NACCO INDUSTRIES INC
Form 10-Q
November 08, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q
(Mark One)

R	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended September 30, 2011
OR	
£	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to

Commission file number 1-9172

NACCO INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	34-1505819 (I.R.S. Employer Identification No.)
5875 LANDERBROOK DRIVE, CLEVELAND, OHIO (Address of principal executive offices)	44124-4069 (Zip code)

(440) 449-9600
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 R NO £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§

232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES R NO £

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.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES £ NO R

Number of shares of Class A Common Stock outstanding at November 4, 2011: 6,800,815
Number of shares of Class B Common Stock outstanding at November 4, 2011: 1,595,581

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Part I
FINANCIAL INFORMATION
Item 1. Financial Statements

NACCO INDUSTRIES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30 2011	DECEMBER 31 2010
	(In millions, except share data)	
ASSETS		
Current Assets		
Cash and cash equivalents	$217.6	$261.9
Accounts receivable, net	483.1	425.9
Inventories, net	540.7	447.4
Deferred income taxes	19.5	21.9
Prepaid expenses and other	38.7	33.4
Assets held for sale	31.4	23.7
Total Current Assets	1,331.0	1,214.2
Property, Plant and Equipment, Net	257.0	270.4
Coal Supply Agreement, Net	58.5	60.0
Long-term Deferred Income Taxes	2.3	5.2
Other Non-current Assets	108.7	108.5
Total Assets	$1,757.5	$1,658.3
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$474.8	$414.5
Revolving credit agreements - not guaranteed by the parent company	23.5	13.7
Current maturities of long-term debt - not guaranteed by the parent company	124.9	22.5
Accrued payroll	48.7	61.0
Deferred revenue	13.7	11.2
Other current liabilities	157.0	140.6
Total Current Liabilities	842.6	663.5
Long-term Debt - not guaranteed by the parent company	188.4	355.3
Pension and other Postretirement Obligations	56.2	77.8
Long-term Deferred Income Taxes	3.4	—
Other Long-term Liabilities	119.1	113.5
Total Liabilities	1,209.7	1,210.1
Stockholders' Equity		
Common stock:		
Class A, par value $1 per share, 6,800,615 shares outstanding (2010 - 6,737,199 shares outstanding)	6.8	6.8
Class B, par value $1 per share, convertible into Class A on a one-for-one basis, 1,595,781 shares outstanding (2010 - 1,596,093 shares outstanding)	1.6	1.6
Capital in excess of par value	24.8	22.6
Retained earnings	569.8	475.4
Accumulated other comprehensive income (loss):		
Foreign currency translation adjustment	20.4	28.1
Deferred loss on cash flow hedging	(3.5)	(9.0)
Pension and postretirement plan adjustment	(72.8)	(78.1)

Total Stockholders' Equity	547.1	447.4
Noncontrolling Interest	0.7	0.8
Total Equity	547.8	448.2
Total Liabilities and Equity	$1,757.5	$1,658.3

See notes to unaudited condensed consolidated financial statements.

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NACCO INDUSTRIES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2011	2010	2011	2010
	(In millions, except per share data)			
Revenues	$823.4	$664.9	$2,379.9	$1,821.3
Cost of sales	685.9	534.8	1,967.9	1,462.4
Gross Profit	137.5	130.1	412.0	358.9
Earnings of unconsolidated mines	11.1	11.3	32.7	31.3
Operating Expenses				
Selling, general and administrative expenses	111.1	105.2	340.9	303.8
Restructuring reversal	—	—	—	(1.9)
Loss on sale of assets	0.1	4.1	—	4.7
	111.2	109.3	340.9	306.6
Operating Profit	37.4	32.1	103.8	83.6
Other (income) expense				
Interest expense	6.4	7.0	18.7	20.7
Applica settlement and litigation costs	—	6.1	(57.2)	13.0
Other	(0.9)	(0.4)	(2.9)	(1.4)
	5.5	12.7	(41.4)	32.3
Income Before Income Taxes	31.9	19.4	145.2	51.3
Income tax provision	6.2	6.1	37.6	10.4
Net Income	25.7	13.3	107.6	40.9
Net loss attributable to noncontrolling interest	—	0.2	0.1	0.2
Net Income Attributable to Stockholders	$25.7	$13.5	$107.7	$41.1
Comprehensive Income	$10.3	$26.2	$110.8	$23.7
Basic Earnings per Share	$3.06	$1.62	$12.85	$4.94
Diluted Earnings per Share	$3.05	$1.62	$12.81	$4.93
Dividends per Share	$0.5325	$0.5225	$1.5875	$1.5625
Basic Weighted Average Shares Outstanding	8.395	8.332	8.382	8.327
Diluted Weighted Average Shares Outstanding	8.416	8.346	8.407	8.338

See notes to unaudited condensed consolidated financial statements.

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NACCO INDUSTRIES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	NINE MONTHS ENDED SEPTEMBER 30	
	2011	2010
	(In millions)	
Operating Activities		
Net income	$107.6	$40.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	35.5	38.6
Amortization of deferred financing fees	2.0	1.8
Deferred income taxes	5.8	3.4
Restructuring reversal	—	(1.9)
Loss on sale of assets	—	4.7
Other non-current liabilities	(5.6)	(21.6)
Other	14.1	(6.0)
Working capital changes, excluding the effect of business dispositions:		
Accounts receivable	(61.2)	(91.2)
Inventories	(100.1)	(112.1)
Other current assets	(5.4)	(10.6)
Accounts payable	62.9	146.5
Other current liabilities	(4.3)	11.9
Net cash provided by operating activities	51.3	4.4
Investing Activities		
Expenditures for property, plant and equipment	(26.3)	(17.7)
Proceeds from the sale of assets	1.0	20.2
Other	—	(1.4)
Net cash provided by (used for) investing activities	(25.3)	1.1
Financing Activities		
Additions to long-term debt	12.1	6.7
Reductions of long-term debt	(78.9)	(30.3)
Net additions to revolving credit agreements	9.8	0.9
Cash dividends paid	(13.3)	(13.0)
Financing fees paid	—	(3.4)
Other	(0.4)	—
Net cash used for financing activities	(70.7)	(39.1)
Effect of exchange rate changes on cash	0.4	(6.7)
Cash and Cash Equivalents		
Decrease for the period	(44.3)	(40.3)
Balance at the beginning of the period	261.9	256.2
Balance at the end of the period	$217.6	$215.9

See notes to unaudited condensed consolidated financial statements.

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NACCO INDUSTRIES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	NINE MONTHS ENDED SEPTEMBER 30	
	2011	2010
	(In millions, except per share data)	
Stockholders' Equity:		
Class A Common Stock	$6.8	$6.7
Class B Common Stock	1.6	1.6
Capital in Excess of Par Value		
Beginning balance	22.6	16.1
Stock-based compensation	1.8	1.6
Shares issued under stock compensation plans	0.4	0.4
	24.8	18.1
Retained Earnings		
Beginning balance	475.4	413.3
Net income attributable to stockholders	107.7	41.1
Cash dividends on Class A and Class B common stock:		
2011 $1.5875 per share	(13.3)	—
2010 $1.5625 per share	—	(13.0)
	569.8	441.4
Accumulated Other Comprehensive Income (Loss)		
Beginning balance	(59.0)	(41.1)
Foreign currency translation adjustment	(7.7)	(1.1)
Sale of certain NMHG operations	—	(7.1)
Current period cash flow hedging activity	(2.3)	(5.4)
Reclassification of hedging activity into earnings	7.8	(8.0)
Current period pension and postretirement plan activity	(2.9)	(0.1)
Reclassification of pension and postretirement plan activity into earnings	8.2	4.3
	(55.9)	(58.5)
Total Stockholders' Equity	547.1	409.3
Noncontrolling Interest		
Beginning balance	0.8	0.5
Net loss	(0.1)	(0.2)
Total Noncontrolling Interest	0.7	0.3
Total Equity	$547.8	$409.6

See notes to unaudited condensed consolidated financial statements.

NACCO INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Tabular Amounts in Millions, Except Per Share and Percentage Data)

Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of NACCO Industries, Inc. (the “parent company” or “NACCO”) and its wholly owned subsidiaries (collectively, “NACCO Industries, Inc. and Subsidiaries” or the “Company”). Intercompany accounts and transactions are eliminated in consolidation. Also included is Shanghai Hyster Forklift Ltd., a 75% owned joint venture of NMHG Holding Co. (“NMHG”) in China. The Company's subsidiaries operate in the following principal industries: lift trucks, small appliances, specialty retail and mining. The Company manages its subsidiaries primarily by industry.

NMHG designs, engineers, manufactures, sells and services a comprehensive line of lift trucks and aftermarket parts marketed globally under the Hyster® and Yale® brand names, primarily to independent Hyster® and Yale® retail dealerships. Lift trucks and component parts are manufactured in the United States, Northern Ireland, Mexico, Italy, Brazil, The Netherlands, China, Japan, the Philippines and Vietnam. Hamilton Beach Brands, Inc. (“HBB”) is a leading designer, marketer and distributor of small electric household appliances primarily in the United States, Canada, Mexico and Latin America, as well as commercial products for restaurants, bars and hotels. The Kitchen Collection, LLC (“KC”) is a national specialty retailer of kitchenware and gourmet foods operating under the Kitchen Collection® and Le Gourmet Chef® store names in outlet and traditional malls throughout the United States. The North American Coal Corporation and its affiliated coal companies (collectively, “NACoal”) mine and market coal primarily as fuel for power generation and provide selected value-added mining services for other natural resources companies primarily in the United States.

These financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position of the Company as of September 30, 2011 and the results of its operations for the three and nine months ended September 30, 2011 and 2010 and the results of its cash flows and changes in equity for the nine months ended September 30, 2011 and 2010 have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

The balance sheet at December 31, 2010 has been derived from the audited financial statements at that date but does not include all of the information or notes required by U.S. generally accepted accounting principles for complete financial statements.

Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2011. Because the HBB and KC businesses are seasonal, a majority of revenues and operating profit typically occurs in the second half of the calendar year when sales of small electric household appliances to retailers and consumers increase significantly for the fall holiday-selling season. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Note 2 - Recently Issued Accounting Standards

Accounting Standards Adopted in 2011:

On January 1, 2011, the Company adopted authoritative guidance issued by the Financial Accounting Standards Board ("FASB") on multiple-deliverable revenue arrangements. The guidance amends the criteria for separating consideration in multiple-deliverable arrangements. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence; (b) third-party evidence; or (c) estimates. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. In addition, this guidance significantly expands required disclosures related to a vendor's multiple-deliverable revenue arrangements. The adoption of the guidance did not have a material effect on the Company's financial position, results of operations, cash flows or related disclosures.

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Accounting Standards Not Yet Adopted:

In May 2011, the FASB issued authoritative guidance on fair value measurement, which is effective for the Company on January 1, 2012. The guidance resulted in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. generally accepted accounting principles and International Financial Reporting Standards. The Company does not expect the adoption of the guidance to have a material effect on its financial position, results of operations, cash flows or related disclosures.

In June 2011, the FASB issued authoritative guidance on the presentation of comprehensive income, which is effective for the Company on January 1, 2012. The guidance provides an entity with the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income and a total amount for comprehensive income. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in equity. The Company does not expect the adoption of the guidance to have a material effect on its financial position, results of operations, cash flows or related disclosures.

Reclassifications: Certain amounts in the prior periods' unaudited condensed consolidated financial statements have been reclassified to conform to the current period's presentation.

Note 3 - Restructuring and Related Programs

During 2009, NMHG's management approved a plan to close its facility in Modena, Italy and consolidate its activities into NMHG's facility in Masate, Italy. These actions were taken to further reduce NMHG's manufacturing capacity to more appropriate levels. As a result, NMHG recognized a charge of approximately $5.6 million during 2009. Of this amount, $5.3 million related to severance and $0.3 million related to lease impairment. During 2010, $1.9 million of the accrual was reversed as a result of a reduction in the expected amount to be paid to former employees due to the finalization of an agreement with the Italian government. Severance payments of $0.4 million were made during the first nine months of 2011. Payments related to this restructuring program are expected to continue through 2012. No further charges related to this plan are expected.

During 2008 and 2009, based on the decline in economic conditions, NMHG's management reduced its number of employees worldwide. As a result, NMHG recognized a charge of approximately $6.3 million in 2008 and $3.4 million in 2009 related to severance. During 2009, $1.1 million of the accrual was reversed as a result of a reduction in the expected amount paid to employees. Severance payments of $0.4 million were made during the first nine months of 2011. Payments are expected to continue through 2012. No further charges related to this plan are expected.

Following is the detail of the cash charges related to the NMHG programs:

	Total charges expected to be incurred	Total charges incurred through December 31, 2010
NMHG Americas		
Severance	$3.3	$3.3
NMHG Europe		
Severance	$7.6	$7.6
Lease termination	0.3	0.3
	$7.9	$7.9

NMHG Other		
Severance	$1.1	$1.1
Total charges	$12.3	$12.3

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Following is the activity related to the liability for the NMHG programs. Amounts for severance expected to be paid within one year are included on the line "Accrued payroll" and amounts for severance expected to be paid after one year are included on the line "Other Long-term Liabilities" in the Unaudited Condensed Consolidated Balance Sheets.

	Severance
Balance at January 1, 2011	$2.4
Payments	(0.8)
Balance at September 30, 2011	$1.6

Note 4 - Inventories

Inventories are summarized as follows:

	SEPTEMBER 30 2011	DECEMBER 31 2010
Manufactured inventories:		
Finished goods and service parts - NMHG	$ 175.3	$ 152.6
Raw materials and work in process - NMHG	228.6	171.8
Sourced inventories - HBB	93.8	84.7
Retail inventories - KC	66.3	59.3
Total inventories at FIFO	564.0	468.4
Coal - NACoal	14.9	10.9
Mining supplies - NACoal	12.4	11.4
Total inventories at weighted average	27.3	22.3
NMHG LIFO reserve	(50.6)	(43.3)
	$ 540.7	$ 447.4

The cost of certain manufactured inventories at NMHG, including service parts, has been determined using the last-in-first-out ("LIFO") method. At September 30, 2011 and December 31, 2010, 35% and 33%, respectively, of total inventories were determined using the LIFO method. An actual valuation of inventory under the LIFO method can be made only at the end of the year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must be based on management's estimates of expected year-end inventory levels and costs. Because these estimates are subject to change and may be different than the actual inventory levels and costs at the end of the year, interim results are subject to the final year-end LIFO inventory valuation. During 2010, reductions in LIFO inventories at NMHG resulted in liquidations of LIFO inventory layers carried at lower costs compared with current year purchases. The income statement effect of such liquidations on "Cost of sales" was a benefit of $0.4 million and $1.7 million during the three and nine months ended September 30, 2010, respectively.

Note 5 - Financial Instruments and Derivative Financial Instruments

Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturities of these instruments. The fair values of revolving credit agreements and long-term debt, excluding capital leases, were determined using current rates offered for similar obligations taking into account subsidiary credit risk. At September 30, 2011, the fair value of revolving credit agreements and long-term debt, excluding capital leases, was $327.4 million compared with the book value of $334.4 million. At December 31, 2010, the fair value of revolving credit agreements and long-term debt, excluding capital leases, was $384.6 million compared with the book value of $391.2 million.

Derivative Financial Instruments

The Company uses forward foreign currency exchange contracts to partially reduce risks related to transactions denominated in foreign currencies. The Company offsets fair value amounts related to foreign currency exchange contracts executed with the same counterparty. These contracts hedge firm commitments and forecasted transactions relating to cash flows associated with sales and purchases denominated in currencies other than the subsidiaries' functional currencies. Changes in the fair value of forward foreign currency exchange contracts that are effective as hedges are recorded in accumulated other comprehensive

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income (loss) (“OCI”). Deferred gains or losses are reclassified from OCI to the Unaudited Condensed Consolidated Statements of Operations in the same period as the gains or losses from the underlying transactions are recorded and are generally recognized in cost of sales. The ineffective portion of derivatives that are classified as hedges is immediately recognized in earnings and generally recognized in cost of sales.

The Company uses interest rate swap agreements to partially reduce risks related to floating rate financing agreements that are subject to changes in the market rate of interest. Terms of the interest rate swap agreements require the Company to receive a variable interest rate and pay a fixed interest rate. The Company's interest rate swap agreements and its variable rate financings are predominately based upon the three-month and six-month LIBOR. Changes in the fair value of interest rate swap agreements that are effective as hedges are recorded in OCI. Deferred gains or losses are reclassified from OCI to the Unaudited Condensed Consolidated Statements of Operations in the same period as the gains or losses from the underlying transactions are recorded and are generally recognized in interest expense. The ineffective portion of derivatives that are classified as hedges is immediately recognized in earnings and included on the line “Other” in the “Other (income) expense” section of the Unaudited Condensed Consolidated Statements of Operations.

Interest rate swap agreements and forward foreign currency exchange contracts held by the Company have been designated as hedges of forecasted cash flows. The Company does not currently hold any nonderivative instruments designated as hedges or any derivatives designated as fair value hedges.

The Company periodically enters into foreign currency exchange contracts that do not meet the criteria for hedge accounting. These derivatives are used to reduce the Company's exposure to foreign currency risk related to forecasted purchase or sales transactions or forecasted intercompany cash payments or settlements. Gains and losses on these derivatives are included on the line “Cost of sales” or “Other” in the “Other (income) expense” section of the Unaudited Condensed Consolidated Statements of Operations.

Cash flows from hedging activities are reported in the Unaudited Condensed Consolidated Statements of Cash Flows in the same classification as the hedged item, generally as a component of cash flows from operations.

The Company measures its derivatives at fair value on a recurring basis using significant observable inputs, which is Level 2 as defined in the fair value hierarchy. The Company uses a present value technique that incorporates the LIBOR swap curve, foreign currency spot rates and foreign currency forward rates to value its derivatives, including its interest rate swap agreements and foreign currency exchange contracts, and also incorporates the effect of its subsidiary and counterparty credit risk into the valuation.

Foreign Currency Derivatives: NMHG and HBB held forward foreign currency exchange contracts with total notional amounts of $252.7 million and $19.7 million, respectively, at September 30, 2011, primarily denominated in euros, British pounds, Japanese yen, Canadian dollars, Australian dollars, Swedish kroner and Mexican pesos. NMHG and HBB held forward foreign currency exchange contracts with total notional amounts of $338.1 million and $16.5 million, respectively, at December 31, 2010, primarily denominated in euros, British pounds, Japanese yen, Australian dollars, Brazilian Real, Canadian dollars, Swedish kroner and Mexican pesos. The fair value of these contracts approximated a net asset of $3.0 million and a net liability of $2.4 million at September 30, 2011 and December 31, 2010, respectively.

Forward foreign currency exchange contracts that qualify for hedge accounting are used to hedge transactions expected to occur within the next twelve months. The mark-to-market effect of forward foreign currency exchange contracts that are considered effective as hedges has been included in OCI. Based on market valuations at September 30, 2011, $1.6 million of the amount included in OCI at September 30, 2011 is expected to be reclassified as income into the Consolidated Statement of Operations over the next twelve months, as the transactions occur.

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Interest Rate Derivatives: NMHG and HBB have interest rate swap agreements that hedge interest payments on their term loan agreements. The following table summarizes the notional amounts, related rates and remaining terms of active interest rate swap agreements at September 30, 2011 and December 31, 2010:

	Notional Amount		Average Fixed Rate				
	SEPTEMBER 30 2011	DECEMBER 31 2010	SEPTEMBER 30 2011		DECEMBER 31 2010		Remaining Term at September 30, 2011
NMHG	$204.5	$ 206.5	4.5	%	4.5	%	Various, extending to February 2013
HBB	$40.0	$ 65.0	4.6	%	4.6	%	Various, extending to June 2012

In addition to the interest rate swap agreements reflected in the table, at September 30, 2011, HBB holds certain contracts that begin on various dates starting in June 2012 and extend to various dates through June 2013. These contracts increase the notional amount to $65.0 million at September 30, 2011, but the amount outstanding at any one time will not exceed the balance of the HBB term loan agreement. The fair value of all interest rate swap agreements was a net liability of $10.7 million and $16.3 million at September 30, 2011 and December 31, 2010, respectively. The mark-to-market effect of interest rate swap agreements that are considered effective as hedges has been included in OCI. Based on market valuations at September 30, 2011, $4.9 million of the amount included in OCI is expected to be reclassified as expense into the Consolidated Statement of Operations over the next twelve months, as cash flow payments are made in accordance with the interest rate swap agreements. The interest rate swap agreements held by NMHG and HBB on September 30, 2011 are expected to continue to be effective as hedges.

The following table summarizes the fair value of derivative instruments reflected on a gross basis at September 30, 2011 and December 31, 2010 as recorded in the Unaudited Condensed Consolidated Balance Sheets:

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	SEPTEMBER 30 2011	DECEMBER 31 2010	Balance Sheet Location	SEPTEMBER 30 2011	DECEMBER 31 2010
Derivatives designated as hedging instruments						
Interest rate swap agreements						
Current	Other current liabilities	$ —	$ —	Other current liabilities	$ 7.4	$ 4.7
Long-term	Other long-term liabilities	—	—	Other long-term liabilities	3.3	11.6
Foreign currency exchange contracts						
Current	Prepaid expenses and other	3.2	1.3	Prepaid expenses and other	1.3	1.2
	Other current liabilities	0.2	1.7	Other current liabilities	0.8	1.7
Long-term	Other non-current assets	0.2	—	Other non-current assets	—	—
Total derivatives designated as hedging instruments		$ 3.6	$ 3.0		$ 12.8	$ 19.2
Derivatives not designated as hedging instruments						

Interest rate swap agreements						
Current	Other current liabilities	$ —	$ —	Other current liabilities	$ —	$ —
Foreign currency exchange contracts						
Current	Prepaid expenses and other	2.4	0.5	Prepaid expenses and other	1.1	0.3
	Other current liabilities	0.3	0.6	Other current liabilities	0.1	3.3
Total derivatives not designated as hedging instruments		$ 2.7	$ 1.1		$ 1.2	$ 3.6
Total derivatives		$ 6.3	$ 4.1		$ 14.0	$ 22.8

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The following table summarizes the pre-tax impact of derivative instruments for the three and nine months ended September 30 as recorded in the Unaudited Condensed Consolidated Statements of Operations:

	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)				Location of Gain or (Loss) Reclassified from OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from OCI into Income (Effective Portion)				Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)			
	THREE MONTHS		NINE MONTHS			THREE MONTHS		NINE MONTHS			THREE MONTHS		NINE MONTHS	
Derivatives in Cash Flow Hedging Relationships	2011	2010	2011	2010		2011	2010	2011	2010		2011	2010	2011	201
Interest rate swap agreements	$0.1	$(2.6)	$(1.6)	$(7.6)	Interest expense	$(2.6)	$(3.1)	$(8.0)	$(8.9)	N/A	$—	$—	$—	$—
Foreign currency exchange contracts	5.1	(1.4)	0.1	(0.5)	Cost of sales	(0.6)	5.0	(1.5)	13.6	N/A	—	—	—	—
Total	$5.2	$(4.0)	$(1.5)	$(8.1)		$(3.2)	$1.9	$(9.5)	$4.7		$—	$—	$—	$—

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss Recognized in Income on Derivative			
		THREE MONTHS		NINE MONTHS	
		2011	2010	2011	201
Interest rate swap agreements	Other	$—	$—	$—	$0.
Foreign currency exchange contracts	Cost of Sales or Other	2.8	(1.3)	(1.5)	(1.5
Total		$2.8	$(1.3)	$(1.5)	$(1.

Note 6 - Unconsolidated Subsidiaries

Nine of NACoal's wholly owned subsidiaries, The Coteau Properties Company, The Falkirk Mining Company, The Sabine Mining Company, (collectively, the "project mining subsidiaries"), Demery Resources Company, LLC (“Demery”), Caddo Creek Resources Company, LLC (“Caddo Creek”), Camino Real Fuels, LLC (“Camino Real”), Liberty Fuels Company, LLC (“Liberty”), NoDak Energy Services, LLC ("NoDak") and North American Coal Corporation India Private Limited ("NACC India") each meet the definition of a variable interest entity. The contracts with the project mining subsidiaries' utility customers allow each mine to sell coal at a price based on actual cost plus an agreed pre-tax profit per ton. The project mining subsidiaries are capitalized primarily with debt financing, which the utility customers have arranged and guaranteed. The obligations of the project mining subsidiaries are without recourse to NACCO and NACoal. Demery, Caddo Creek, Camino Real, Liberty and NoDak were formed during 2008 and 2009. NACC India was formed during 2011. Demery, Caddo Creek, Camino Real and Liberty (collectively with the project mining subsidiaries, the "unconsolidated mines") were formed to develop, construct and operate surface mines under long-term contracts. NoDak was formed to operate and maintain a coal processing facility. NACC India was formed to provide technical advisory services to the third-party owners of a coal mine in India. The contracts with the unconsolidated operations' customers allow for reimbursement at a price based on actual costs plus an agreed pre-tax profit per ton of coal sold or actual costs plus a management fee. Although NACoal owns 100% of the equity and manages the daily operations of these entities, the Company has determined that the equity capital provided by NACoal is not sufficient to adequately finance the ongoing activities or absorb any expected losses without additional support from the customers. The customers have a controlling financial interest and have the power to direct the activities that most significantly affect the economic performance of the entities. As a result, NACoal is not the primary beneficiary and therefore does not consolidate these entities' financial position or results of operations. The taxes resulting from the earnings of the unconsolidated mines and NoDak are solely the responsibility of the Company. The pre-tax income from the seven unconsolidated mines is reported on the line “Earnings of unconsolidated mines” in the Unaudited Condensed Consolidated Statements of Operations, with related taxes included in the provision for income taxes. The Company has included the pre-tax earnings of the unconsolidated mines above operating profit as they are an integral component of the Company's business and operating results. The pre-tax income from NoDak is reported on the line "Other" in the "Other (income) expense" section of the Unaudited Condensed Consolidated

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Statement of Operations, with the related income taxes included in the provision for income taxes. The net income from NACC India is reported on the line "Other" in the "Other (income) expense" section of the Unaudited Condensed Consolidated Statement of Operations. The investment in the nine unconsolidated operations and related tax position was $21.7 million and $21.6 million at September 30, 2011 and December 31, 2010, respectively, and is included on the line “Other Non-current Assets” in the Unaudited Condensed Consolidated Balance Sheets. The Company's maximum risk of loss relating to these entities is limited to its invested capital, which was $4.1 million and $5.0 million at September 30, 2011 and December 31, 2010, respectively.

Summarized financial information for the nine unconsolidated operations is as follows:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2011	2010	2011	2010
Revenues	$131.3	$117.8	$364.1	$338.9
Gross profit	$16.5	$18.5	$52.3	$52.8
Income before income taxes	$11.4	$11.3	$33.7	$31.3
Income from continuing operations	$8.9	$8.5	$25.8	$23.7
Net income	$8.9	$8.5	$25.8	$23.7

Note 7 - Equity Investments

NMHG has a 20% ownership interest in NMHG Financial Services, Inc. (“NFS”), a joint venture with GE Capital Corporation (“GECC”), formed primarily for the purpose of providing financial services to independent Hyster® and Yale® lift truck dealers and National Account customers in the United States. NMHG's ownership in NFS is accounted for using the equity method of accounting. NFS is considered a variable interest entity; however, the Company has concluded that NMHG is not the primary beneficiary. NMHG does not consider its variable interest in NFS to be significant.

NMHG has a 50% ownership interest in Sumitomo NACCO Materials Handling Company, Ltd. (“SN”), a limited liability company which was formed primarily to manufacture and distribute Sumitomo-Yale lift trucks in Japan and export Hyster®- and Yale®-branded lift trucks and related components and service parts outside of Japan. NMHG purchases products from SN under normal trade terms based on current market prices. NMHG's ownership in SN is also accounted for using the equity method of accounting.

The Company's percentage share of the net income or loss from its equity investments in NFS and SN is reported on the line “Other” in the “Other (income) expense” section of the Unaudited Condensed Consolidated Statements of Operations. The Company's equity investments are included on the line “Other Non-current Assets” in the Unaudited Condensed Consolidated Balance Sheets. At September 30, 2011 and December 31, 2010, NMHG's investment in NFS was $11.8 million and $12.1 million, respectively, and NMHG's investment in SN was $31.3 million and $30.3 million, respectively.

Summarized financial information for these two NMHG equity investments is as follows:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2011	2010	2011	2010
Revenues	$109.6	$86.3	$308.0	$243.4
Gross profit	$31.2	$25.5	$90.8	$71.8
Income from continuing operations	$4.5	$1.2	$11.8	$2.5

Net income	$4.5	$1.2	$11.8	$2.5

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Note 8 - Contingencies

Various legal and regulatory proceedings and claims have been or may be asserted against NACCO and certain subsidiaries relating to the conduct of their businesses, including product liability, environmental and other claims. These proceedings and claims are incidental to the ordinary course of business of the Company. Management believes that it has meritorious defenses and will vigorously defend the Company in these actions. Any costs that management estimates will be paid as a result of these claims are accrued when the liability is considered probable and the amount can be reasonably estimated. Although the ultimate disposition of these proceedings is not presently determinable, management believes, after consultation with its legal counsel, that the likelihood is remote that material costs will be incurred in excess of accruals already recognized.

Note 9 - Guarantees

Under various financing arrangements for certain customers, including independent retail dealerships, NMHG provides guarantees of the residual values of lift trucks or recourse or repurchase obligations such that NMHG would be obligated in the event of default by the customer. Terms of the third-party financing arrangements for which NMHG is providing a guarantee generally range from one to five years. Total guarantees and amounts subject to standby recourse or repurchase obligations at September 30, 2011 and December 31, 2010 were $196.2 million and $193.3 million, respectively. As of September 30, 2011, losses anticipated under the terms of the guarantees, standby recourse or repurchase obligations were $2.7 million and reserves have been provided for such losses based on historical experience in the accompanying unaudited condensed consolidated financial statements. NMHG generally retains a security interest in the related assets financed such that, in the event NMHG would become obligated under the terms of the guarantees, standby recourse or repurchase obligations, NMHG would take title to the assets financed. The fair value of collateral held at September 30, 2011 was approximately $223.7 million based on Company estimates. The Company estimates the fair value of the collateral using information regarding the original sales price, the current age of the equipment and general market conditions that influence the value of both new and used lift trucks. The Company also regularly monitors the external credit ratings of the entities in which it has provided guarantees, standby recourse or repurchase obligations. As of September 30, 2011, the Company did not believe there was a significant risk of non-payment or non-performance of the obligations by these entities; however, based upon the economic environment, there can be no assurance that the risk may not increase in the future. In addition, NMHG has an agreement with GECC to limit its exposure to losses at certain eligible dealers. Under this agreement, losses related to $45.5 million of guarantees for these certain eligible dealers are limited to 7.5% of their original loan balance, or $10.0 million as of September 30, 2011. The $45.5 million is included in the $196.2 million of total amounts subject to guarantees, standby recourse or repurchase obligations at September 30, 2011.

Generally, NMHG sells lift trucks through its independent dealer network or directly to customers. These dealers and customers may enter into a financing transaction with NFS or other unrelated third parties. NFS provides debt financing to dealers and lease financing to both dealers and customers. On occasion, the credit quality of a customer or credit concentration issues within GECC may necessitate NMHG providing guarantees, standby recourse or repurchase obligations of the lift trucks purchased by customers and financed through NFS. At September 30, 2011, approximately $120.7 million of the Company's total guarantees, standby recourse or repurchase obligations of $196.2 million related to transactions with NFS. In addition, in connection with the joint venture agreement, NMHG also provides a guarantee to GECC for 20% of NFS' debt with GECC, such that NMHG would become liable under the terms of NFS' debt agreements with GECC in the case of default by NFS. At September 30, 2011, the amount of NFS' debt guaranteed by NMHG was $145.3 million. NFS has not defaulted under the terms of this debt financing in the past, and although there can be no assurances, NMHG is not aware of any circumstances that would cause NFS to default in future periods.

Note 10 - Product Warranties

NMHG provides a standard warranty on its lift trucks, generally for six to twelve months or 1,000 to 2,000 hours. For certain components in some series of lift trucks, NMHG provides a standard warranty of two to three years or 4,000 to 6,000 hours. HBB provides a standard warranty to consumers for all of its products. The specific terms and conditions of those warranties vary depending upon the product brand. In general, if a product is returned under warranty, a refund is provided to the consumer by HBB's customer, the retailer. Generally, the retailer returns those products to HBB for a credit. The Company estimates the costs which may be incurred under its standard warranty programs and records a liability for such costs at the time product revenue is recognized.

In addition, NMHG sells separately-priced extended warranty agreements which provide a warranty for an additional two to five years or up to 2,400 to 10,000 hours. The specific terms and conditions of those warranties vary depending upon the product sold and the country in which NMHG does business. Revenue received for the sale of extended warranty contracts is deferred and recognized in the same manner as the costs incurred to perform under the warranty contracts.

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NMHG also maintains a quality enhancement program under which it provides for specifically identified field product improvements in its warranty obligation. Accruals under this program are determined based on estimates of the potential number of claims to be processed and the cost of processing those claims based on historical costs.

The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. Factors that affect the Company's warranty liability include the number of units sold, historical and anticipated rates of warranty claims and the cost per claim.

Changes in the Company's current and long-term warranty obligations, including deferred revenue on extended warranty contracts, are as follows:

	2011
Balance at January 1	$40.0
Warranties issued	28.6
Settlements made	(24.5)
Foreign currency effect	0.1
Balance at September 30	$44.2

Note 11 - Income Taxes

The income tax provision includes U.S. federal, state and local, and foreign income taxes and is based on the application of a forecasted annual income tax rate applied to the current quarter's year-to-date pre-tax income or loss. In determining the estimated annual effective income tax rate, the Company analyzes various factors, including projections of the Company's annual earnings, taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, the Company's ability to use tax credits and net operating loss carryforwards, and available tax planning alternatives. Discrete items, including the effect of changes in tax laws, tax rates and certain circumstances with respect to valuation allowances or other unusual or non-recurring tax adjustments are reflected in the period in which they occur as an addition to, or reduction from, the income tax provision, rather than included in the estimated effective annual income tax rate. Additionally, the Company's interim effective income tax rate is computed and applied without regard to pre-tax losses where such losses are not expected to generate a current-year tax benefit as reflected in the interim adjustment line in the table below.

A reconciliation of the Company's consolidated federal statutory and effective income tax is as follows:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2011	2010	2011	2010
Income before income taxes:	$31.9	$19.4	$145.2	$51.3
Statutory taxes at 35%	$11.2	$6.8	$50.8	$18.0
Interim adjustment	—	1.5	—	1.6
Discrete items:				
NMHG sale of foreign investments	—	(0.4)	—	(2.4)
NMHG change in tax law	—	—	—	(1.8)
Other	(0.6)	(0.5)	(0.7)	(0.3)
	(0.6)	(0.9)	(0.7)	(4.5)
Other permanent items:				
NACoal percentage depletion	(0.8)	(1.3)	(4.0)	(3.6)
Foreign tax rate differential	(2.7)	(1.4)	(7.7)	(4.4)
Valuation allowance	(1.3)	1.0	(3.6)	1.8

Other	0.4	0.4	2.8	1.5
	(4.4)	(1.3)	(12.5)	(4.7)
Income tax provision	$6.2	$6.1	$37.6	$10.4
Effective income tax rate	19.4 %	31.4 %	25.9 %	20.3 %

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During the first nine months of 2010, NMHG sold investments in subsidiaries in Australia and Europe for pre-tax losses of $0.2 million and $2.2 million, respectively. Due to the difference between the book basis and tax basis of the investments in each subsidiary, the Company recognized tax benefits related to the sales during the first nine months of 2010.

During the second quarter of 2010, the Company recognized a tax benefit for the reduction in a required reserve for uncertain tax positions related to certain foreign tax law changes which became effective and reduced the statute of limitations for certain items.

Note 12 - Retirement Benefit Plans

The Company maintains various defined benefit pension plans that provide benefits based on years of service and average compensation during certain periods. The Company's policy is to make contributions to fund these plans within the range allowed by applicable regulations. Plan assets consist primarily of publicly traded stocks and government and corporate bonds.
Pension benefits are frozen for all employees other than certain NACoal unconsolidated mines' employees and NMHG employees in the United Kingdom and the Netherlands. All other eligible employees of the Company, including employees whose pension benefits are frozen, receive retirement benefits under defined contribution retirement plans.

The Company also maintains health care and life insurance plans that provide benefits to a limited number of eligible retired employees. These plans have no assets. Under the Company's current policy, plan benefits are funded at the time they are due to participants. Effective December 31, 2011, NMHG will eliminate all retiree life insurance plans and its subsidized retiree medical plan for employees who have not retired before such date. As of January 1, 2012, the Company will no longer maintain any retiree life insurance plans. Accordingly, the Company recognized a gain of approximately $2.9 million during the third quarter of 2011 due to the NMHG plan amendments.

The components of pension and postretirement (income) expense are set forth below:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2011	2010	2011	2010
U.S. Pension				
Service cost	$—	$—	$—	$—
Interest cost	1.9	1.9	5.6	5.9
Expected return on plan assets	(2.3)	(2.1)	(7.1)	(6.4)
Amortization of actuarial loss	1.3	1.2	4.1	3.6
Amortization of prior service credit	(0.1)	—	(0.3)	(0.2)
Total	$0.8	$1.0	$2.3	$2.9
Non-U.S. Pension				
Service cost	$0.5	$0.4	$1.6	$1.2
Interest cost	1.9	1.8	5.7	5.3
Expected return on plan assets	(2.4)	(2.2)	(7.2)	(6.5)
Amortization of actuarial loss	1.0	0.7	3.0	2.2
Amortization of prior service credit	—	(0.1)	(0.1)	(0.1)
Amortization of transition liability	—	0.1	0.1	0.1
Total	$1.0	$0.7	$3.1	$2.2
Postretirement				
Service cost	$—	$—	$0.1	$0.1
Interest cost	0.1	0.1	0.3	0.3

Amortization of prior service credit	—	—	(0.1)	(0.3)
Plan amendments	(2.9)	—	(2.9)	(0.7)
Total	$(2.8)	$0.1	$(2.6)	$(0.6)

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Note 13 - Business Segments

NACCO is a holding company with the following principal subsidiaries: NMHG, HBB, KC and NACoal. See Note 1 for a discussion of the Company's industries and product lines. NACCO's non-operating segment, NACCO and Other, includes the accounts of the parent company and Bellaire Corporation.

The Company has reportable segments for the following three management units: NMHG Americas, NMHG Europe and NMHG Other. NMHG Americas includes its operations in the United States, Canada, Mexico, Brazil and Latin America. NMHG Europe includes its operations in Europe, the Middle East and Africa. NMHG Other includes NMHG's corporate headquarters, its remaining wholly owned dealership and its immaterial operating segments, which include operations in the Asia-Pacific region. Certain amounts are allocated to these geographic management units and are included in the segment results presented below, including product development costs, corporate headquarters expenses, information technology infrastructure costs and NACCO management fees, which are determined by NMHG's corporate headquarters and not directly incurred by the geographic operations. In addition, other costs are incurred directly by these geographic management units based upon the location of the manufacturing plant or sales units, including manufacturing variances, product liability, warranty and sales discounts, which may not be associated with the geographic management unit of the ultimate end user sales location where revenues and margins are reported. Therefore, the reported results of each NMHG segment cannot be considered stand-alone entities as all NMHG reportable segments are inter-related and integrate into a single global NMHG business.

Financial information for each of NACCO's reportable segments is presented in the following table. The line "Eliminations" in the revenues section eliminates revenues from HBB sales to KC. The amounts of these revenues are based on current market prices of similar third-party transactions. No other sales transactions occur among reportable segments. Other transactions among reportable segments are recognized based on current market prices of similar third-party transactions.

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2011	2010	2011	2010
Revenues from external customers				
NMHG				
NMHG Americas	$389.8	$295.2	$1,149.2	$783.3
NMHG Europe	180.3	110.5	549.2	314.4
NMHG Other	58.7	37.2	165.0	134.1
	628.8	442.9	1,863.4	1,231.8
HBB	126.7	133.3	331.6	339.2
KC	48.9	47.5	129.8	131.2
NACoal	21.0	42.4	58.3	122.3
NACCO and Other	—	—	—	—
Eliminations	(2.0)	(1.2)	(3.2)	(3.2)
Total	$823.4	$664.9	$2,379.9	$1,821.3
Operating profit (loss)				
NMHG				
NMHG Americas	$17.4	$15.2	$64.3	$31.5
NMHG Europe	6.2	(0.4)	15.4	2.3
NMHG Other	0.5	(6.6)	2.3	(5.5)
	24.1	8.2	82.0	28.3
HBB	7.9	10.9	14.8	26.1
KC	(0.6)	0.1	(10.3)	(5.7)
NACoal	7.0	15.0	21.8	41.7

NACCO and Other	(0.9)	(2.0)	(4.5)	(6.8)
Eliminations	(0.1)	(0.1)	—	—
Total	$37.4	$32.1	$103.8	$83.6

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	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2011	2010	2011	2010
Net income (loss) attributable to stockholders				
NMHG				
NMHG Americas	$12.3	$8.5	$47.0	$16.6
NMHG Europe	5.9	(1.1)	14.4	(0.2)
NMHG Other	(0.7)	(3.6)	(2.4)	2.7
	17.5	3.8	59.0	19.1
HBB	4.1	5.6	6.4	12.8
KC	(0.5)	(0.1)	(6.5)	(3.7)
NACoal	5.8	11.0	17.5	30.4
NACCO and Other	(0.7)	(6.1)	33.0	(14.4)
Eliminations	(0.5)	(0.7)	(1.7)	(3.1)
Total	$25.7	$13.5	$107.7	$41.1

Note 14 - Other Events and Transactions

NACoal: During the second quarter of 2010 and the third quarter of 2011, NACoal entered into agreements to sell $30.5 million of assets, primarily two draglines. The sales of the assets are expected to occur in the fourth quarter of 2011 and in 2012. As a result, these assets have been classified as held for sale in the Unaudited Condensed Consolidated Balance Sheet at September 30, 2011 and December 31, 2010.

During the second quarter of 2010, NACoal received and recorded a payment of $7.6 million, which is included on the line “Revenues” in the Unaudited Condensed Consolidated Statement of Operations, related to the reimbursement from Mississippi Power Company for previously recognized costs for pre-development activities. NACoal also received a payment of $3.5 million related to Mississippi Power Company's purchase of permit assets which approximated NACoal's book value.

During the third quarter of 2010, NACoal sold the majority of the assets of its investment in Great American Energy for cash proceeds of $11.2 million, which is included on the line "Proceeds from the sale of assets" in the Unaudited Condensed Consolidated Statement of Cash Flows.

NACCO and Other: In 2006, the Company initiated litigation in the Delaware Chancery Court against Applica Incorporated ("Applica") and individuals and entities affiliated with Applica's shareholder, Harbinger Capital Partners Master Fund, Ltd. The litigation alleged a number of contract and tort claims against the defendants related to the failed transaction with Applica, which had been previously announced. On February 14, 2011, the parties to this litigation entered into a settlement agreement. The settlement agreement provided for, among other things, the payment of $60 million to the Company and dismissal of the lawsuit with prejudice. The payment was received in February 2011.
Litigation costs related to the failed transaction with Applica were $2.8 million during the first quarter of 2011. As a result of the settlement during the first quarter of 2011, no further litigation costs in relation to this matter will be incurred. Litigation costs were $6.1 million and $13.0 million during the three and nine months ended September 30, 2010, respectively.

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Item 2. - Management's Discussion and Analysis of Financial Condition and Results of Operations
(Tabular Amounts in Millions, Except Per Share and Percentage Data)

NACCO Industries, Inc. (the “parent company” or “NACCO”) and its wholly owned subsidiaries (collectively, the “Company”) operate in the following principal industries: lift trucks, small appliances, specialty retail and mining. Results of operations and financial condition are discussed separately by subsidiary, which corresponds with the industry groupings.

NMHG Holding Co. (“NMHG”) designs, engineers, manufactures, sells and services a comprehensive line of lift trucks and aftermarket parts marketed globally under the Hyster® and Yale® brand names, primarily to independent Hyster® and Yale® retail dealerships. Lift trucks and component parts are manufactured in the United States, Northern Ireland, Mexico, Italy, Brazil, The Netherlands, China, Japan, the Philippines and Vietnam. Hamilton Beach Brands, Inc. (“HBB”) is a leading designer, marketer and distributor of small electric household appliances primarily in the United States, Canada, Mexico and Latin America, as well as commercial products for restaurants, bars and hotels. The Kitchen Collection, LLC (“KC”) is a national specialty retailer of kitchenware and gourmet foods operating under the Kitchen Collection® and Le Gourmet Chef® store names in outlet and traditional malls throughout the United States. The North American Coal Corporation and its affiliated coal companies (collectively, “NACoal”) mine and market coal primarily as fuel for power generation and provide selected value-added mining services for other natural resources companies primarily in the United States. Coal is delivered from NACoal's developed mines in Mississippi, North Dakota and Texas to adjacent or nearby power plants. Dragline mining services are provided for independently owned limerock quarries in Florida.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Please refer to the discussion of the Company's Critical Accounting Policies and Estimates as disclosed on pages 39 through 42 in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. The Company's Critical Accounting Policies and Estimates have not materially changed from December 31, 2010.

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NACCO MATERIALS HANDLING GROUP

FINANCIAL REVIEW

The results of operations for NMHG were as follows for the three and nine months ended September 30:

	THREE MONTHS		NINE MONTHS	
	2011	2010	2011	2010
Revenues				
Americas	$389.8	$295.2	$1,149.2	$783.3
Europe	180.3	110.5	549.2	314.4
Other	58.7	37.2	165.0	134.1
	$628.8	$442.9	$1,863.4	$1,231.8
Operating profit (loss)				
Americas	$17.4	$15.2	$64.3	$31.5
Europe	6.2	(0.4)	15.4	2.3
Other	0.5	(6.6)	2.3	(5.5)
	$24.1	$8.2	$82.0	$28.3
Interest expense	$4.1	$4.3	$11.9	$12.5
Other (income) expense	$(1.6)	$(0.8)	$(3.7)	$(2.4)
Net income attributable to stockholders	$17.5	$3.8	$59.0	$19.1
Effective income tax rate	19.0%	23.4%	20.2%	(a)

(a) The effective income tax rate is not meaningful.

See discussion of the consolidated effective income tax rate in Note 11 of the unaudited condensed consolidated financial statements.

Third Quarter of 2011 Compared with Third Quarter of 2010

The following table identifies the components of change in revenues for the third quarter of 2011 compared with the third quarter of 2010:

	Revenues
2010	$442.9
Increase in 2011 from:	
Unit volume and product mix	139.5
Foreign currency	29.0
Unit price	14.0
Parts	2.9
Other	0.5
2011	$628.8

Revenues increased 42.0% to $628.8 million in the third quarter of 2011 compared with $442.9 million in the third quarter of 2010, primarily as a result of a significant increase in unit volume in all geographic markets, favorable foreign currency movements primarily as the euro strengthened against the U.S. dollar, the favorable effect of unit price increases implemented in late 2010 and early 2011, mainly in the Americas and Europe, and an increase in parts volume. Worldwide new unit shipments increased in the third quarter of 2011 to 19,628 from shipments of 15,434 in the third quarter of 2010.

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The following table identifies the components of change in operating profit for the third quarter of 2011 compared with the third quarter of 2010:

	Operating Profit
2010	$8.2
Loss on the sale of certain operations	3.4
	11.6
Increase (decrease) in 2011 from:	
Gross profit	26.6
Other	3.9
Other selling, general and administrative expenses	(10.1)
Foreign currency	(7.9)
2011	$24.1

NMHG recognized operating profit of $24.1 million in the third quarter of 2011 compared with $8.2 million in the third quarter of 2010. The increase was primarily due to improved gross profit as a result of higher sales volumes on units and parts and the favorable effect of price increases, which fully offset material cost increases. In addition, operating profit was favorably affected by the absence of losses on the sale of certain retail operations recorded in the third quarter of 2010. These increases were partially offset by higher selling, general and administrative expenses, primarily as a result of higher employee-related expenses resulting from the full restoration in 2011 of compensation and benefits, which were only partially restored in the third quarter of 2010, somewhat offset by a $2.9 million benefit from the elimination of postretirement life insurance benefits and certain postretirement medical benefits during the third quarter of 2011. In addition, operating profit was unfavorably affected by a change in foreign currency primarily from the weakening of the U.S. dollar against the euro and Japanese yen and the absence of deferred gains on foreign currency exchange contracts recognized in earnings during 2010.

NMHG recognized net income attributable to stockholders of $17.5 million in the third quarter of 2011 compared with $3.8 million in the third quarter of 2010. The increase was primarily a result of the improvement in operating profit partially offset by higher income tax expense from increased pre-tax income in 2011.

Backlog

NMHG's worldwide backlog level was approximately 25,600 units at September 30, 2011 compared with approximately 24,500 units at September 30, 2010 and approximately 25,100 units at June 30, 2011.

First Nine Months of 2011 Compared with First Nine Months of 2010

The following table identifies the components of change in revenues for the first nine months of 2011 compared with the first nine months of 2010:

	Revenues
2010	$1,231.8
Increase (decrease) in 2011 from:	
Unit volume and product mix	528.6
Foreign currency	61.1
Unit price	35.4
Other	22.7
Parts	19.3
Sale of certain operations	(35.5)
2011	$1,863.4

Revenues increased 51.3% to $1,863.4 million in the first nine months of 2011 compared with $1,231.8 million in the first nine months of 2010 primarily due to a significant increase in unit volume in all geographic markets, favorable foreign currency movements mainly as a result of the euro strengthening against the U.S. dollar, the favorable effect of unit price increases implemented in late 2010 and early 2011 in the Americas and Europe, and an increase in parts volume primarily in the Americas. The increase in revenue was slightly offset by the sale of certain retail and rental operations in Australia and Europe in 2010.

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The following table identifies the components of change in operating profit for the first nine months of 2011 compared with the first nine months of 2010:

	Operating Profit
2010	$28.3
Loss on sale of certain operations	4.2
Restructuring programs	(1.9)
	30.6
Increase (decrease) in 2011 from:	
Gross profit	114.8
Other	0.6
Other selling, general and administrative expenses	(44.2)
Foreign currency	(19.8)
2011	$82.0

NMHG recognized operating profit of $82.0 million in the first nine months of 2011 compared with $28.3 million in the first nine months of 2010. The increase was primarily due to improved gross profit as a result of higher sales volumes on units and parts, lower manufacturing variances due to higher production levels in 2011 and the favorable effect of price increases, which fully offset material cost increases. The increase in gross profit was partially offset by higher selling, general and administrative expenses, primarily due to higher employee-related expenses resulting from the full restoration in 2011 of compensation and benefits, which were only partially restored in the first nine months of 2010, and an unfavorable change in foreign currency mainly from the absence of deferred gains on foreign currency exchange contracts recognized in earnings during 2010 and the weakening of the U.S. dollar against the euro and Japanese yen.

NMHG recognized net income attributable to stockholders of $59.0 million in the first nine months of 2011 compared with $19.1 million in the first nine months of 2010. The increase was primarily a result of the improvement in operating profit partially offset by higher income tax expense from increased pre-tax income in 2011 and the absence of income tax benefits recognized in the first nine months of 2010 which were related to the sale of certain Australian operations and a change in a foreign tax law that reduced the statute of limitations for certain items.

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LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The following tables detail the changes in cash flow for the nine months ended September 30:

	2011	2010	Change
Operating activities:			
Net income	$58.9	$18.9	$40.0
Depreciation and amortization	23.6	25.8	(2.2)
Other	10.1	(20.3)	30.4
Working capital changes, excluding the effects of business dispositions:			
Accounts receivable	(83.9)	(80.1)	(3.8)
Inventories	(79.0)	(67.3)	(11.7)
Accounts payable	57.4	124.8	(67.4)
Other	1.9	15.1	(13.2)
Net cash provided by (used for) operating activities	(11.0)	16.9	(27.9)
Investing activities:			
Expenditures for property, plant and equipment	(11.0)	(6.3)	(4.7)
Proceeds from the sale of assets	0.5	0.5	—
Proceeds from the sale of businesses	—	3.0	(3.0)
Other	—	0.1	(0.1)
Net cash used for investing activities	(10.5)	(2.7)	(7.8)
Cash flow before financing activities	$(21.5)	$14.2	$(35.7)

Net cash provided by (used for) operating activities decreased $27.9 million in the first nine months of 2011 compared with the first nine months of 2010 primarily as a result of the change in working capital, partially offset by the improvement in net income and the change in other operating activities. During 2010 and 2011, working capital was significantly affected as sales began to recover from the low levels experienced in 2009 and, as a result, accounts receivable, inventory and accounts payable increased. The other working capital change was primarily from a decrease in intercompany tax receivables mainly due to improved operating results. The increase in other operating activities was mainly due to the non-cash effect of the release of deferred gains on foreign currency exchange contracts into earnings during 2010 and a change in deferred taxes.

Net cash used for investing activities increased primarily as a result of an increase in expenditures for property, plant and equipment in the first nine months of 2011 compared with the first nine months of 2010 and the absence of proceeds from the sale of certain retail and rental operations in Australia and Europe in 2010.

	2011	2010	Change
Financing activities:			
Net reductions of long-term debt and revolving credit agreements	$(9.1)	$(17.6)	$8.5
Cash dividends paid to NACCO	(10.0)	(5.0)	(5.0)
Financing fees paid	—	(3.0)	3.0
Net cash used for financing activities	$(19.1)	$(25.6)	$6.5

The decrease in net cash used for financing activities during the first nine months of 2011 compared with the first nine months of 2010 was primarily due a smaller net reduction of long-term debt and revolving credit agreements during the first nine months of 2011 and the absence of financing fees paid in the first nine months of 2010, partially offset

by increased dividends paid to NACCO.

Financing Activities

NMHG's primary financing is provided by a $150.0 million secured floating-rate revolving credit facility (the “NMHG Facility”) and a term loan facility (the “NMHG Term Loan”). The obligations under the NMHG Facility are secured by a first

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lien on the cash and cash equivalents, accounts receivable and inventory of NMHG. The approximate book value of NMHG's assets held as collateral under the NMHG Facility was $690 million as of September 30, 2011.

The maximum availability under the NMHG Facility is governed by a borrowing base derived from advance rates against the inventory and accounts receivable of the borrowers, as defined in the NMHG Facility. Adjustments to reserves booked against these assets, including inventory reserves, will change the eligible borrowing base and thereby impact the liquidity provided by the NMHG Facility. A portion of the availability can be denominated in British pounds or euros. Borrowings bear interest at a floating rate which can be a base rate or LIBOR (London Interbank Offered Rate) plus a margin. The applicable margins, effective September 30, 2011, for domestic base rate loans and LIBOR loans were 2.00% and 3.00%, respectively. The applicable margins, effective September 30, 2011, for foreign overdraft loans and foreign LIBOR loans were 3.25% and 3.00%, respectively. The NMHG Facility also requires the payment of a fee of 0.75% per annum on the unused commitment.

At September 30, 2011, the excess availability under the NMHG Facility was $132.3 million, which reflects reductions of $10.0 million for an excess availability requirement and $7.7 million for letters of credit. If commitments or availability under these facilities are increased, availability under the NMHG Facility will be reduced.

There were no borrowings outstanding under the NMHG Facility at September 30, 2011. The domestic and foreign floating rates of interest applicable to the NMHG Facility on September 30, 2011 were 5.25% and a range of 3.50% to 4.50%, respectively, including the applicable floating rate margin. The NMHG Facility expires in June 2014.

The NMHG Facility includes restrictive covenants, which, among other things, limit the payment of dividends to NACCO. Subject to achieving availability thresholds, dividends to NACCO are limited to the larger of $5.0 million or 50% of the preceding year's net income for NMHG. The NMHG Facility also requires NMHG to maintain a minimum excess availability during the term of the agreement and achieve a maximum leverage ratio and a minimum fixed charge coverage ratio, in certain circumstances, as defined in the NMHG Facility. At September 30, 2011, NMHG was in compliance with the covenants in the NMHG Facility.

During 2006, NACCO Materials Handling Group, Inc. (“NMHG Inc.”), a wholly owned subsidiary of NMHG, entered into the NMHG Term Loan that provided for term loans up to an aggregate principal amount of $225.0 million, which mature in March 2013. The term loans require quarterly payments in an amount equal to 1% of the original principal per year for the first six years, with the remaining balance to be paid in four equal installments in the seventh year. At September 30, 2011, there was $213.2 million outstanding under the NMHG Term Loan.

Borrowings under the NMHG Term Loan are guaranteed by NMHG and substantially all of NMHG's domestic subsidiaries. The obligations of the guarantors under the NMHG Term Loan are secured by a first lien on all of the domestic machinery, equipment and real property owned by NMHG Inc. and each guarantor and a second lien on all of the collateral securing the obligations of NMHG under the NMHG Facility. The approximate book value of NMHG's assets held as collateral under the NMHG Term Loan was $780 million as of September 30, 2011, which includes the book value of the assets securing the NMHG Facility.

Outstanding borrowings under the NMHG Term Loan bear interest at a variable rate that, at NMHG Inc.'s option, will be either LIBOR or a floating rate, as defined in the NMHG Term Loan, plus an applicable margin. The applicable margin is subject to adjustment based on a leverage ratio. The weighted average interest rate on the amount outstanding under the NMHG Term Loan at September 30, 2011 was 2.29%.

The NMHG Term Loan includes restrictive covenants, which, among other things, limit the payment of dividends to NACCO. Subject to achieving availability thresholds, dividends to NACCO are limited to the larger of $5.0 million or

50% of the preceding year's net income for NMHG. The NMHG Term Loan also requires NMHG to meet certain financial tests, including, but not limited to, minimum excess availability, maximum leverage ratio and minimum fixed charge coverage ratio tests. At September 30, 2011, NMHG was in compliance with the covenants in the NMHG Term Loan.

In addition to the amount outstanding under the NMHG Term Loan, NMHG had borrowings of approximately $12.3 million at September 30, 2011 under various foreign working capital facilities.

NMHG believes funds available from cash on hand, the NMHG Facility, other available lines of credit and operating cash flows will provide sufficient liquidity to meet its operating needs and commitments during the next twelve months and until the expiration of the NMHG Facility in June 2014.

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Contractual Obligations, Contingent Liabilities and Commitments

Since December 31, 2010 there have been no significant changes in the total amount of NMHG's contractual obligations or commercial commitments, or the timing of cash flows in accordance with those obligations, as reported on page 51 in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Capital Expenditures

Expenditures by NMHG for property, plant and equipment were $11.0 million during the first nine months of 2011. Capital expenditures are estimated to be an additional $12.5 million for the remainder of 2011. Planned expenditures for the remainder of 2011 are primarily for product development and improvements to NMHG's facilities and information technology infrastructure. The principal sources of financing for these capital expenditures will be internally generated funds and bank borrowings.

Capital Structure

NMHG's capital structure is presented below:

	SEPTEMBER 30 2011	DECEMBER 31 2010	Change
Cash and cash equivalents	$ 129.3	$ 169.5	$ (40.2)
Other net tangible assets	384.4	296.5	87.9
Net assets	513.7	466.0	47.7
Total debt	(226.2)	(234.5)	8.3
Total equity	$ 287.5	$ 231.5	$ 56.0
Debt to total capitalization	44 %	50 %	(6)%

The $87.9 million increase in other net tangible assets during the first nine months of 2011 was primarily attributable to higher accounts receivable from increased revenue and an increase in inventory as a result of higher demand. The increase was partially offset by an increase in accounts payable to fund the higher levels of inventory.

Total equity increased $56.0 million in the first nine months of 2011 primarily as a result of $59.0 million of net income attributable to stockholders and a $2.1 million decrease in accumulated other comprehensive loss, partially offset by $5.0 million of dividends declared to NACCO during the first nine months of 2011.

OUTLOOK

For the fourth quarter of 2011 and for 2012, NMHG expects growth in global lift truck markets to moderate, with modest growth in the lift truck markets in the Americas and Asia-Pacific and volumes comparable to prior periods in Europe and China. With these market prospects, NMHG anticipates that unit booking and shipment levels in the fourth quarter of 2011 will be moderately higher than in the fourth quarter of 2010. For 2012, NMHG expects a slight increase in unit booking and shipment levels compared with 2011. Backlog is expected to remain relatively steady in the fourth quarter of 2011 and in 2012. Parts volume is also expected to improve modestly in the fourth quarter of 2011 and in 2012. NMHG will continue to monitor ongoing market conditions and adjust manufacturing levels as necessary. NMHG does not currently anticipate significant supply chain constraints or disruptions.

NMHG anticipates increases in material costs, particularly steel, in the fourth quarter of 2011 and in 2012. As a result, price increases already implemented and proposed for the fourth quarter of 2011, are expected to offset a significant portion of these anticipated higher material costs in the fourth quarter of 2011 and in 2012. Although commodity costs have stabilized and slightly decreased over the past month, these markets are highly volatile and commodity price

increases are expected in 2012, which could result in further increases in the costs of components and materials. Accordingly, NMHG will also continue to monitor economic conditions and their resulting effects on costs to determine the need for future price increases.

NMHG's new electric-rider, warehouse, internal combustion engine and big truck product development programs are continuing to move forward. The new electric-rider lift truck program is bringing a full line of newly designed products to market. NMHG launched a new electric lift truck in June of 2011 and expects to launch another electric-rider lift truck in this series in the fourth quarter of 2011. The final two models in this electric-rider lift truck program are expected to be launched in the first half of 2012. In addition, NMHG introduced a new medium-duty internal combustion engine lift truck in Europe in the

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third quarter of 2011 to complement the product launched in the Americas in July 2010. NMHG also introduced a new light-duty internal combustion engine series of lift trucks in Latin America in the third quarter of 2011 and expects to introduce this series in North America in 2012. Finally, NMHG introduced an upgraded 8-16-ton big truck in the second quarter of 2011. All of these new products are expected to help enhance customer satisfaction, improve revenues and enhance operating margins.

Overall, fourth quarter 2011 net income is expected to improve modestly compared with the fourth quarter of 2010, reflecting higher unit and parts volumes coupled with price increases, which are anticipated to be partially offset by increased material costs, higher employee-related expenses due to improved earnings in 2011, significant adverse foreign currency movements and an anticipated shift in sales mix to lower margin distribution channels and lift truck models. Cash flow before financing activities for the full year 2011 is expected to be higher than in 2010.

Longer term, NMHG is focused on improving margins on new lift truck units, especially in its internal combustion engine business, as a result of new products which have been or are expected to be introduced. In addition, NMHG has an objective of gaining market share through these new products, which meet a broad range of market applications cost effectively, and through enhancements to its independent dealer network.

HAMILTON BEACH BRANDS, INC.

HBB's business is seasonal, and a majority of revenues and operating profit typically occurs in the second half of the year when sales of small electric appliances to retailers and consumers increase significantly for the fall holiday-selling season.

FINANCIAL REVIEW

The results of operations for HBB were as follows for the three and nine months ended September 30:

	THREE MONTHS		NINE MONTHS	
	2011	2010	2011	2010
Revenues	$126.7	$133.3	$331.6	$339.2
Operating profit	$7.9	$10.9	$14.8	$26.1
Interest expense	$1.3	$1.8	$4.2	$5.4
Other (income) expense	$0.8	$—	$1.0	$0.2
Net income	$4.1	$5.6	$6.4	$12.8
Effective income tax rate	29.3 %	38.5 %	33.3 %	37.6 %

Third Quarter of 2011 Compared with Third Quarter of 2010

The following table identifies the components of change in revenues for the third quarter of 2011 compared with the third quarter of 2010:

	Revenues
2010	$133.3
Increase (decrease) in 2011 from:	
Unit volume and product mix	(6.9)
Average sales price	(0.9)
Foreign currency	1.2
2011	$126.7

Revenues for the third quarter of 2011 decreased 5.0% to $126.7 million compared with $133.3 million in the third quarter of 2010 primarily due to a decrease in sales volumes in the U.S. consumer retail market and lower prices on

comparable products sold in the third quarter of 2011 compared with the third quarter of 2010. The decrease was partially offset by favorable foreign currency movements caused by a strengthening Canadian dollar and Mexican peso and higher international sales during the third quarter of 2011 compared with the third quarter of 2010.

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The following table identifies the components of change in operating profit for the third quarter of 2011 compared with the third quarter of 2010:

	Operating Profit
2010	$10.9
Increase (decrease) in 2011 from:	
Gross profit	(4.1)
Foreign currency	0.8
Other selling, general and administrative expenses	0.3
2011	$7.9

HBB's operating profit decreased to $7.9 million in the third quarter of 2011 compared with $10.9 million in the third quarter of 2010. Operating profit declined primarily as a result of higher product costs as well as a $1.3 million charge for the write-off of a capital lease asset no longer being leased. The decrease in operating profit was partially offset by favorable foreign currency movements and lower employee-related costs included in other selling, general and administrative expenses.

HBB recognized net income of $4.1 million in the third quarter of 2011 compared with $5.6 million in the third quarter of 2010 primarily due to the factors affecting operating profit partially offset by lower income tax expense.

First Nine Months of 2011 Compared with First Nine Months of 2010

The following table identifies the components of change in revenues for the first nine months of 2011 compared with the first nine months of 2010:

	Revenues
2010	$339.2
Increase (decrease) in 2011 from:	
Unit volume and product mix	(7.1)
Average sales price	(3.7)
Foreign currency	3.2
2011	$331.6

Revenues decreased 2.2% to $331.6 million in the first nine months of 2011 from $339.2 million in the first nine months of 2010 primarily due to a decrease in sales volumes in the U.S. consumer retail market and lower prices on comparable products sold. The decrease in revenues was partially offset by improved international and commercial sales and favorable foreign currency movements during the first nine months of 2011 compared with the first nine months of 2010.

The following table identifies the components of change in operating profit for the first nine months of 2011 compared with the first nine months of 2010:

	Operating Profit
2010	$26.1
Increase (decrease) in 2011 from:	
Gross profit	(13.6)
Other selling, general and administrative expenses	(0.4)
Foreign currency	2.7
2011	$14.8

HBB's operating profit decreased to $14.8 million in the first nine months of 2011 compared with $26.1 million in the first nine months of 2010. Operating profit declined primarily as a result of margin compression on most of its product lines due to lower prices on comparable products sold and higher product and transportation costs. In addition, operating profit decreased as a result of a $1.3 million charge during the third quarter of 2011 for the write-off of a capital lease asset no longer being leased and $0.9 million of costs related to moving the HBB distribution center into a larger facility during the second quarter of 2011. The decrease in operating profit was partially offset by favorable foreign currency movements.

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HBB recognized net income of $6.4 million in the first nine months of 2011 compared with $12.8 million in the first nine months of 2010 primarily due to the factors affecting operating profit partially offset by lower income tax expense.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The following tables detail the changes in cash flow for the nine months ended September 30:

	2011	2010	Change
Operating activities:			
Net income	$6.4		