NACCO INDUSTRIES INC
Form 10-Q
November 02, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from __________ to __________

Commission file number 1-9172

NACCO Industries, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE	**34-1505819**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5875 LANDERBROOK DRIVE, CLEVELAND, OHIO	**44124-4017**
(Address of principal executive offices)	(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 þ NO o

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

Large accelerated filer o **Accelerated filer þ** Non-accelerated filer o

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

YES o **NO þ**

Number of shares of Class A Common Stock outstanding at October 27, 2006 6,627,528

Number of shares of Class B Common Stock outstanding at October 27, 2006 1,609,841

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Part I
FINANCIAL INFORMATION
Item 1. Financial Statements
NACCO INDUSTRIES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30 2006	DECEMBER 31 2005
	(In millions, except share data)	
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 105.6**	$ 166.5
Accounts receivable, net	**406.1**	366.0
Inventories	**523.0**	449.2
Deferred income taxes	**30.1**	42.0
Prepaid expenses and other	**53.8**	50.0
Total Current Assets	**1,118.6**	1,073.7
Property, Plant and Equipment, Net	**360.5**	399.4
Goodwill	**435.9**	434.2
Coal Supply Agreements and Other Intangibles, Net	**73.7**	75.9
Other Non-current Assets	**127.8**	110.8
Total Assets	**$ 2,116.5**	$ 2,094.0
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	**$ 425.4**	$ 394.3
Revolving credit agreements not guaranteed by the parent company	**55.5**	35.9
Current maturities of long-term debt not guaranteed by the parent company	**30.1**	25.1
Accrued payroll	**37.4**	45.6
Accrued warranty obligations	**29.2**	27.8
Other current liabilities	**169.3**	176.0
Total Current Liabilities	**746.9**	704.7
Long-term Debt - not guaranteed by the parent company	**373.0**	406.2
Self-insurance and Other Liabilities	**276.8**	279.8
Minority Interest	**0.1**	
Stockholders Equity		
Common stock:		
Class A, par value $1 per share, 6,627,528 shares outstanding (2005 - 6,615,059 shares outstanding)	**6.6**	6.6
Class B, par value $1 per share, convertible into Class A on a one-for-one basis, 1,609,841 shares outstanding (2005 - 1,611,378 shares outstanding)	**1.6**	1.6
Capital in excess of par value	**10.3**	7.2
Retained earnings	**726.5**	729.6

Accumulated other comprehensive income (loss):		
Foreign currency translation adjustment	**30.0**	18.0
Deferred gain (loss) on cash flow hedging	**2.3**	(2.7)
Minimum pension liability adjustment	**(57.6)**	(57.0)
	719.7	703.3
Total Liabilities and Stockholders Equity	**$ 2,116.5**	$ 2,094.0

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	
	2006	2005	**2006**	2005
	(In millions, except per share data)			
Revenues				
Net sales	**$ 795.1**	$ 738.4	**$ 2,347.0**	$ 2,234.9
Other revenues	**8.0**	5.9	**23.4**	15.7
Total Revenues	**803.1**	744.3	**2,370.4**	2,250.6
Cost of sales	**669.2**	623.2	**1,985.0**	1,894.2
Gross Profit	**133.9**	121.1	**385.4**	356.4
Earnings of unconsolidated project mining subsidiaries	**9.4**	9.4	**27.4**	25.5
Operating Expenses				
Selling, general and administrative expenses	**112.1**	102.5	**326.6**	318.2
Loss (gain) on sale of businesses	**(0.4)**	0.2	**(4.1)**	(1.3)
Restructuring reversals			**(0.2)**	(0.5)
	111.7	102.7	**322.3**	316.4
Operating Profit	**31.6**	27.8	**90.5**	65.5
Other income (expense)				
Interest expense	**(7.9)**	(12.2)	**(32.2)**	(35.5)
Income from other unconsolidated affiliates	**1.4**	0.9	**3.7**	4.7
Loss on extinguishment of debt			**(17.6)**	
Other	**1.2**	0.4	**4.1**	0.8
	(5.3)	(10.9)	**(42.0)**	(30.0)
Income Before Income Taxes and Minority Interest	**26.3**	16.9	**48.5**	35.5
Income tax provision	**7.5**	3.3	**12.9**	5.5
Income Before Minority Interest	**18.8**	13.6	**35.6**	30.0
Minority interest income			**0.6**	0.1
Net Income	**$ 18.8**	$ 13.6	**$ 36.2**	$ 30.1
Comprehensive Income	**$ 17.4**	$ 13.5	**$ 52.6**	$ 9.6

Basic Earnings per Share	**$ 2.28**	$ 1.65	**$ 4.40**	$ 3.66
Diluted Earnings per Share	**$ 2.28**	$ 1.65	**$ 4.39**	$ 3.66
Dividends per Share	**$ 0.4800**	$ 0.4650	**$ 1.4250**	$ 1.3825
Basic Weighted Average Shares Outstanding	**8.237**	8.225	**8.233**	8.222
Diluted Weighted Average Shares Outstanding	**8.246**	8.225	**8.239**	8.223

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	
	2006	2005
	(In millions)	
Operating Activities		
Net income	**$ 36.2**	$ 30.1
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation, depletion and amortization	**45.9**	46.8
Amortization of deferred financing fees	**1.8**	2.8
Loss on extinguishment of debt	**17.6**	
Deferred income taxes	**13.4**	1.4
Restructuring reversals	**(0.2)**	(0.5)
Minority interest income	**(0.6)**	(0.1)
Loss (gain) on sale of assets	**0.2**	(1.2)
Gain on sale of businesses	**(4.1)**	(1.3)
Other	**(5.8)**	(3.7)
Working capital changes, excluding the effect of business acquisitions and dispositions		
Accounts receivable	**(31.2)**	(11.5)
Inventories	**(50.5)**	(111.7)
Other current assets	**(7.7)**	(8.1)
Accounts payable	**31.2**	(0.8)
Other liabilities	**(16.9)**	8.5
Net cash provided by (used for) operating activities	**29.3**	(49.3)
Investing Activities		
Expenditures for property, plant and equipment	**(44.7)**	(51.6)
Proceeds from the sale of assets	**16.5**	8.0
Proceeds from the sale of businesses	**4.0**	3.9
Acquisition of business	**(14.2)**	
Other	**1.7**	(1.0)
Net cash used for investing activities	**(36.7)**	(40.7)
Financing Activities		
Additions to long-term debt	**248.2**	22.1
Reductions of long-term debt	**(292.7)**	(17.3)
Net additions to revolving credit agreements	**21.6**	34.1
Cash dividends paid	**(11.7)**	(11.3)
Premium on extinguishment of debt	**(12.5)**	
Financing fees paid	**(4.9)**	(1.0)

Other	**0.7**	(0.2)
Net cash provided by (used for) financing activities	**(51.3)**	26.4
Effect of exchange rate changes on cash	**(2.2)**	(1.8)
Cash and Cash Equivalents		
Decrease for the period	**(60.9)**	(65.4)
Balance at the beginning of the period	**166.5**	150.4
Balance at the end of the period	**$ 105.6**	$ 85.0

See notes to unaudited condensed consolidated financial statements.

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

	NINE MONTHS ENDED SEPTEMBER 30			
	2006		2005	
	(In millions, except per share data)			
Class A Common Stock	**$**	**6.6**	$	6.6
Class B Common Stock		**1.6**		1.6
Capital in Excess of Par Value				
Beginning balance		**7.2**		6.0
Shares issued under stock compensation plans		**3.1**		1.0
		10.3		7.0
Retained Earnings				
Balance as of December 31:				
2005		**729.6**		
2004				682.3
Cumulative effect of accounting change, net of $14.9 tax benefit		**(27.6)**		
Beginning balance		**702.0**		682.3
Net income		**36.2**		30.1
Cash dividends on Class A and Class B common stock:				
2006 $1.4250 per share		**(11.7)**		
2005 $1.3825 per share				(11.3)
		726.5		701.1
Accumulated Other Comprehensive Income (Loss)				
Beginning balance		**(41.7)**		(8.5)
Foreign currency translation adjustment		**12.0**		(20.5)
Reclassification of hedging activity into earnings		**(0.5)**		1.2
Current period cash flow hedging activity		**5.5**		(1.2)
Minimum pension liability adjustment		**(0.6)**		
		(25.3)		(29.0)
Total Stockholders Equity	**$**	**719.7**	$	687.3

See notes to unaudited condensed consolidated financial statements.

NACCO INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(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. The Company s subsidiaries operate in three principal industries: lift trucks, housewares and mining. The Company manages its subsidiaries primarily by industry; however, the Company manages its lift truck operations as two reportable segments: wholesale manufacturing and retail distribution. NACCO Housewares Group (Housewares) also consists of two reportable segments: Hamilton Beach/Proctor-Silex, Inc. (HB/PS) and The Kitchen Collection, Inc. (KCI) which, since August 28, 2006, includes Le Gourmet Chef, Inc. See Note 11 of the Unaudited Condensed Consolidated Financial Statements for further discussion of this transaction.

NMHG Holding Co. (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). NMHG Wholesale includes the manufacture and sale of lift trucks and related service parts, primarily to independent and wholly owned Hyster and Yale retail dealerships. Lift trucks and component parts are manufactured in the United States, Northern Ireland, Scotland, The Netherlands, China, Italy, Japan, Mexico, the Philippines and Brazil. NMHG Retail includes the sale, leasing and service of Hyster and Yale lift trucks and related service parts by wholly owned retail dealerships and rental companies. Housewares consists of two reportable segments: HB/PS, a leading designer, marketer and distributor of small electric household appliances, as well as commercial products for restaurants, bars and hotels, and KCI, 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 lignite coal primarily as fuel for power generation and provide selected value-added mining services for other natural resources companies.

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, 2006 and the results of its operations for the three and nine months ended September 30, 2006 and 2005 and the results of its cash flows and changes in stockholders equity for the nine months ended September 30, 2006 and 2005 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, 2005.

During the second quarter of 2006, as part of its periodic review of product liability estimates, NMHG reduced its product liability accrual by $8.2 million. This change in estimate is based upon historical trends identified within recent favorable claim settlement experience that indicated both the frequency and severity of claim estimates should be reduced. The reduction in the product liability accrual is primarily the result of a reduction in the estimate of the number of claims that have been incurred but not reported and the average cost per claim. This adjustment is not necessarily indicative of trends or adjustments that may be required in the future to adjust the product liability accrual. The adjustment, reflected in the accompanying Unaudited Condensed Consolidated Statements of Operations in Selling, general and administrative expenses, improved net income by $5.0 million, or $0.61 per share, for the nine months ended September 30, 2006.

The balance sheet at December 31, 2005 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, 2006 are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2006. Because the housewares business is seasonal, a majority of revenues and operating profit 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, 2005.

Certain prior period amounts have been reclassified to conform to the current period s presentation.

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Note 2 Recently Issued Accounting Standards

SFAS No. 123R: In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (Revised 2004), Share-Based Payment (SFAS No. 123R). SFAS No. 123R requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. The scope of SFAS No. 123R includes a wide range of share-based compensation arrangements, including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS No. 123R replaced SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, SFAS No. 123 permitted entities the option of continuing to apply the guidance in APB No. 25, as long as the footnotes to the financial statements disclosed what net income would have been had the preferable fair-value-based method been used. The Company currently expenses the fair value of stock issued under its restricted stock compensation plans and does not have any stock options outstanding under its 1975 and 1981 stock option plans, as amended. Furthermore, the Company does not intend to issue additional stock options in the foreseeable future. The standard is effective for the first fiscal year beginning after June 15, 2005. The adoption of SFAS No. 123R did not have a material impact on the Company s financial position or results of operations.

SFAS No. 151: In December 2004, the FASB issued SFAS No. 151, Inventory Costs. SFAS No. 151 requires abnormal amounts of inventory costs related to idle facility, freight handling and wasted material expenses to be recognized as current period charges. Additionally, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The standard is effective for fiscal years beginning after June 15, 2005. The adoption of SFAS No. 151 did not have a material impact on the Company s financial position or results of operations.

SFAS No. 154: In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. SFAS No. 154 replaces APB Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 requires retrospective application to prior periods financial statements of a voluntary change in accounting principle unless it is impracticable. APB No. 20 previously required that most voluntary changes in accounting principle be recognized by including the cumulative effect of changing to the new accounting principle in net income in the period of the change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 did not have a material impact on the Company s financial position or results of operations.

SFAS No. 155: In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140. SFAS No. 155 resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets, and permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006. The Company does not expect the adoption of SFAS No. 155 to have a material impact on its financial position or results of operations.

SFAS No. 156: In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140. SFAS No. 156 requires an entity to recognize a servicing asset or liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract under a transfer of the servicer s financial assets that meets the requirements for sale accounting, a transfer of the servicer s financial assets to a qualified special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of

the resulting securities and classifies them as either available-for-sale or trading securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities and an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates. Additionally, SFAS No. 156 requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, permits an entity to choose either the use of an amortization or fair value method for subsequent measurements, permits at initial adoption a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights and requires separate presentation of servicing assets and liabilities subsequently measured at fair value and additional disclosures for all separately recognized servicing assets and liabilities. SFAS No. 156 is effective for transactions entered into after the beginning of the first fiscal year that begins after September 15, 2006.

The Company does not expect the adoption of SFAS No. 156 to have a material impact on its financial position or results of operations.

SFAS No. 157: In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The provisions of SFAS No. 157 apply under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the effect the adoption of SFAS No. 157 will have on its financial position, results of operations and related disclosures.

SFAS No. 158: In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires an entity to recognize the funded status of a defined benefit postretirement plan in its statement of financial position measured as the difference between the fair value of plan assets and the benefit obligation. For a pension plan, the benefit obligation would be the projected benefit obligation; for any other postretirement benefit plan, the benefit obligation would be the accumulated postretirement benefit obligation. The pronouncement also requires entities to recognize the actuarial gains and losses and the prior service costs and credits that arise during the period but are not recognized as components of net periodic benefit cost as a component of other comprehensive income, measure defined benefit plan assets and obligations as of the date of the employer s statement of financial position for fiscal years ending after December 15, 2008. The pronouncement also requires disclosure of additional information in the notes to financial statements about certain effects of net periodic benefit cost in the subsequent fiscal year that arise from delayed recognition of the actuarial gains and losses and the prior service costs and credits. Portions of SFAS No. 158 are effective for fiscal years ending after December 15, 2006. The Company is currently evaluating the impact of the adoption of SFAS No. 158, and, the Company expects the adoption to have a significant impact on its financial position and related disclosures.

FIN No. 48: In June 2006, the FASB issued Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of SFAS No. 109. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. The pronouncement prescribes a recognition threshold and measurement attributable to financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the effect the adoption of FIN No. 48 will have on its financial position, results of operations and related disclosures.

EITF No. 04-6: In June 2005, the FASB ratified modifications to Emerging Issues Task Force (EITF) No. 04-6, Accounting for Stripping Costs Incurred during Production in the Mining Industry. EITF No. 04-6 clarifies that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced (that is, extracted) during the period that the stripping costs are incurred. EITF No. 04-6 is effective for fiscal years beginning after December 15, 2005. The transition provisions require that the consensus be accounted for in a manner similar to a cumulative effect adjustment with any adjustment recognized in the opening balance of retained earnings in the year of adoption.

The Company adopted EITF No. 04-6 on January 1, 2006. NACoal previously included coal that was uncovered, but not extracted, as a component of inventory (in-pit inventory). In addition, NACoal previously capitalized and deferred stripping costs incurred when developing a new mine into property, plant and equipment until that mine had reached full production. Upon adoption of EITF No. 04-6, NACoal was required to write-off in-pit inventory and the amount of deferred stripping costs remaining in property, plant and equipment that were incurred after saleable coal was extracted from each of its mines. Such amounts capitalized, net of related deferred income taxes of $14.8 million, totaled $27.6 million at December 31, 2005. As a result of the adoption of EITF No. 04-6, the Company recognized a cumulative effect of a change in accounting principle adjustment of $27.6 million, which decreased beginning retained earnings in the accompanying Unaudited Condensed Consolidated Statement of Changes in Stockholders Equity for the nine months ended September 30, 2006. In addition, the Company recognized a reduction in property, plant and equipment of $41.7 million and a reduction in inventory of $0.7 million in the accompanying Unaudited Condensed Consolidated Balance Sheet as of September 30, 2006 as a result of the adoption of EITF No. 04-6.

Note 3 Restructuring

Restructuring plans initiated prior to or on December 31, 2002 are accounted for according to EITF No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring), while all restructuring actions initiated after December 31, 2002 are accounted for according to SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. EITF No. 94-3 had previously required that a liability for such costs be recognized at the date of the Company s commitment to an exit or disposal plan. SFAS No.

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146 may affect the periods in which costs are recognized although the total amount of costs recognized will be the same as previous accounting guidance.

A summary of the Company s restructuring plans accounted for according to SFAS No. 146 are as follows:

Housewares 2005 Restructuring Program

During 2005, HB/PS management approved a plan for the Saltillo, Mexico facility to phase out its production of blenders for the U.S. and Canadian markets and only produce blenders for the Mexican and Latin America markets. Blenders for the U.S. and Canadian markets will be sourced from third party Chinese manufacturers. As such, HB/PS recognized a charge of approximately $3.8 million in 2005. Of this amount, $2.3 million related to severance, $1.0 million related to lease termination costs for machinery and equipment no longer in use, $0.2 million related to the write-down of excess inventory and $0.1 million related to other costs. Severance payments of $0.2 million to 97 employees were made during 2005. Also included in the restructuring charge is a $0.2 million non-cash asset impairment charge for equipment and tooling, which was determined based on current estimated market values for similar assets compared with the net book value of these assets. During the first nine months of 2006, HB/PS recognized a charge of approximately $0.2 million for other costs related to the restructuring. In addition, severance payments of $1.7 million were made to 363 employees, lease payments of $0.9 million and payments of $0.2 million for other costs were made during the first nine months of 2006. Payments related to this restructuring plan are expected to continue through the first quarter of 2007.

Housewares 2004 Restructuring Program

During 2004, the Board of Directors approved management s plan to restructure HB/PS manufacturing activities by closing the Sotec manufacturing facility located near Juarez, Mexico and consolidating all remaining activities into its Saltillo, Mexico facility. In addition, it closed its El Paso, Texas distribution center and consolidated these activities into its Memphis, Tennessee distribution center. HB/PS reduced activities at its North American manufacturing plants through the end of 2005 as a result of increased sourcing of products from China. These actions were designed to reduce HB/PS manufacturing inefficiencies attributable to excess capacity to minimal levels in 2005. As such, HB/PS recognized a charge of approximately $9.4 million during 2004. Of this amount, $3.6 million related to lease termination costs for closed facilities and machinery and equipment no longer in use, $2.3 million related to severance, $0.4 million related to the write-down of excess inventory and $0.1 million related to post-employment medical expenses. Lease payments of $3.2 million and severance payments of $1.1 million to 144 employees were made during 2004. During 2005, additional expenses of $0.3 million for lease impairment were incurred. Lease payments of $0.7 million and severance payments of $0.4 million to 66 employees were made during 2005. In addition, payments for post-employment medical expenses of $0.1 million were made during 2005. Also included in the restructuring charge is a $3.0 million non-cash asset impairment charge for equipment and tooling, which was determined based on current estimated market values for similar assets compared with the net book value of these assets. During the first nine months of 2006, HB/PS recognized a charge of less than $0.1 million for severance costs related to the restructuring. In addition, lease payments of less than $0.1 million were made during the first nine months of 2006. Payments related to this restructuring plan are expected to be made through the remainder of 2006.

Following is the detail of the incurred and expected cash and non-cash charges related to the HB/PS restructuring programs:

	Total charges expected to be incurred, net	Total charges incurred through December 31, 2005	**Charges incurred in the nine months ended September 30, 2006**	Additional charges expected to be incurred
Cash charges				

Severance	$ 4.6	$ 4.6	**$**	$
Lease impairment	5.6	4.9		0.7
Other	0.5	0.2	**0.2**	0.1
	10.7	9.7	**0.2**	0.8
Non-cash charges				
Asset impairment	3.2	3.2		
Excess inventory	0.6	0.6		
	3.8	3.8		
Total charges	$ 14.5	$ 13.5	**$ 0.2**	$ 0.8

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Following is a rollforward of the restructuring liability:

	Severance	Lease Impairment	Other	Total
Balance at January 1, 2006	$ 2.9	$ 1.0	$	$ 3.9
Provision			0.2	0.2
Payments	(1.7)	(0.9)	(0.2)	(2.8)
Balance at September 30, 2006	**$ 1.2**	**$ 0.1**	**$**	**$ 1.3**

The changes to the Company s restructuring plans accounted for according to EITF No. 94-3 are as follows:

NMHG 2002 Restructuring Program

As announced in December 2002, NMHG Wholesale phased out its Lenoir, North Carolina lift truck component facility and is restructuring other manufacturing and administrative operations, primarily its Irvine, Scotland lift truck assembly and component facility. As such, NMHG Wholesale recognized a restructuring charge of approximately $12.5 million in 2002. Of this amount, $3.8 million related to a non-cash asset impairment charge for a building, machinery and tooling, which was determined based on current market values for similar assets and broker quotes compared with the net book value of these assets, and $8.7 million related to severance and other employee benefits to be paid to approximately 615 manufacturing and administrative employees. Payments of $0.1 million were made to six employees during the first nine months of 2006. Payments are expected to continue through the remainder of 2006. In addition, $0.4 million of the amount accrued at December 31, 2002 was reversed during the first nine months of 2006 as a result of a reduction in the estimate of employees eligible to receive severance payments.

Additional restructuring related costs, primarily related to manufacturing inefficiencies, which were not eligible for accrual as of December 31, 2002, were $3.2 million and $2.9 million in the first nine months of 2006 and 2005, respectively. Of the $3.2 million additional costs incurred in the first nine months of 2006, $3.0 million is classified as Cost of sales and $0.2 million is classified as Selling, general and administrative expenses in the Unaudited Condensed Consolidated Statements of Operations. Of the $2.9 million additional costs incurred in the first nine months of 2005, $2.8 million is classified as Cost of sales and $0.1 million is classified as Selling, general and administrative expenses in the Unaudited Condensed Consolidated Statements of Operations.

Following is a rollforward of the restructuring liability:

	Severance	Lease Impairment	Other	Total
Balance at January 1, 2006	$ 1.8	$	$	$ 1.8
Foreign currency effect	0.1			0.1
Reversal	(0.4)			(0.4)
Payments	(0.1)			(0.1)
Balance at September 30, 2006	**$ 1.4**	**$**	**$**	**$ 1.4**

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Note 4 Inventories
Inventories are summarized as follows:

	SEPTEMBER 30 2006	DECEMBER 31 2005
Manufactured inventories:		
Finished goods and service parts -		
NMHG Wholesale	$ 156.0	$ 157.9
HB/PS	119.0	67.9
	275.0	225.8
Raw materials and work in process -		
NMHG Wholesale	194.0	184.5
HB/PS	4.5	4.1
	198.5	188.6
Total manufactured inventories	473.5	414.4
Retail inventories:		
NMHG Retail	33.4	30.2
KCI	39.5	23.3
Total retail inventories	72.9	53.5
Total inventories at FIFO	546.4	467.9
Coal NACoal	10.2	6.3
Mining supplies NACoal	8.8	10.0
Total inventories at weighted average	19.0	16.3
LIFO reserve -		
NMHG	(45.6)	(39.5)
HB/PS	3.2	4.5
	(42.4)	(35.0)
	$ 523.0	$ 449.2

The cost of certain manufactured and retail inventories has been determined using the LIFO method. At September 30, 2006 and December 31, 2005, 57% and 62%, 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 year-end, interim results are subject to the final year-end LIFO inventory valuation.

HB/PS LIFO inventory value exceeds its FIFO value primarily due to price deflation.

Note 5 Unconsolidated Subsidiaries and Equity Investments

Three of NACoal s wholly owned subsidiaries, The Coteau Properties Company, The Falkirk Mining Company, and The Sabine Mining Company (collectively, the project mining subsidiaries), meet the definition of a variable interest entity pursuant to FIN No. 46, Consolidation of Variable Interest Entities. The project mining subsidiaries were developed between 1974 and 1981 and operate lignite coal mines under long-term contracts with various utility customers. The contracts with the project mining subsidiaries utility customers allow each mine to sell lignite coal at a price based on actual cost plus an agreed pre-tax profit per ton. The taxes resulting from earnings of the project mining subsidiaries are solely the responsibility of the Company. These entities 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. Although NACoal owns 100% of the stock 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 of the project mining subsidiaries or absorb any expected losses

without additional support from the utility customers. As a result, NACoal is not the primary beneficiary of the project mining subsidiaries. The pre-tax income from the project mining subsidiaries is reported on the line Earnings of unconsolidated project mining subsidiaries in the Consolidated Statements of Operations with related taxes included in the provision for income taxes. The assets and liabilities of the project mining subsidiaries are not included in the Consolidated Balance Sheets but the investment in the project mining subsidiaries and related tax assets and liabilities are included. The Company s risk of loss relating to these entities is limited to its invested capital and accumulated undistributed earnings, which was $4.1 million at September 30, 2006 and $5.0 million at December 31, 2005.
Summarized financial information for the project mining subsidiaries is as follows:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2006	2005	**2006**	2005
Revenues	**$84.7**	$79.5	**$237.7**	$225.2
Gross profit	**$13.4**	$13.0	**$ 38.5**	$ 35.3
Income before income taxes	**$ 9.4**	$ 9.4	**$ 27.4**	$ 25.5
Income from continuing operations	**$ 6.0**	$ 7.7	**$ 20.3**	$ 20.5
Net income	**$ 6.0**	$ 7.7	**$ 20.3**	$ 20.5

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 and wholly owned 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.
NMHG has a 50% ownership interest in Sumitomo NACCO Materials Handling Company, Ltd. (SN), a limited liability company which was formed primarily for the manufacture and distribution of Sumitomo and Shinko branded lift trucks in Japan and the export of Hyster and Yale branded lift trucks and related components and service parts outside of Japan. NMHG purchases products from SN under normal trade terms. 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 are reported on the line Income from other unconsolidated affiliates in the Other income (expense) section of the Unaudited Condensed Consolidated Statements of Operations.
Summarized financial information for these equity investments is as follows:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2006	2005	**2006**	2005
Revenues	**$84.1**	$77.6	**$249.3**	$241.9
Gross profit	**$26.3**	$22.0	**$ 73.4**	$ 73.6
Income from continuing operations	**$ 5.6**	$ 2.4	**$ 14.5**	$ 13.1
Net income	**$ 5.6**	$ 2.4	**$ 14.5**	$ 13.1

Note 6 Current and Long-term Financing

On March 22, 2006, NACCO Materials Handling Group, Inc. (NMHG Inc.), a wholly owned subsidiary of the Company, entered into a term loan agreement (the Term Loan Agreement) that provides for term loans up to an aggregate principal amount of $225.0 million which mature in 2013. The term loans require quarterly payments in an amount equal to 1% per year for the first six years, with the remaining balance to be paid in four equal installments in the seventh year.
Borrowings under the Term Loan Agreement are guaranteed by NMHG and substantially all of NMHG s domestic subsidiaries. The obligations of the guarantors under the Term Loan Agreement 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 its revolving credit facility.

Outstanding borrowings under the Term Loan Agreement bear interest at a variable rate which, at NMHG Inc. s option, will be either LIBOR or a floating rate, as defined in the Term Loan Agreement, plus an applicable margin. The applicable margin is subject to adjustment based on a leverage ratio. The Term Loan Agreement contains restrictive covenants which, among other things, limit the amount of dividends that may be declared and paid to NACCO. The Term Loan Agreement also requires NMHG Inc. to meet

certain financial tests, including, but not limited to, maximum capital expenditures, maximum leverage ratio and minimum fixed charge coverage ratio tests.

On May 15, 2006, NMHG Inc. borrowed a total principal amount of $225.0 million under the Term Loan Agreement. The proceeds of the loans, together with available cash, were used to redeem in full NMHG s outstanding 10% Senior Notes due 2009 (the Senior Notes), which had an aggregate principal amount of $250.0 million. Pursuant to the Indenture governing the Senior Notes, NMHG paid the principal amount of Senior Notes, a redemption premium of $12.5 million, plus accrued and unpaid interest up to but not including the redemption date to the registered holders of the Senior Notes. As a result, NMHG recognized a charge of $17.6 million during the second quarter of 2006 for the redemption premium and write-off of the remaining unamortized original bond issue discount and deferred financing fees related to the Senior Notes.

HB/PS financing is provided by a $115.0 million senior secured, floating-rate revolving credit facility (the HB/PS Facility) that expires in July 2011. The HB/PS Facility was amended during the second quarter of 2006 to extend the expiration date to July 2011, allow for the disposition of HB/PS property located in Saltillo, Mexico, allow HB/PS to distribute the cash proceeds on the sale of its property in Saltillo, Mexico to NACCO and increase the limit on distributions to NACCO for operating and overhead expenses from $2.0 million to $2.5 million.

Note 7 Guarantees and 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.

In January 2006, NACoal received a preliminary notice of a sales tax assessment of $11.1 million from the State of Mississippi. In that preliminary notice, the State contended that sales of fuel (lignite) to a utility are no longer exempt from sales tax although such sales have been specifically exempted by law in prior years. During the third quarter of 2006, the Company received a final assessment from the State of Mississippi stating that no additional sales tax is owed by NACoal.

As a result of the Coal Industry Retiree Health Benefit Act of 1992, the Company s non-operating subsidiary, Bellaire Corporation (Bellaire), is obligated to the United Mine Workers of America Combined Benefit Fund (the Fund) for the medical expenses of certain United Mine Worker retirees. As a result, the Company established an estimate of this obligation in 1992 and has continued to revise this estimate as new facts arise. See additional discussion in the Company s Annual Report on Form 10-K for the year ended December 31, 2005, on pages F-12 and F-21. Revisions to this liability are recognized in the statement of operations as an extraordinary item pursuant to the requirement of EITF No. 92-13, Accounting for Estimated Payments in Connection with the Coal Industry Retiree Health Benefit Act of 1992. During 2003, the Fund filed suit against 214 defendant companies, including Bellaire, seeking a declaratory judgment requiring these defendants to pay the increased premium established by the Social Security Administration. During 2005, a summary judgment was granted that prohibits the Fund from applying the higher premium rate. The Fund has appealed the decision. Pending the outcome of this appeal, the Company estimates it could incur additional expense within an estimated range of $0 to $5.0 million.

Under various financing arrangements for certain customers, including independently owned 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 recourse or repurchase obligations at September 30, 2006 and December 31, 2005 were $231.8 million and $213.7 million, respectively. Losses anticipated under the terms of the guarantees, recourse or repurchase obligations are not significant and reserves have been provided for such losses in the accompanying Unaudited Condensed Consolidated Financial Statements. Generally, NMHG retains a security interest in the related assets financed such

that, in the event that NMHG would become obligated under the terms of the recourse or repurchase obligations, NMHG would take title to the financed assets. The fair value of collateral held at September 30, 2006 was approximately $252.9 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.

NMHG has a 20% ownership interest in NFS, a joint venture with GECC formed primarily for the purpose of providing financial services to independent and wholly owned 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. 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 concentration issues within GECC may necessitate providing standby recourse or repurchase obligations or a guarantee of the residual value of the lift trucks purchased by customers and financed through NFS. At September 30, 2006, approximately $178.2 million of the Company s total guarantees, recourse or repurchase obligations 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, 2006, the amount of NFS debt guaranteed by NMHG was $167.5 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.

NMHG provides a standard warranty on its lift trucks, generally for six to twelve months or 1,000 to 2,000 hours. For the new 1 to 8 ton series of lift trucks, NMHG provides an extended powertrain warranty of two years or 2,000 hours as part of the standard warranty. HB/PS 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 HB/PS customer, the retailer. Generally, the retailer returns those products to HB/PS for a credit. The Company estimates the costs that 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 extended warranty agreements, which provide a warranty for an additional two to five years or an additional 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, in accordance with FASB Technical Bulletin 90-1, Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts.

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:

	2006
Balance at January 1	**$ 45.0**
Warranties issued	**32.4**
Settlements made	**(33.3)**
Foreign currency effect	**0.7**
Balance at September 30	**$ 44.8**

Note 8 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. 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, 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.

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A reconciliation of the Company s consolidated federal statutory and effective income tax is as follows for the three and nine months ended September 30:

	THREE MONTHS		NINE MONTHS	
	2006	2005	**2006**	2005
Income before income taxes and minority interest:	**$ 26.3**	$ 16.9	**$ 48.5**	$ 35.5
Statutory taxes at 35%	**$ 9.2**	$ 5.9	**$ 17.0**	$ 12.4
Discrete items:				
NMHG Wholesale settlements				(1.9)
NMHG Wholesale change in tax law				1.6
NMHG Retail sale of European dealership			**(1.3)**	
NACCO and Other recognition of previously generated losses in Europe				(2.8)
Other	**(0.3)**	(0.6)	**(0.2)**	(0.4)
	(0.3)	(0.6)	**(1.5)**	(3.5)
Other permanent items:				
NMHG Wholesale equity interest earnings	**(0.3)**	(0.5)	**(0.3)**	(1.0)
NACoal percentage depletion	**(0.7)**	(1.1)	**(1.7)**	(2.3)
Foreign tax rate differential	**(1.5)**	(0.7)	**(2.5)**	(1.3)
Other	**1.1**	0.3	**1.9**	1.2
	(1.4)	(2.0)	**(2.6)**	(3.4)
Income tax provision	**$ 7.5**	$ 3.3	**$ 12.9**	$ 5.5
Effective income tax rate	**28.5%**	19.5%	**26.6%**	15.5%
Effective income tax rate excluding discrete items	**29.7%**	23.1%	**29.7%**	25.4%

NMHG Wholesale: During the nine months ended September 30, 2005, NMHG Wholesale s effective income tax rate was affected by the settlement of income tax audits and transfer pricing disputes with various taxing authorities. During the nine months ended September 30, 2005, these benefits were partially offset by the elimination of deferred tax assets which NMHG Wholesale will not be able to recognize due to state income tax law changes enacted in Ohio.
NMHG Retail: During the nine months ended September 30, 2006, NMHG Retail sold two dealerships in Europe for a pre-tax gain of $4.1 million. For tax purposes, a portion of the gain was exempt from local taxation and the remaining gain was fully offset by tax net operating loss carryforwards for which a full valuation allowance had been previously provided. Therefore, the Company recognized a tax benefit related to the sale of these dealerships during the first nine months of 2006.
NACCO and Other: During the nine months ended September 30, 2005, NACCO and Other recorded a $2.8 million tax benefit related to the recognition of previously generated losses in Europe. During the three months ended September 30, 2006, NACCO and Other accrued certain costs associated with the proposed spin off of the HB/PS business and subsequent merger of Applica Incorporated ("Applica") into the HB/PS business, which may be

considered non-deductible for tax purposes and may result in an unfavorable tax adjustment of $0.8 million. Excluding the impact of the discrete items discussed above, the effective income tax rates for the three and nine months ended September 30, 2006 are higher than those of the same periods in 2005 primarily due to a shift in the mix of taxable earnings to jurisdictions with higher tax rates and a reduction in the benefit of percentage depletion due to the unfavorable impact of tax temporary differences. The Company s consolidated effective income tax rate is lower than the statutory income tax rate primarily due to the

benefit of percentage depletion at NACoal and permanently invested income subject to lower tax rates in foreign taxing jurisdictions at NMHG Wholesale.

Note 9 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, investment contracts and government and corporate bonds.

In 2004, pension benefits for certain NACoal employees, excluding certain project mining subsidiary employees, were frozen. In 1996, pension benefits were frozen for employees covered under NMHG s and HB/PS U.S. plans, except for those NMHG employees participating in collective bargaining agreements. As a result, in the United States only certain NMHG employees covered under collective bargaining agreements will earn retirement benefits under defined benefit pension plans. Other employees, including those whose pension benefits were frozen, receive current retirement benefits under defined contribution retirement plans.

The Company previously disclosed in its Form 10-K for the year ended December 31, 2005 that it expected to contribute approximately $4.8 million and $5.3 million to its U.S. and non-U.S. pension plans, respectively, in 2006. The Company now expects to contribute approximately $6.5 million to its U.S. pension plans, a portion of which is voluntary, and $4.7 million to its non-U.S. pension plans in 2006.

The Company also maintains health care and life insurance plans which provide benefits to eligible retired employees. These plans have no assets. Under the Company s current policy, benefits under these plans are funded at the time they are due to participants or beneficiaries.

The components of pension and post-retirement (income) expense are set forth below:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2006	2005	**2006**	2005
U.S. Pension				
Service cost	**$ 0.1**	$ 0.1	**$ 0.3**	$ 0.4
Interest cost	**1.9**	1.9	**5.8**	5.8
Expected return on plan assets	**(2.1)**	(1.9)	**(6.4)**	(5.9)
Net amortization	**1.1**	0.6	**3.2**	2.5
Total	**$ 1.0**	$ 0.7	**$ 2.9**	$ 2.8
Non-U.S. Pension				
Service cost	**$ 0.8**	$ 0.6	**$ 2.3**	$ 2.1
Interest cost	**1.6**	1.5	**4.8**	4.8
Expected return on plan assets	**(1.8)**	(1.6)	**(5.3)**	(5.1)
Employee contributions	**(0.3)**	(0.2)	**(0.7)**	(0.7)
Net amortization	**1.1**	1.0	**3.1**	2.9
Total	**$ 1.4**	$ 1.3	**$ 4.2**	$ 4.0
Post-retirement				
Service cost	**$ 0.1**	$	**$ 0.1**	$ 0.2
Interest cost	**0.2**	0.2	**0.6**	0.7
Net amortization	**(0.1)**			

Total	**$**	**0.2**	$	0.2	**$**	**0.7**	$	0.9

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Note 10 Business Segments

Financial information for each of NACCO s reportable segments, as defined by SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, is presented in the following table. See Note 1 for a discussion of the Company s operating segments and product lines. NACCO s non-operating segment, NACCO and Other, includes the accounts of the parent company and Bellaire.

NMHG Wholesale derives a portion of its revenues from transactions with NMHG Retail. The amount of these revenues, which are based on current market prices on similar third-party transactions, are indicated in the following table on the line NMHG Eliminations in the revenues section. HB/PS derives a portion of its revenues from transactions with KCI. The amounts of these revenues, which are based on current market prices on similar third-party transactions, are indicated in the following table on the line Housewares Eliminations in the revenues section. No other sales transactions occur among reportable segments. Other transactions among reportable segments are recognized based on similar third-party transactions; that is, at current market prices.

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2006	2005	**2006**	2005
Revenues from external customers				
NMHG				
NMHG Wholesale	**$ 550.5**	$ 516.6	**$ 1,704.7**	$ 1,627.4
NMHG Retail	**63.0**	64.1	**188.3**	197.8
NMHG Eliminations	**(18.1)**	(17.2)	**(56.8)**	(59.7)
	595.4	563.5	**1,836.2**	1,765.5
Housewares				
HB/PS	**136.1**	128.4	**345.2**	334.3
KCI	**34.5**	25.8	**81.2**	69.2
Housewares Eliminations	**(1.0)**	(1.6)	**(3.2)**	(3.7)
	169.6	152.6	**423.2**	399.8