

NACCO INDUSTRIES INC

Form 10-K

March 13, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

**Commission File No. 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)

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

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

Name of Each Exchange
on Which Registered

Title of Each Class
Class A Common Stock, Par Value \$1.00 Per Share

New York Stock Exchange

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

Class B Common Stock, Par Value \$1.00 Per Share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. YES NO

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 NO

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

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

Large accelerated
filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

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(Do not check if a 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
o **NO** p

Aggregate market value of Class A Common Stock and Class B Common Stock held by non-affiliates as of June 30,
2008 (the last business day of the registrant's most recently completed second fiscal quarter): \$425,154,936

Number of shares of Class A Common Stock outstanding at March 9, 2009: 6,681,480

Number of shares of Class B Common Stock outstanding at March 9, 2009: 1,604,398

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for its 2009 annual meeting of stockholders are incorporated herein by
reference
in Part III of this Form 10-K.

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PART I

Item 1. BUSINESS

General

NACCO Industries, Inc. (NACCO or the Company) is a holding company with the following principal businesses: lift trucks, housewares distribution, housewares retail and mining.

(a) *NACCO Materials Handling Group*. NACCO Materials Handling Group consists of the Company's wholly owned subsidiary, NMHG Holding Co. (NMHG). NMHG designs, engineers, manufactures, sells, services and leases a comprehensive line of lift trucks and aftermarket parts marketed globally under the Hyster® and Yale® brand names. NMHG manages its operations as two reportable segments: wholesale manufacturing (NMHG Wholesale) and retail distribution (NMHG Retail).

(b) *Hamilton Beach Brands*. The Company's wholly owned subsidiary, Hamilton Beach Brands, Inc. (HBB), is a leading designer, marketer and distributor of small electric household appliances, as well as commercial products for restaurants, bars and hotels.

(c) *Kitchen Collection*. The Company's wholly owned subsidiary, the Kitchen Collection, Inc. (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.

(d) *North American Coal*. The Company's wholly owned subsidiary, The North American Coal Corporation and its affiliated coal companies (collectively, NACoal), mine and market lignite coal primarily as fuel for power generation and provide selected value-added mining services for other natural resources companies.

Additional information relating to financial and operating data on a segment basis (including NACCO and Other) and by geographic region is set forth under the heading Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II of this Form 10-K and in Note 18 to the Consolidated Financial Statements contained in this Form 10-K.

NACCO was incorporated as a Delaware corporation in 1986 in connection with the formation of a holding company structure for a predecessor corporation organized in 1913. As of January 31, 2009, the Company and its subsidiaries had approximately 9,300 employees, including approximately 1,000 employees at the Company's unconsolidated project mining subsidiaries.

The Company makes its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports available, free of charge, through its website, <http://www.nacco.com>, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (SEC).

Significant Events

During the fourth quarter of 2008, the Company's stock price significantly declined compared with previous periods and the Company's market value of equity was below the book value of tangible assets and the book value of equity. The Company performed an interim impairment test, which indicated that goodwill and certain other intangible assets were impaired at December 31, 2008. Therefore, the Company recorded a non-cash impairment charge of \$435.7 million during the fourth quarter of 2008.

The Company believes that current stock market valuations, which were the basis for the impairment testing under existing accounting rules, are generally reflective of broader global macro-economic and stock market conditions than a reflection of the operating fundamentals and the programs being implemented at each of our subsidiaries. As market conditions improve, the Company expects that these fundamentals and the programs in place at our subsidiaries will position each of them to move positively toward achievement of sound long-term financial returns.

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BUSINESS SEGMENT INFORMATION

A. NACCO Materials Handling Group

1. NMHG Wholesale

General

NMHG Wholesale designs, engineers, manufactures and sells a comprehensive line of lift trucks and aftermarket parts marketed globally under the Hyster® and Yale® brand names.

Manufacturing and Assembly

NMHG Wholesale manufactures components, such as frames, masts and transmissions, and assembles products in the market of sale whenever practical to minimize freight cost and balance currency mix. In some instances, however, it utilizes one worldwide location to manufacture specific components or assemble specific products. Additionally, components and assembled lift trucks are exported to locations when it is advantageous to meet demand in certain markets. NMHG Wholesale operates 14 manufacturing and assembly facilities worldwide with five plants in the Americas, five in Europe and four in Asia-Pacific, including joint venture operations.

Sales of lift trucks represented approximately 87% of NMHG Wholesale's annual revenues in 2008 and 86% in each of 2007 and 2006.

Marketing

NMHG Wholesale's marketing organization is structured in three regional divisions: the Americas; Europe, which includes the Middle East and Africa; and Asia-Pacific. In each region, certain marketing support functions for the Hyster® and Yale® brands are combined into a single shared services organization. These activities include sales and service training, information systems support, product launch coordination, specialized sales material development, help desks, order entry, marketing strategy and field service support. Only the specific aspects of NMHG Wholesale's sales and marketing activities that interact directly with dealers and customers, such as dealer consulting and new lift truck units and aftermarket parts transaction support, are brand specific.

Distribution Network

NMHG Wholesale distributes lift trucks and aftermarket parts through two channels: dealers and a National Accounts program.

Dealers

Independent Dealers

The majority of NMHG Wholesale's dealers are independently owned and operated. In the Americas, Hyster® had 81 independent dealers and Yale® had 68 independent dealers as of December 31, 2008. In Europe, Hyster® had 63 independent dealers with locations in 74 countries and Yale® had 111 independent dealers with locations in 48 countries as of December 31, 2008. In Asia-Pacific, Hyster® had 15 independent dealers and Yale® had 10 independent dealers as of December 31, 2008.

Owned Dealers

NMHG has acquired, at times on an interim basis, certain independent Hyster®, Yale® and competitor dealers and rental companies to strengthen Hyster®'s and Yale®'s presence in select territories. See 2. NMHG Retail for a description of NMHG's owned dealers.

National Accounts

NMHG Wholesale operates a National Accounts program for both Hyster® and Yale®. The National Accounts program focuses on large customers with centralized purchasing and geographically dispersed operations in multiple dealer territories. The National Accounts program accounted for 15%, 14% and 16% of new lift truck unit volume in 2008, 2007 and 2006, respectively. The dealer network described above supports the National Accounts program by providing aftermarket parts and service on a local basis. Dealers receive a commission for the support they provide in connection with National Accounts sales and for the preparation and delivery of lift trucks to customer locations. In addition to selling new lift trucks, the National Accounts program markets services, including full maintenance leases and total fleet management.

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Customers

NMHG Wholesale's customer base is diverse and fragmented, including, among others, light and heavy manufacturers, trucking and automotive companies, rental companies, building materials and paper suppliers, lumber, metal products, warehouses, retailers, food distributors, container handling companies and domestic and foreign governmental agencies.

Aftermarket Parts

NMHG Wholesale offers a line of aftermarket parts to service its large installed base of lift trucks currently in use in the industry. NMHG Wholesale offers online technical reference databases specifying the required aftermarket parts to service lift trucks and an aftermarket parts ordering system. Aftermarket parts sales represented approximately 13% of NMHG Wholesale's annual revenues in 2008 and 14% in each of 2007 and 2006.

NMHG Wholesale sells Hyster®- and Yale®-branded aftermarket parts to dealers for Hyster® and Yale® lift trucks. NMHG Wholesale also sells aftermarket parts under the UNISOURCE, MULTIQUIP and PREMIER brands to Hyster® and Yale® dealers for the service of competitor lift trucks. NMHG has entered into a contractual relationship with a third-party, multi-brand, aftermarket parts wholesaler in the Americas, Europe and Asia-Pacific whereby orders from NMHG Wholesale dealers for parts for lift trucks are fulfilled by the third party who then pays NMHG Wholesale a commission.

Financing of Sales

NMHG Wholesale is engaged in a joint venture with General Electric Capital Corporation (GECC) to provide dealer and customer financing of new lift trucks in the United States. NMHG owns 20% of the joint venture entity, NMHG Financial Services, Inc. (NFS), and receives fees and remarketing profits under a joint venture agreement. This agreement expires on December 31, 2013. NMHG accounts for its ownership of NFS using the equity method of accounting.

In addition, NMHG Wholesale has entered into an operating agreement with GECC under which GECC provides leasing and financing services to Hyster® and Yale® dealers and their customers outside of the United States. GECC pays NMHG a referral fee once certain financial thresholds are met. This agreement expires on December 31, 2013. Under the joint venture agreement with NFS and the operating agreement with GECC, NMHG's dealers and certain customers are extended credit for the purchase of lift trucks to be placed in the dealer's floor plan inventory or the financing of lift trucks that are sold or leased to customers. For some of these arrangements, NMHG provides standby recourse obligations, guarantees or repurchase obligations to NFS or to GECC. In substantially all of these transactions, a perfected security interest is maintained in the lift trucks financed, so that in the event of a default, NMHG has the ability to foreclose on the leased property and sell it through the Hyster® or Yale® dealer network. Furthermore, NMHG has established reserves for exposures under these agreements when required. In addition, NMHG amended its agreement with GECC during 2008 to limit its exposure to losses at certain eligible dealers. Under this amended agreement, losses related to guarantees for these certain eligible dealers are limited to 7.5% of their original loan balance. See Note 14 and 21 to the Consolidated Financial Statements in this Form 10-K for further discussion.

Backlog

As of December 31, 2008, NMHG Wholesale's backlog of unfilled orders placed with its manufacturing and assembly operations for new lift trucks was approximately 14,900 units, or approximately \$356 million, of which substantially all is expected to be filled during fiscal 2009. This compares to the backlog as of December 31, 2007 of approximately 30,500 units, or approximately \$668 million. Backlog represents unfilled lift truck orders placed with NMHG Wholesale's manufacturing and assembly facilities from dealers, National Accounts customers and contracts with the U.S. government.

Key Suppliers and Raw Material

At times, NMHG Wholesale has experienced significant increases in its material costs, primarily as a result of global increases in industrial metals including steel, lead and copper and other commodity products including rubber, due to increased demand and limited supply. While NMHG Wholesale attempts to pass these increased costs along to its customers in the form of higher prices for its products, it may not be able to fully offset the increased costs of industrial metals and other commodities, due to overall market conditions and the lag time involved in implementing

price increases for its products. NMHG Wholesale believes there are comparable alternatives available for all suppliers.

Competition

NMHG is one of the leaders in the lift truck industry with respect to market share in the Americas and worldwide. Competition in the lift truck industry is intense and is based primarily on strength and quality of dealers, brand loyalty, customer service, new lift truck sales prices, availability of products and aftermarket parts, comprehensive product line offering, product performance, product quality and features and the cost of ownership over the life of the lift truck. NMHG competes with several global full-line manufacturers that operate in all major markets.

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The lift truck industry also competes with alternative methods of materials handling, including conveyor systems and automated guided vehicle systems.

NMHG's aftermarket parts offerings compete with parts manufactured by other lift truck manufacturers as well as companies that focus solely on the sale of generic parts.

Patents, Trademarks and Licenses

NMHG Wholesale relies on a combination of trade secret protection, trademarks, nondisclosure agreements and patents to establish and protect its proprietary rights. These intellectual property rights may not have commercial value or may not be sufficiently broad to protect the aspect of NMHG Wholesale's technology to which they relate or competitors may design around the patents. NMHG Wholesale is not materially dependent upon patents or patent protection; however, as materials handling equipment has become more technologically advanced, NMHG and its competitors have increasingly sought patent protection for inventions incorporated into their products. NMHG is the owner of the Hyster® trademark. NMHG uses the Yale® trademark on a perpetual royalty-free basis in connection with the manufacture and sale of lift trucks and related components. NMHG believes that the Hyster® and Yale® trademarks are material to its business.

2. NMHG Retail

General

From time to time, NMHG, through NMHG Retail, has acquired, at least on an interim basis, certain independent Hyster®, Yale® and competitor dealers and rental companies to strengthen Hyster®'s or Yale®'s presence in select territories. NMHG's long-term strategy is to retain or identify strategic buyers for owned dealers that represent best-in-class dealers to support the Hyster® and Yale® brands.

As of December 31, 2008, NMHG Retail owned one dealer operation in Europe, two dealer operations in Australia and one dealer operation in Singapore.

Company Operations

A NMHG Retail dealership is authorized to sell and rent either Hyster® or Yale® brand materials handling equipment. These dealerships will typically also sell non-competing allied lines of equipment from other manufacturers pursuant to dealer agreements. Allied equipment includes such items as sweepers, aerial work platforms, personnel carts, rough terrain forklifts and other equipment as well as racking and shelving. The number and type of products available will vary from dealership to dealership. In addition to the outright sale of new and used equipment, dealerships provide equipment for lease and for short- or long-term rental. Dealerships also derive revenue from the sale of parts and service related to equipment sold, leased and/or serviced by them. Service is performed both in-shop and at the customer's site.

NMHG Retail dealerships are granted a primary geographic territory by NMHG Wholesale in which they operate. NMHG Retail operations are conducted at facilities located in major cities within NMHG Retail's assigned area of operations.

Competition

The materials handling equipment sales and rental industry is highly dispersed and competitive. NMHG Retail's competitors include dealers owned by original equipment manufacturers, original equipment manufacturer direct sales efforts, independently owned competitive dealerships and lift truck rental outlets, independent parts operations, independent service shops and, to a lesser extent, independent Hyster® or Yale® dealers.

The lift truck industry also competes with alternative methods of materials handling, including conveyor systems and automated guided vehicle systems.

Customers

NMHG Retail's customer base is highly diversified and ranges from Fortune 100 companies to small businesses in a substantial number of manufacturing and service industries. NMHG Retail's customer base varies widely by facility and is determined by several factors, including the equipment mix and marketing focus of the particular facility and the business composition of the local economy.

Financing of Sales

NMHG Retail dealerships have a preferred relationship with GECC. NMHG Retail dealerships may obtain wholesale and retail financing for the sale and leasing of equipment through GECC. This affords these dealerships a wide variety

of financial products at competitive rates. Financing through GECC is further described in 1. NMHG Wholesale Financing of Sales above.

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NMHG's lift truck business historically has been cyclical. Fluctuations in the rate of orders for lift trucks reflect the capital investment decisions of NMHG's customers, which depend to a certain extent on the general level of economic activity in the various industries that the lift truck customers serve. During economic downturns, customers tend to delay new lift truck purchases.

Research and Development

NMHG's research and development capability is organized around four major engineering centers, all coordinated on a global basis by NMHG's global executive administrative center. Comparable products are designed for each brand concurrently and generally each center is focused on the global requirements for a single product line. NMHG's counterbalanced development center, which has global design responsibility for several classes of lift trucks primarily used in industrial applications, is located in Portland, Oregon. NMHG's big truck development center is located in Nijmegen, The Netherlands, adjacent to a dedicated global big truck assembly facility. Big trucks are primarily used in handling shipping containers and in specialized heavy lifting applications. Warehouse trucks, which are primarily used in distribution applications, are designed based on regional differences in stacking and storage practices. NMHG designs warehouse equipment for sale in the Americas market in Greenville, North Carolina, adjacent to the Americas assembly facility for warehouse equipment. NMHG designs warehouse equipment for the European market in Masate, Italy adjacent to its assembly facilities for warehouse equipment. In addition, NMHG has an engineering office in India to support its global drafting and design activities for its four major engineering centers.

NMHG's engineering centers utilize a three-dimensional CAD/CAM system and are electronically connected with one another, with all of NMHG's manufacturing and assembly facilities and with some suppliers. This allows for collaboration in technical engineering designs and collaboration with suppliers. Additionally, NMHG solicits customer feedback throughout the design phase to improve product development efforts. NMHG invested \$55.2 million, \$55.5 million and \$52.4 million on product design and development activities in 2008, 2007 and 2006, respectively.

Sumitomo-NACCO Joint Venture

NMHG has a 50% ownership interest in Sumitomo-NACCO Materials Handling Group, Ltd. (SN), a limited liability company that was formed in 1970 to manufacture and distribute lift trucks in Japan. Sumitomo Heavy Industries, Ltd. owns the remaining 50% interest in SN. Each shareholder of SN is entitled to appoint directors representing 50% of the vote of SN's board of directors. All matters related to policies and programs of operation, manufacturing and sales activities require mutual agreement between NMHG and Sumitomo Heavy Industries, Ltd. prior to a vote of SN's board of directors. As a result, NMHG accounts for its ownership in SN using the equity method of accounting. NMHG purchases Hyster®- and Yale®-branded lift trucks and related components and aftermarket parts from SN under normal trade terms for sale outside of Japan. NMHG also contracts with SN for engineering design services on a cost plus basis and charges SN for technology used by SN but developed by NMHG.

Employees

As of January 31, 2009, NMHG had approximately 5,500 employees, approximately 5,000 of whom were employed by the wholesale operations and approximately 500 of whom were employed by the retail operations. A majority of the employees in the Danville, Illinois parts depot operations (approximately 100 employees) are unionized. NMHG's contract with the Danville union expires in June 2009. Employees at the facilities in Berea, Kentucky; Sulligent, Alabama; and Greenville, North Carolina are not represented by unions. In Brazil, all employees are unionized. NMHG's contract with the Brazil union expires in October 2009. In Mexico, shop employees are unionized. In Europe, some employees in the Craigavon, Northern Ireland; Irvine, Scotland; Masate, Italy; and Modena, Italy facilities are unionized. Employees in the Nijmegen, The Netherlands facility are not represented by unions, but the employees have organized a works council, as required by Dutch law, which performs a consultative role on employment matters. All of the European employees are part of works councils that perform a consultative role on business and employment matters.

In Asia-Pacific, eight locations have certified industrial agreements for hourly employees and unions for their employees.

NMHG believes its current labor relations with both union and non-union employees are generally satisfactory. However, there can be no assurances that NMHG will be able to successfully renegotiate its union contracts without work stoppages or on acceptable terms. A prolonged work stoppage at a unionized facility could have a material adverse effect on NMHG's business and results of operations.

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Environmental Matters

NMHG's manufacturing operations are subject to laws and regulations relating to the protection of the environment, including those governing the management and disposal of hazardous substances. NMHG Retail's operations are particularly affected by laws and regulations relating to the disposal of cleaning solvents and wastewater and the use of and disposal of petroleum products from underground and above-ground storage tanks. NMHG's policies stress compliance, and NMHG believes it is currently in substantial compliance with existing environmental laws. If NMHG fails to comply with these laws or its environmental permits, then it could incur substantial costs, including cleanup costs, fines and civil and criminal sanctions. In addition, future changes to environmental laws could require NMHG to incur significant additional expense or restrict operations. Based on current information, NMHG does not expect compliance with environmental requirements to have a material adverse effect on NMHG's financial condition or results of operations.

In addition, NMHG's products may be subject to laws and regulations relating to the protection of the environment, including those governing vehicle exhaust. Regulatory agencies in the United States and Europe have issued or proposed various regulations and directives designed to reduce emissions from spark-ignited engines and diesel engines used in off-road vehicles, such as industrial lift trucks. These regulations require NMHG and other lift truck manufacturers to incur costs to modify designs and manufacturing processes and to perform additional testing and reporting. While there can be no assurance, NMHG believes the impact of the additional expenditures to comply with these requirements will not have a material adverse effect on its business.

NMHG is investigating or remediating historical contamination at some current and former sites caused by its operations or those of businesses it acquired. NMHG has also been named as a potentially responsible party for cleanup costs under the so-called Superfund law at several third-party sites where NMHG (or its predecessors) disposed of wastes in the past. Under the Superfund law and often under similar state laws, the entire cost of cleanup can be imposed on any one of the statutorily liable parties, without regard to fault. While NMHG is not currently aware that any material outstanding claims or obligations exist with regard to these sites, the discovery of additional contamination at these or other sites could result in significant cleanup costs that could have a material adverse effect on NMHG's financial conditions and results of operations.

In connection with any acquisition made by NMHG, NMHG could, under some circumstances, be held financially liable for or suffer other adverse effects due to environmental violations or contamination caused by prior owners of businesses NMHG has acquired. In addition, under some of the agreements through which NMHG has sold businesses or assets, NMHG has retained responsibility for certain contingent environmental liabilities arising from pre-closing operations. These liabilities may not arise, if at all, until years later.

Government and Trade Regulations

In the past, NMHG's business has been affected by trade disputes between the United States and Europe. In the future, to the extent NMHG is affected by trade disputes and increased tariffs are levied on its goods, its results of operations may be materially adversely affected.

B. Hamilton Beach Brands

General

HBB is a leading designer, marketer and distributor of small electric household appliances, as well as commercial products for restaurants, bars and hotels. HBB's products are marketed primarily to retail merchants and wholesale distributors.

Sales and Marketing

HBB designs, markets and distributes a wide range of small electric household appliances, including blenders, mixers, can openers, food processors, coffeemakers, irons, toasters, slow cookers, indoor grills and toaster ovens. HBB also markets a line of air purifiers and odor eliminators. In addition, HBB designs, markets and distributes commercial products for restaurants, bars and hotels. HBB generally markets its better and best segments under the Hamilton Beach® brand and uses the Proctor Silex® and Proctor Silex® Plus brands for the good and better segments. HBB markets premium products under the Hamilton Beach® electrics® brand and its opening price point products under the Traditions by Proctor Silex® brand. HBB also markets air purifiers, allergen reducers and home odor elimination products under the TrueAir® brand.

Furthermore, HBB supplies Wal-Mart with certain GE-brand kitchen electric and garment-care appliances under Wal-Mart's license agreement with General Electric Company. HBB also supplies Target with certain Michael Graves-brand kitchen appliances under Target's store-wide Michael Graves line. In addition, HBB supplies Kohl's with certain Food Network-branded kitchen appliances. HBB licenses the Febreze® brand from The Procter & Gamble Company for use in HBB's odor elimination line. In Canada, HBB supplies Canadian Tire with small kitchen appliances under the Lancaster® brand.

HBB markets its products primarily in North America, but also sells products in Latin America, Asia-Pacific and Europe. Sales are generated predominantly by a network of inside sales employees to mass merchandisers, national department stores, variety store chains, drug store chains, specialty home retailers and other retail outlets. Wal-Mart accounted for

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approximately 40%, 37% and 37% of HBB's revenues in 2008, 2007 and 2006, respectively. HBB's five largest customers accounted for approximately 60%, 58% and 57% of HBB's revenues for the years ended December 31, 2008, 2007 and 2006, respectively. A loss of any key customer could result in significant decreases in HBB's revenue and profitability.

Sales promotion activities are primarily focused on cooperative advertising. In 2008, HBB also promoted certain of its innovative products through the use of television, web and print advertising. In 2008, HBB licensed certain of its water treatment products, cookware, kitchen tools and gadgets and electronic products for the kitchen to various licensees.

Because of the seasonal nature of the markets for small electric appliances, HBB's management believes backlog is not a meaningful indicator of performance and is not a significant indicator of annual sales. Backlog represents customer orders, which may be cancelled at any time prior to shipment. As of December 31, 2008, backlog for HBB was approximately \$11.7 million. This compares with the backlog as of December 31, 2007 of approximately \$17.2 million.

HBB's warranty program to the consumer consists generally of a limited warranty lasting for varying periods of up to three years for electric appliances, with the majority of products having a warranty of one year or less. Under its warranty program, HBB may repair or replace, at its option, those products found to contain manufacturing defects. Revenues and operating profit for HBB are traditionally greater in the second half of the year as sales of small electric appliances to retailers and consumers increase significantly with the fall holiday selling season. Because of the seasonality of purchases of its products, HBB incurs substantial short-term debt to finance inventories and accounts receivable in anticipation of the fall holiday selling season.

Product Design and Development

HBB spent \$7.3 million in 2008, \$7.1 million in 2007 and \$7.4 million in 2006 on product design and development activities.

Key Suppliers and Raw Material

The majority of HBB's products are supplied to its specifications by third-party suppliers located in China. HBB does not maintain long-term purchase contracts with suppliers and operates mainly on a purchase order basis. HBB generally negotiates purchase orders with its foreign suppliers in U.S. dollars. The weakening of the U.S. dollar against local currencies could result in certain manufacturers increasing the U.S. dollar prices for future product purchases.

During 2008, HBB purchased approximately 98% of its finished products from suppliers in China. HBB does not currently depend on any single supplier. HBB believes that the loss of any one supplier would not have a long-term material adverse effect on its business as there are adequate third-party supplier choices available that can meet HBB's production and quality requirements. However, the loss of a supplier could, in the short term, adversely affect HBB's business until alternative supply arrangements are secured.

The principal raw materials used by HBB's third-party suppliers to manufacture its products are plastic, glass, steel, copper, aluminum and packaging materials. HBB believes that adequate quantities of raw materials are available from various suppliers.

Competition

The small electric appliance industry does not have onerous entry barriers. As a result, HBB competes with many small manufacturers and distributors of housewares products. Based on publicly available information about the industry, HBB believes it is one of the largest full-line distributors and marketers of small electric household appliances in North America based on key product categories.

As retailers generally purchase a limited selection of small electric appliances, HBB competes with other suppliers for retail shelf space. Since 1996, HBB has conducted consumer advertising for the Hamilton Beach® and Proctor Silex® brands. HBB believes the principal areas of competition with respect to its products are product design and innovation, quality, price, product features, merchandising, promotion and warranty.

Government Regulation

HBB is subject to numerous federal and state health, safety and environmental regulations. HBB's management believes the impact of expenditures to comply with such laws will not have a material adverse effect on HBB.

As a marketer and distributor of consumer products, HBB is subject to the Consumer Products Safety Act and the Federal Hazardous Substances Act, which empower the U.S. Consumer Product Safety Commission (CPSC) to seek to exclude products that are found to be unsafe or hazardous from the market. Under certain circumstances, the CPSC could require HBB to repair, replace or refund the purchase price of one or more of HBB s products, or HBB may voluntarily do so.

Throughout the world, electrical appliances are subject to various mandatory and voluntary standards, including requirements in some jurisdictions that products be listed by Underwriters Laboratories, Inc. (UL) or other similar recognized laboratories. HBB also uses the ETL SEMKO division of Intertek for certification and testing of compliance

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with UL standards, as well as other nation- and industry-specific standards. HBB endeavors to have HBB's products designed to meet the certification requirements of, and to be certified in, each of the jurisdictions in which they are sold.

Patents, Trademarks, Copyrights and Licenses

HBB holds patents and trademarks registered in the United States and foreign countries for various products. HBB believes its business is not dependent upon any individual patent, trademark, copyright or license, but that the Hamilton Beach® and Proctor Silex® trademarks are material to its business.

Employees

As of January 31, 2009, HBB's work force consisted of approximately 500 employees, most of whom are not represented by unions. In Canada, as of January 31, 2009, 17 hourly employees at HBB's Picton, Ontario distribution facility were unionized. These employees are represented by an employee association which performs a consultative role on employment matters. None of HBB's U.S. employees are unionized. HBB believes their current labor relations with both union and non-union employees are satisfactory.

C. Kitchen Collection

General

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.

Sales and Marketing

KC operated 285 retail stores as of December 31, 2008. KC stores are located primarily in factory outlet malls and feature merchandise of highly recognizable name-brand manufacturers, including Hamilton Beach® and Proctor Silex®. Le Gourmet Chef® stores are located primarily in outlet and traditional malls throughout the United States and feature gourmet foods and home entertainment products, as well as brand name electric and non-electric kitchen items.

Seasonality

Revenues and operating profit for KC are traditionally greater in the second half of the year as sales to consumers increase significantly with the fall holiday selling season. Because of the seasonality of purchases of its products, KC incurs substantial short-term debt to finance inventories in anticipation of the fall holiday selling season.

Product Design and Development

KC, a retailer, has no expenditures for product design and development activities.

Product Sourcing and Distribution

KC purchases all inventory centrally, which allows KC to take advantage of volume purchase discounts and monitor controls over inventory and product mix. KC purchases its inventory from approximately 240 suppliers, three of which represented over 10% of purchases during the year ended December 31, 2008. KC does not currently depend on any single supplier. KC believes that the loss of any one supplier would not have a long-term material adverse effect on its business as there are adequate third-party supplier choices available that can meet KC's requirements. However, the loss of a supplier could, in the short term, adversely affect KC's business until alternative supply arrangements are secured.

KC currently maintains its inventory for distribution to its stores at two distribution centers located near its corporate headquarters in Chillicothe, Ohio.

Since the outlet mall channel of the retail industry is approaching maturity, KC continues to explore alternate areas of growth and diversification. For the past several years, KC has been testing alternative store formats both within the outlet mall industry and in the more traditional retail environments, including the traditional mall store format and the large store format. Because not all of these formats have met KC's rigorous financial performance standards, KC continues to explore alternate channels of distribution, including distribution through the internet. In addition, KC is exploring alternatives for Le Gourmet Chef® stores in outlet malls, traditional malls and distribution through the internet.

Competition

KC competes against a diverse group of retailers ranging from specialty stores to department stores and discounters. The retail environment continues to be extremely competitive. Widespread Chinese sourcing of products allows many retailers to offer value-priced kitchen products.

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KC believes there is growth potential in kitchenware retailing, but only through offering unique, high quality products at prices affordable to most consumers. While a number of very low-end and very high-end kitchenware retailers participate in the marketplace, there is still an opportunity for stores offering mid-priced, high-quality kitchenware.

Patents, Trademarks, Copyrights and Licenses

KC holds trademarks registered in the United States for the Kitchen Collection® and Le Gourmet Chef® store names. KC believes that the Kitchen Collection® and Le Gourmet Chef® store name trademarks are material to its business.

Employees

As of January 31, 2009, KC's work force consisted of approximately 1,800 employees. None of KC's employees are unionized. KC believes their current labor relations with employees are satisfactory.

D. North American Coal**General**

NACoal is engaged in the mining and marketing of lignite coal primarily as fuel for power generation and provides selected value-added mining services for other natural resources companies. NACoal mines lignite coal through both wholly owned unconsolidated project mining subsidiaries pursuant to long-term, cost plus a profit per ton contracts with utility customers, as well as consolidated coal mining operations. At the unconsolidated project mining subsidiaries, the utility customers have provided, arranged and/or guaranteed the financing of the development and operation of the mines. There is no recourse to NACCO or NACoal for the financing of these unconsolidated project mining subsidiary mines. Conversely, NACoal has arranged and provided the necessary financing for the consolidated coal mining operations, except for the San Miguel Lignite Mining Operations. NACoal also provides dragline mining services for limerock quarries in Florida and earns royalty income from the lease of various coal and other natural resources properties.

At December 31, 2008, NACoal's operating mines consisted both of mines where the reserves were acquired and developed by NACoal, as well as mines where reserves were owned by the customers of the mines. It is currently contemplated that the reported reserves will be mined within the term of the leases for each of the mines NACoal operates and controls the reserves. In the future, if any of the leases are projected to expire before mining operations can commence, it is currently expected that each such lease would be amended to extend the term or new leases would be negotiated. Under these terms, NACoal expects lignite coal mined pursuant to these leases will be available to meet its production requirements.

Because each coal mining operation has a contract to provide lignite coal to its customer, a significant portion of NACoal's revenue is derived from a single source, which exceeds 10% of NACoal's revenues. The loss of any lignite coal customer would be material to NACoal.

Sales, Marketing and Operations

The principal lignite coal customers of NACoal are electric utilities, an independent power provider and a synfuels plant. The distribution of lignite coal sales, including sales of the unconsolidated project mines, in the last five years has been as follows:

	Distribution	
	Electric Utilities/ Independent Power Provider	Synfuels Plant
2008	82%	18%
2007	82%	18%
2006	82%	18%
2005	83%	17%
2004	84%	16%

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The total coal production by mine for the last three years and the weighted average prices per ton sold/delivered for the last three years are as follows:

Total coal production by mine (in millions of tons)	2008	2007	2006
Unconsolidated Project Mines			
Freedom	14.6	15.0	15.2
Falkirk	7.5	7.8	8.2
Sabine	4.1	4.2	4.0
Consolidated Mining Operations			
San Miguel	3.1	2.9	3.6
Oxbow	0.6	0.5	0.8
Red Hills	2.8	3.6	3.8
Total lignite tons produced	32.7	34.0	35.6
Lignite price per ton sold/delivered	\$ 15.32	\$ 13.30	\$ 12.14

The contracts under which the project mining subsidiaries were organized provide that, under certain conditions of default, the customer(s) involved may elect to acquire the assets (subject to the liabilities) or the capital stock of the subsidiary for an amount effectively equal to book value. NACoal does not know of any conditions of default that currently exist. In one case, the customer may elect to acquire the stock of the subsidiary upon a specified period of notice without reference to default, in exchange for certain payments on coal mined thereafter. NACoal does not know of any current intention of any customer to acquire the stock of a subsidiary or terminate a contract for convenience. The location, mine type, reserve data, coal quality characteristics, customer, sales tonnage and contract expiration date for the mines operated by NACoal in 2008 were as follows:

Table of Contents**LIGNITE COAL MINING OPERATIONS ON AN AS RECEIVED BASIS**

Mine/Reserve Unconsolidated Project Mining Subsidiaries	Type of Mine	2008 Proven and Probable Reserves (a)(b)					2007 Total Committed Sales and Uncommitted Contract			
		Committed Under		Contract Uncommitted	Total	Tonnage Owned	Lease Owned	Lease Uncommitted	Contract Expires	
		(Millions of Tons)	(Millions)							(%)
Freedom Mine (c)	Surface Lignite	579.9		579.9	14.7	2%	98%	596.4	14.8	2012(d)
Falkirk Mine (c)	Surface Lignite	473.8		473.8	7.5	1%	99%	478.3	7.9	2045
Sabine Mine (c)	Surface Lignite	(e)	(e)		4.1	(e)	(e)		4.2	2035
Consolidated Mining Operations										
San Miguel Lignite Mining Operations	Surface Lignite	(e)	(e)		3.1	(e)	(e)		2.9	2010
Oxbow Mine	Surface Lignite	3.0	53.2	56.2	0.6	94%	6%	56.8	0.5	2011
Red Hills Mine	Surface Lignite	139.8	110.1	249.9	3.0	27%	73%	257.2	3.4	2032
Total Developed		1,196.5	163.3	1,359.8	33.0			1,388.7	33.7	
Undeveloped Mining Operations										
North Dakota			578.9	578.9		0%	100%	578.2		
Texas		11.8	165.1	176.9		48%	52%	178.1		
Eastern (f)		(f)	28.3	28.3		100%	0%	47.8		
Mississippi			142.2	142.2		0%	100%	142.2		
Total Undeveloped		11.8	914.5	926.3				946.3		
Total Developed/Undeveloped		1,208.3	1,077.8	2,286.1				2,335.0		

Mine/Reserve Unconsolidated Project Mining Subsidiaries	Type of Mine	Coal Formation or Coal Seam(s)	Average Seam Thickness (feet)	Average Depth (feet)	Average Coal Quality (As received) BTUs/lb	Sulfur (%)	Ash (%)	Moisture
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Tom Mine	Surface Lignite	Beulah-Zap Seams	18	130	6,700	0.9%	9%	36%
ark Mine (c)	Surface Lignite	Hagel A&B, Tavis	8	60	6,200	0.6%	11%	38%
		Creek Seams	(e)	(e)	(e)	(e)	(e)	
ne Mine (c)	Surface Lignite		(e)	(e)	(e)	(e)	(e)	