676)	$ (350)	$ 72,393
Comprehensive income (loss):							
Net income			30,808				30,808
Foreign currency translation adjustment					94		94
Minimum pension liability					(520)		(520)
Comprehensive income							30,382
Restricted stock award	56	861				(917)	-0-
Amortization of restricted stock						674	674
Purchase of treasury stock				(145)			(145)
Exercise of stock options (99,668 shares)	100	117					217
Balance at December 31, 2005	11,703	57,508	46,014	(9,009)	(2,102)	(593)	103,521
Reclassification at January 1, 2006		(593)				593	-0-
Comprehensive income (loss):							
Net income			24,179				24,179
Foreign currency translation adjustment					2,128		2,128
Minimum pension liability					5,358		5,358
Comprehensive income							31,665
Adjustment recognized upon adoption of FAS 158 (net of income tax of $404)					440		440
Restricted stock award	340	(340)					-0-
Amortization of restricted stock		787					787
Share-based compensation		299					299
Tax valuation allowance reversal		1,889					1,889

Purchase of treasury stock				(57)			(57)
Exercise of stock options (69,364 shares)	67	126					193
Balance at December 31, 2006	12,110	59,676	70,193	(9,066)	5,824	-0-	138,737
Adjustment relating to adoption of FIN 48			(608)				(608)
Comprehensive income:							
Net income			21,197				21,197
Foreign currency translation adjustment					7,328		7,328
Unrealized loss on marketable securities, net of income tax of $182					(323)		(323)
Pension and postretirement benefit adjustments, net of income tax of $2,834					4,933		4,933
Comprehensive income							33,135
Restricted stock award	17	(17)					-0-
Amortization of restricted stock		1,651					1,651
Purchase of treasury stock (92,253 shares)				(2,189)			(2,189)
Exercise of stock options (106,084 shares)	106	234					340
Share-based compensation		412					412
Balance at December 31, 2007	$ 12,233	$ 61,956	$ 90,782	$ (11,255)	$ 17,762	$ -0-	$ 171,478

See notes to consolidated financial statements.

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Park-Ohio Holdings Corp. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2007	2006	2005
	(Dollars in thousands)		
OPERATING ACTIVITIES			
Net income	$ 21,197	$ 24,179	$ 30,808
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	20,611	20,140	17,346
Restructuring and impairment charges (credits)	2,214	(9)	1,776
Deferred income taxes	4,342	(4,361)	(6,946)
Stock based compensation expense	2,063	1,086	674
Changes in operating assets and liabilities excluding acquisitions of businesses:			
Accounts receivable	9,536	(16,219)	5,507
Inventories	8,527	(28,443)	(1,699)
Accounts payable and accrued expenses	(22,246)	16,956	(959)
Other	(14,778)	(7,266)	(12,006)
Net cash provided by operating activities	31,466	6,063	34,501
INVESTING ACTIVITIES			
Purchases of property, plant and equipment, net	(21,876)	(20,756)	(20,295)
Business acquisitions, net of cash acquired	-0-	(23,271)	(12,181)
Proceeds from sale-leaseback transactions	-0-	9,420	-0-
Purchases of marketable securities	(5,142)	-0-	-0-
Sales of marketable securities	662	-0-	-0-
Proceeds from the sale of assets held for sale	4,365	3,200	1,100
Net cash used by investing activities	(21,991)	(31,407)	(31,376)
FINANCING ACTIVITIES			
Proceeds from bank arrangements, net	-0-	28,150	8,342
Payments on bank arrangements and long-term debt, net	(14,751)	-0-	-0-
Issuance of common stock under stock option plan	340	193	217
Purchase of treasury stock	(2,189)	(58)	(145)
Net cash (used) provided by financing activities	(16,600)	28,285	8,414
(Decrease) Increase in cash and cash equivalents	(7,125)	2,941	11,539
Cash and cash equivalents at beginning of year	21,637	18,696	7,157
Cash and cash equivalents at end of year	$ 14,512	$ 21,637	$ 18,696
Income taxes paid	$ 6,170	$ 5,291	$ 881
Interest paid	30,194	28,997	24,173

See notes to consolidated financial statements.

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PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007, 2006 and 2005
(Dollars in thousands, except per share data)

NOTE A Summary of Significant Accounting Policies

Consolidation and Basis of Presentation: The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated upon consolidation. The Company does not have off-balance sheet arrangements or financings with unconsolidated entities or other persons. In the ordinary course of business, the Company leases certain real properties as described in Note L. Transactions with related parties are in the ordinary course of business, are conducted on an arm s-length basis, and are not material to the Company s financial position, results of operations or cash flows.

Accounting Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents: The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Marketable Securities: Marketable securities which consist of equity securities are classified as available for sale and are included in other current assets. The securities are carried at their fair value and net unrealized holding gains and losses, net of tax, are carried as a component of accumulated other comprehensive earnings (loss).

Inventories: Inventories are stated at the lower of first-in, first-out (FIFO) cost or market value. Inventory reserves were $20,432 and $22,978 at December 31, 2007 and 2006, respectively.

Major Classes of Inventories

	December 31,	
	2007	**2006**
Finished goods	$ 129,074	$ 143,071
Work in process	26,249	42,405
Raw materials and supplies	60,086	38,460
	$ 215,409	$ 223,936

Property, Plant and Equipment: Property, plant and equipment are carried at cost. Additions and associated interest costs are capitalized and expenditures for repairs and maintenance are charged to operations. Depreciation of fixed assets is computed principally by the straight-line method based on the estimated useful lives of the assets ranging from 25 to 60 years for buildings, and three to 16 years for machinery and equipment. The Company reviews long-lived assets for impairment when events or changes in business conditions indicate that their full carrying value may not be recoverable. See Note O.

Goodwill and Other Intangible Assets: In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets (FAS 142), the Company does not amortize goodwill recorded in connection with business acquisitions. The Company completed the annual impairment tests required by FAS 142 as of October 1 and these tests confirmed that the fair value of the Company s goodwill exceed their respective carrying values and no impairment loss was required to be recognized. Other intangible assets, which consist primarily of non-contractual customer relationships, are amortized over their estimated useful lives.

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PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pensions and Other Postretirement Benefits: The Company and its subsidiaries have pension plans, principally noncontributory defined benefit or noncontributory defined contribution plans, covering substantially all employees. In addition, the Company has two unfunded postretirement benefit plans. For the defined benefit plans, benefits are based on the employee s years of service. For the defined contribution plans, the costs charged to operations and the amount funded are based upon a percentage of the covered employees compensation.

Stock-Based Compensation: Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), Share-Based Payment (FAS 123(R)), using the modified prospective method. Under this method, compensation cost is recognized beginning with the effective date (a) based on the requirements of FAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of FAS 123 for all awards granted to employees prior to the effective date of FAS 123(R) that remain unvested on the effective date.

FAS 123(R) was issued on December 16, 2004 and is a revision of FAS 123, Accounting for Stock-Based Compensation. FAS 123(R) supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB Opinion 25) and amends FAS 95, Statement of Cash Flows. Generally, the approach in FAS 123(R) is similar to the approach described in FAS 123. However, FAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The adoption of fair value recognition provisions for stock options increased the Company s fiscal 2007 and 2006 compensation expense by $412 and $299 (before tax), respectively.

As permitted by FAS 123, the Company previously accounted for share-based payments to employees using APB Opinion 25 s intrinsic value method and, as such, generally recognized no compensation cost for employee stock options. FAS 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current accounting guidance. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the Company cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized in prior years was zero because the Company did not owe federal income taxes due to the recognition of net operating loss carryforwards for which valuation allowances had been provided.

The fair value of stock options is estimated as of the grant date using the Black-Scholes option pricing model with the following weighted average assumptions for options granted in the following fiscal years:

	Years Ended December 31,	
	2007	2005
Risk free interest rate	4.62%	4.15%
Expected life of option in years	6.0	6.0
Expected dividend yield	0%	0%
Expected stock volatility	57%	55%

The weighted average fair market value of options issued for the fiscal year ended December 31, 2007 and 2005 was estimated to be $12.92 and $8.20 per share, respectively. There were no options issued for the year ended December 31, 2006.

Additional information regarding our share-based compensation program is provided in Note I.

Accounting for Asset Retirement Obligations: In accordance with FIN No. 47, Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143 , Accounting for Asset Retirement Obligations , the Company has identified certain conditional asset retirement

PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

obligations at various current manufacturing facilities. These obligations relate primarily to asbestos abatement. Using investigative, remediation, and disposal methods that are currently available to the Company, the estimated cost of these obligations is not significant and management does not believe that any potential liability ultimately attributed to the Company for its conditional asset retirement obligations will have a material adverse effect on the Company s financial condition, liquidity, or cash flow due to the extended period of time during which investigation and remediation takes place. An estimate of the potential impact on the Company s operations cannot be made due to the aforementioned uncertainties. Management expects these contingent asset retirement obligations to be resolved over an extended period of time. Management is unable to provide a more specific time frame due to the indefinite amount of time to conduct investigation activities at any site, the indefinite amount of time to obtain governmental agency approval, as necessary, with respect to investigation and remediation activities, and the indefinite amount of time necessary to conduct remediation activities.

Income Taxes: The Company accounts for income taxes under the liability method, whereby deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and the tax bases of assets and liabilities and are measured using the current enacted tax rates. In determining these amounts, management determined the probability of realizing deferred tax assets, taking into consideration factors including historical operating results, expectations of future earnings, taxable income and the extended period of time over which the postretirement benefits will be paid and accordingly records valuation allowances if, based on the weight of available evidence it is more likely than not that some portion or all of our deferred tax assets will not be realized as required by SFAS No. 109 (FAS 109), Accounting for Income Taxes.

Revenue Recognition: The Company recognizes revenue, other than from long-term contracts, when title is transferred to the customer, typically upon shipment. Revenue from long-term contracts (approximately 10% of consolidated revenue) is accounted for under the percentage of completion method, and recognized on the basis of the percentage each contract s cost to date bears to the total estimated contract cost. Revenue earned on contracts in process in excess of billings is classified in other current assets in the accompanying consolidated balance sheet. The Company s revenue recognition policies are in accordance with the SEC s Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition.

Accounts Receivable and Allowance for Doubtful Accounts: Accounts receivable are recorded at net realizable value. Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. The Company s policy is to identify and reserve for specific collectibility concerns based on customers financial condition and payment history. On November 16, 2007, the Company entered into a five-year Accounts Receivable Purchase Agreement whereby one specific customer s accounts receivable may be sold without recourse to a third-party financial institution on a revolving basis. During 2007, we sold approximately $10,400 of accounts receivable to mitigate accounts receivable concentration risk and to provide additional financing capacity. In compliance with SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (FAS 140) sales of accounts receivable are reflected as a reduction of accounts receivable in the Consolidated Balance Sheets and the proceeds are included in the cash flows from operating activities in the Consolidated Statements of Cash flows. In 2007, a loss in the amount of $84 related to the sale of accounts receivable is recorded in the Consolidated Statements of Income. This loss represented implicit interest on the transactions.

Software Development Costs: Software development costs incurred subsequent to establishing feasibility through the general release of the software products are capitalized and included in other assets in the consolidated balance sheet.

Technological feasibility is demonstrated by the completion of a working model. All costs prior to the development of the working model are expensed as incurred.

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PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Capitalized costs are amortized on a straight-line basis over five years, which is the estimated useful life of the software product.

Concentration of Credit Risk: The Company sells its products to customers in diversified industries. The Company performs ongoing credit evaluations of its customers financial condition but does not require collateral to support customer receivables. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. As of December 31, 2007, the Company had uncollateralized receivables with five customers in the automotive and heavy-duty truck industries, each with several locations, aggregating $22,703, which represented approximately 13% of the Company s trade accounts receivable. During 2007, sales to these customers amounted to approximately $179,367, which represented approximately 16% of the Company s net sales.

Shipping and Handling Costs: All shipping and handling costs are included in cost of products sold in the Consolidated Income Statements.

Environmental: The Company accrues environmental costs related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible. Costs that extend the life of the related property or mitigate or prevent future environmental contamination are capitalized. The Company records a liability when environmental assessments and/or remedial efforts are probable and can be reasonably estimated. The estimated liability of the Company is not discounted or reduced for possible recoveries from insurance carriers.

Foreign Currency Translation: The functional currency for all subsidiaries outside the United States is the local currency. Financial statements for these subsidiaries are translated into U.S. dollars at year-end exchange rates as to assets and liabilities and weighted-average exchange rates as to revenues and expenses. The resulting translation adjustments are recorded in accumulated comprehensive income (loss) in shareholders equity.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, An Interpretation of FASB Statement No. 109 (FIN 48) that prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Under FIN 48, a contingent tax asset only will be recognized if it is more likely than not that a tax position ultimately will be sustained. After this threshold is met, a tax position is reported at the largest amount of benefit that is more likely than not to be realized. FIN 48 is effective for fiscal years beginning after December 15, 2006. FIN 48 requires the cumulative effect of applying the provisions to be reported separately as an adjustment to the opening balance of retained earnings in the year of adoption. The Company adopted FIN 48 as of January 1, 2007. See Note H for the impact of such adoption on the Company s financial statements and related disclosures.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value in GAAP and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements and is effective for the Company in 2008. The Company is currently evaluating the impact of adopting this statement on the Company s financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (FAS 159). FAS 159 permits an entity to elect fair value as the initial and subsequent measurement attribute for many financial assets and liabilities. Entities electing the fair value option would be required to recognize changes in fair value in

PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

earnings. Entities electing the fair value option would also be required to distinguish, on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. FAS 159 is effective for the Company in 2008. The adjustment to reflect the difference between the fair value and the carrying amount would be accounted for as a cumulative-effect adjustment to retained earnings as of the date of initial adoption. The Company is currently evaluating the impact of adoption of FAS 159 on the Company s financial position and results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (FAS 141(R)). FAS 141(R) provides revised guidance on how acquirers recognize and measure the consideration transferred, identifiable assets acquired, liabilities assumed, noncontrolling interests and goodwill acquired in a business combination. FAS 141(R) also expands required disclosures surrounding the nature and financial effects of business combinations. FAS 141(R) is effective, on a prospective basis, for the Company in 2009. The Company is currently evaluating the impact of adopting FAS 141(R) on the Company s financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. FAS 160 establishes requirements for ownership interests in subsidiaries held by parties other than the Company (sometimes called minority interests) be clearly identified, presented and disclosed in the consolidated statement of financial position within equity, but separate from the parent s equity. All changes in the parent s ownership interests are required to be accounted for consistently as equity transactions and any noncontrolling equity investments in deconsolidated subsidiaries must be measured initially at fair value. FAS 160 is effective, on a prospective basis, for the Company in 2009. However, presentation and disclosure requirements must be retrospectively applied to comparative financial statements. The Company is currently evaluating the impact of adopting FAS 160 on the Company s financial position and results of operations.

Reclassification: Certain amounts in the prior years financial statements have been reclassified to conform to the current year presentation.

NOTE B Industry Segments

The Company operates through three segments: Supply Technologies, Aluminum Products and Manufactured Products. In November 2007, our Integrated Logistics Solutions segment changed its name to Supply Technologies to better reflect its breadth of services and focus on driving efficiencies throughout the total supply management process. Supply Technologies provides our customers with Total Supply Management™ services for a broad range of high-volume, specialty production components. Total Supply Management™ manages the efficiencies of every aspect of supplying production parts and materials to our customers manufacturing floor, from strategic planning to program implementation and includes such services as engineering and design support, part usage and cost analysis, supplier selection, quality assurance, bar coding, product packaging and tracking, just-in-time and point-of-use delivery, electronic billing services and ongoing technical support. The principal customers of Supply Technologies are in the heavy-duty truck, automotive and vehicle parts, electrical distribution and controls, consumer electronics, power sports/fitness equipment, HVAC, agricultural and construction equipment, semiconductor equipment, plumbing, aerospace and defense, and appliance industries. Aluminum Products manufactures cast aluminum components for automotive, agricultural equipment, construction equipment, heavy-duty truck and marine equipment industries. Aluminum Products also provides value-added services such as design and engineering, machining and assembly. Manufactured Products operates a diverse group of niche manufacturing businesses that design and manufacture a broad range of high quality products engineered for specific customer applications. The principal customers of Manufactured Products are original equipment manufacturers and end users in the steel, coatings, forging, foundry, heavy-duty truck,

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PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

construction equipment, bottling, automotive, oil and gas, rail and locomotive manufacturing and aerospace and defense industries.

The Company s sales are made through its own sales organization, distributors and representatives. Intersegment sales are immaterial and eliminated in consolidation and are not included in the figures presented. Intersegment sales are accounted for at values based on market prices. Income allocated to segments excludes certain corporate expenses and interest expense. Identifiable assets by industry segment include assets directly identified with those operations.

Corporate assets generally consist of cash and cash equivalents, deferred tax assets, property and equipment, and other assets.

	Year Ended December 31,		
	2007	**2006**	**2005**
Net sales:			
Supply Technologies	$ 531,417	$ 598,228	$ 532,624
Aluminum Products	169,118	154,639	159,053
Manufactured Products	370,906	303,379	241,223
	$ 1,071,441	$ 1,056,246	$ 932,900
Income before income taxes:			
Supply Technologies	$ 27,175	$ 38,383	$ 34,814
Aluminum Products	3,020	3,921	9,103
Manufactured Products	45,798	28,991	20,630
	75,993	71,295	64,547
Corporate costs	(13,269)	(12,631)	(11,006)
Interest expense	(31,551)	(31,267)	(27,056)
	$ 31,173	$ 27,397	$ 26,485

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PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year Ended December 31,		
	2007	2006	2005
Identifiable assets:			