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 o 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		$—	$—	$—	$—

		Amount of Gain or (Loss Recognized in Income o Derivative			
		THREE MONTHS		NINE MONTHS	
Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	2011	2010	2011	201
Interest rate swap agreements	Other	$—	$—	$—	$0.2
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