NACCO INDUSTRIES INC
Form 10-K
February 26, 2008

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

(Mark One)

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

**For the fiscal year ended December 31, 2007**

**or**

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

**Commission File No. 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) |

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

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| **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** þ NO o

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

YES o **NO** þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

**YES** þ NO o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting

company in Rule 12b-2 of the Exchange Act. (Check one):

| **Large accelerated filer** þ | Accelerated filer o | Non-accelerated filer o | Smaller reporting company o |
|---|---|---|---|

(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** þ

Aggregate market value of Class A Common Stock and Class B Common Stock held by non-affiliates as of June 29, 2007 (the last business day of the registrant s most recently completed second fiscal quarter): $889,164,745

Number of shares of Class A Common Stock outstanding at February 20, 2008: 6,673,284

Number of shares of Class B Common Stock outstanding at February 20, 2008: 1,607,342

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Company s Proxy Statement for its 2008 annual meeting of stockholders are incorporated herein by reference in Part III of this Form 10-K.

**NACCO INDUSTRIES, INC.**
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**PART I**

**Item 1. BUSINESS**

**General**

NACCO Industries, Inc. ( NACCO or the Company ) is a holding company with three principal businesses: lift trucks, housewares 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) *NACCO Housewares Group.* NACCO Housewares Group ( Housewares ) consists of the Company s wholly owned subsidiaries: Hamilton Beach Brands, Inc. (formerly known as Hamilton Beach/Proctor-Silex, Inc.) ( HBB ), a leading designer, marketer and distributor of small electric household appliances, as well as commercial products for restaurants, bars and hotels, and The Kitchen Collection, Inc. ( KC ), 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. Housewares is managed as two reportable segments: HBB and KC.

(c) *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, 2008, the Company and its subsidiaries had approximately 10,200 employees, including approximately 900 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 first quarter of 2007, NMHG Wholesale outsourced its welding and painting operations at its manufacturing facility in The Netherlands to a third-party in a lower-cost country.

During the third quarter of 2007, NMHG Wholesale announced an additional manufacturing restructuring program which will phase out production of current products at its facility in Irvine, Scotland, change the product mix at its Craigavon, Northern Ireland facility and increase production at its Berea, Kentucky and Sulligent, Alabama plants in the United States and at its Ramos Arizpe facility in Mexico. These actions are expected to reduce purchases of high cost euro- and British pound sterling-denominated materials and components, reduce freight costs, lessen NMHG s exposure to future currency exchange rate fluctuations, reduce the manufacturing footprint of NMHG Wholesale s European manufacturing locations, provide additional opportunities to source components from lower-cost countries and reduce required working capital levels.

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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 13 manufacturing and assembly facilities worldwide with five plants in the Americas, five in Europe and three in Asia-Pacific, including joint venture operations.

Sales of lift trucks represented approximately 86% of NMHG Wholesale s annual revenues in 2007, 86% in 2006 and 85% in 2005.

**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 82 independent dealers and Yale® had 71 independent dealers as of December 31, 2007. In Europe, Hyster® had 62 independent dealers with locations in 86 countries and Yale® had 102 independent dealers with locations in 47 countries as of December 31, 2007. In Asia-Pacific, Hyster® had 17 independent dealers and Yale® had nine independent dealers as of December 31, 2007.

***Owned Dealers***

From time to time, 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 14%, 16% and 16% of new lift truck unit volume in 2007, 2006 and 2005, 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 14% of NMHG Wholesale s annual revenues in 2007, 14% in 2006 and 15% in 2005.

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, 2008. 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, 2008.

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.

**Backlog**

As of December 31, 2007, NMHG Wholesale s backlog of unfilled orders placed with its manufacturing and assembly operations for new lift trucks was approximately 30,500 units, or approximately $668 million, of which substantially all is expected to be filled during fiscal 2008. This compares to the backlog as of December 31, 2006 of approximately 27,200 units, or approximately $619 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 prices 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.

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

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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, 2007, 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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**3. NMHG General**

**Cyclical Nature of Lift Truck Business**

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 from NMHG s Portland, Oregon headquarters. 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.

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 $55.5 million, $52.4 million and $50.0 million on product design and development activities in 2007, 2006 and 2005, 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, Inc. 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, Inc. 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, 2008, NMHG had approximately 6,700 employees, approximately 6,200 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 120 employees) are unionized, as are tool room employees (approximately 15 employees) located in Portland, Oregon. NMHG s contracts with the Danville and Portland unions expire in June 2009 and October 2008, respectively. Employees at the facilities in Berea, Kentucky; Sulligent, Alabama; and Greenville, North Carolina are not represented by unions. In Mexico, shop employees are unionized.

In January 2008, NMHG announced its decision to close the Portland tool room facility and reached an agreement with its union employees to provide for severance and benefits in connection with the closure. The work performed at this facility will be outsourced to other third-party suppliers upon its closure.

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 that 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**

NMHG s business in the past 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. NACCO Housewares Group**

**General**

Housewares consists of two reportable segments: HBB and KC. 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.

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. KC operated 272 retail stores as of December 31, 2007. 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.

**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® eclectrics® 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.

In addition, 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

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appliances under Target s store-wide Michael Graves line. In addition, HBB also supplies Kohl s with certain Food Network branded kitchen appliances. HBB also 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 approximately 37%, 37% and 39% of HBB s net sales in 2007, 2006 and 2005, respectively. HBB s five largest customers accounted for approximately 58%, 57% and 58% of net sales for the years ended December 31, 2007, 2006 and 2005, 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 2007, HBB also promoted its most innovative products through the use of direct response television advertising, web advertising and print advertising. In 2007, HBB also licensed certain of its brands to various licensees for water coolers, microwaves, water treatment products, cookware, kitchen tools and gadgets.

Because of the seasonal nature of the markets for small electric appliances, HBB s management believes that 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, 2007, backlog for HBB was approximately $17.2 million. This compares with the backlog as of December 31, 2006 of approximately $9.0 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 Housewares 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 and KC incur substantial short-term debt to finance inventories and accounts receivable in anticipation of the fall holiday selling season.

**Product Design and Development**

HBB spent $7.1 million in 2007, $7.4 million in 2006 and $6.9 million in 2005 on product design and development activities. KC, a retailer, had no such expenditures.

**Key Suppliers and Raw Material**

The majority of HBB s products are manufactured to its specifications by manufacturers located in China. HBB does not maintain long-term purchase contracts with manufacturers 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 2007, HBB purchased approximately 97% of its finished products from suppliers in China. HBB does not currently depend on any single manufacturer. 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, Housewares 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® brand. In 2007, this advertising focused on 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.

Since the outlet mall channel of the retail industry is approaching maturity, the management of 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

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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.

**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 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, 2008, Housewares work force consisted of approximately 2,000 employees, most of whom are not represented by unions. In Canada, as of January 31, 2008, approximately 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 Housewares U.S. employees are unionized. HBB and KC believe their current labor relations with both union and non-union employees are satisfactory.

**C. 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, 2007, 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 that 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 mining operation has a contract to provide either lignite coal or limerock 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 customer would be material to NACoal.

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**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 |
| 2007 | 82% | 18% |
| 2006 | 82% | 18% |
| 2005 | 83% | 17% |
| 2004 | 84% | 16% |
| 2003 | 83% | 17% |

The total 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 production by mine (in millions of tons) [1]

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Unconsolidated Project Mines** | | | |
| Freedom | 15.0 | 15.2 | 15.1 |
| Falkirk | 7.8 | 8.2 | 7.7 |
| Sabine | 4.2 | 4.0 | 4.6 |
| **Consolidated Mines Operations** | | | |
| San Miguel | 2.9 | 3.6 | 3.3 |
| Red River | 0.5 | 0.8 | 0.6 |
| Red Hills | 3.6 | 3.8 | 3.6 |
| Total lignite tons produced | 34.0 | 35.6 | 34.9 |
| Lignite price per ton sold/delivered | $ 12.37 | $ 12.14 | $ 11.42 |

[1] No operating mines currently exist on the undeveloped reserves. The Florida dragline operations have contracts with Vecellio & Grogan, Inc., d/b/a White Rock Quarries ( WRQ ), Cemex

S.A.B. de C.V. ( Cemex ) and Tarmac America LLC ( Tarmac ) to provide limerock dragline mining services only.

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 thereafter mined. 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 2007 were as follows:

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**LIGNITE COAL MINING OPERATIONS ON AN AS RECEIVED BASIS**

| | | 2007 | | | | | | 2006 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Proven and Probable Reserves (a)(b) | | | | | | | | |
| Mine/Reserve | Type of Mine | Committed Under Contract | Uncommitted | Total | Sales Tonnage | | | Total Committed and Uncommitted | Sales Tonnage | Contract |
| | | (Millions of Tons) | | | (Millions) | Owned (%) | Leased (%) | (Millions of Tons) | (Millions) | Expires |
| **Unconsolidated Project Mining Subsidiaries** | | | | | | | | | | |
| Freedom Mine (c) | Surface Lignite | 596.4 | | 596.4 | 14.8 | 2% | 98% | 484.6 | 15.3 | 2012(d) |
| Falkirk Mine (c) | Surface Lignite | 478.3 | | 478.3 | 7.9 | 1% | 99% | 470.9 | 8.2 | 2045 |
| Sabine Mine (c) | Surface Lignite | (e) | (e) | | 4.2 | (e) | (e) | | 3.9 | 2020 |
| **Consolidated Mining Operations** | | | | | | | | | | |
| San Miguel Lignite Mining Operations | Surface Lignite | (e) | (e) | | 2.9 | (e) | (e) | | 3.6 | 2010 |
| Red River Mine | Surface Lignite | 28.6 | 28.2 | 56.8 | 0.5 | 94% | 6% | 57.3 | 0.8 | 2011 |
| Red Hills Mine | Surface Lignite | 142.6 | 114.6 | 257.2 | 3.4 | 27% | 73% | 253.3 | 3.6 | 2032 |
| Total Developed | | 1,245.9 | 142.8 | 1,388.7 | 33.7 | | | 1,266.1 | 35.4 | |
| **Undeveloped Mining Operations** | | | | | | | | | | |
| North Dakota | | | 578.2 | 578.2 | | 0% | 100% | 562.7 | | |
| Texas | | 13.0 | 165.1 | 178.1 | | 48% | 52% | 209.4 | | |
| Eastern (f) | | (f) | 47.8 | 47.8 | | 100% | 0% | 47.9 | | |
| Mississippi | | | 142.2 | 142.2 | | 0% | 100% | 142.2 | | |
| Total Undeveloped | | 13.0 | 933.3 | 946.3 | | | | 962.2 | | |
| Total Developed/Undeveloped | | 1,258.9 | 1,076.1 | 2,335.0 | | | | 2,228.3 | | |

| Mine/Reserve | Coal Formation or | Average Seam | Average | Average Coal Quality (As received) BTUs/lb |
|---|---|---|---|---|

| | Type of Mine | Coal Seam(s) | Thickness (feet) | Depth (feet) | | Sulfur (%) | Ash (%) | Moisture (%) |
|---|---|---|---|---|---|---|---|---|
| **Unconsolidated Project Mining Subsidiaries** | | | | | | | | |
| Freedom Mine (c) | Surface Lignite | Beulah-Zap Seams | 18 | 130 | 6,700 | 0.9% | 9% | 36% |
| Falkirk Mine (c) | Surface Lignite | Hagel A&B, Tavis Creek Seams | 8 | 60 | 6,200 | 0.6% | 11% | 38% |
| Sabine Mine (c) | Surface Lignite | (e) | (e) | (e) | (e) | (e) | (e) | (e) |
| **Consolidated Mining Operations** | | | | | | | | |
| San Miguel Lignite Mining Operations | Surface Lignite | (e) | (e) | (e) | (e) | (e) | (e) | (e) |
| Red River Mine | Surface Lignite | Chemard Lake Lignite Lentil Seams | 7 | 70 | 6,850 | 0.7% | 14% | 33% |
| Red Hills Mine | Surface Lignite | C, D, E, F, G, H Seams | 4 | 150 | 5,200 | 0.6% | 14% | 43% |
| **Undeveloped Mining Operations** | | | | | | | | |
| North Dakota | | Fort Union Formation | 13 | 130 | 6,500 | 0.8% | 8% | 38% |
| Texas | | Wilcox Formation | 8 | 120 | 6,800 | 1.0% | 16% | 30% |
| Eastern (f) | | Freeport & Kittanning | 4 | 400 | 12,070 | 3.3% | 12% | 3% |
| Mississippi | | Wilcox Formation | 12 | 130 | 5,200 | 0.6% | 13% | 44% |

(a) Committed and uncommitted tons represent in-place estimates. The projected extraction loss is

approximately 10% of the proven and probable reserves, except with respect to the Eastern Undeveloped Mining Operations, in which case the extraction loss is approximately 30% of the proven and probable reserves.

(b) NACoal s reserve estimates are based on the entire drill hole database, which was used to develop a geologic computer model using a 200 foot grid and inverse distance to the second power as an interpolator. None of NACoal s coal reserves have been reviewed by independent experts. As such, all reserves are considered proven (measured) within NACoal s reserve estimate.

(c) The contracts for these mines require the customer to cover the cost of the ongoing replacement and upkeep of the plant and equipment of the mine.

(d) Although the term of the existing coal sales agreement terminates in 2012, the term may be extended for five additional periods of five years, or until 2037, at the option of The Coteau Properties Company.

(e) The reserves are owned and controlled by the customer and, therefore, have not been listed in the table.

(f) The proven and probable reserves included in the table do not include coal that is leased to others. NACoal had 57.8 million tons and 57.6 million tons in 2007 and 2006, respectively, of Eastern Undeveloped Mining Operations with leased coal committed under contract.

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**Unconsolidated Project Mining Subsidiaries**

**Freedom Mine The Coteau Properties Company**

The Freedom Mine, operated by The Coteau Properties Company ( Coteau ), is located approximately 90 miles northwest of Bismarck, North Dakota. The main entrance to the Freedom Mine is accessed by means of a paved road and is located on County Road 15. Coteau holds 396 leases granting the right to mine approximately 40,674 acres of coal interests and the right to utilize approximately 28,076 acres of surface interests. In addition, Coteau owns in fee 29,929 acres of surface interests and 4,501 acres of coal interests. Substantially all of the leases held by Coteau were acquired in the early 1970s with terms totaling 40 years. Many of these leases were amended or replaced with new leases which extend the lease terms for a period sufficient to meet Coteau s contractual production requirements.

The Freedom Mine generally produces approximately 15 million tons of lignite coal annually. The mine started delivering coal in 1983. All production from the mine is sold to Dakota Coal Company, a wholly owned subsidiary of Basin Electric Power Cooperative. Dakota Coal Company then sells the coal to Great Plains Synfuels Plant, Antelope Valley Station and Leland Olds Station, all of which are affiliates of Basin Electric Power Cooperative.

The reserves are located in Mercer County, North Dakota, starting approximately two miles north of Beulah, North Dakota. The center of the basin is located near the city of Williston, North Dakota, approximately 100 miles northwest of the permit area. The economically mineable coal in the reserve occurs in the Sentinel Butte Formation, and is overlain by the Coleharbor Formation. The Coleharbor Formation unconformably overlies the Sentinel Butte. It includes all of the unconsolidated sediments resulting from deposition during glacial and interglacial periods. Lithologic types include gravel, sand, silt, clay and till. The modified glacial channels are in-filled with gravels, sands, silts and clays overlain by till. The coarser gravel and sand beds are generally limited to near the bottom of the channel fill. The general stratigraphic sequence in the upland portions of the reserve area consists of till, silty sands and clayey silts.

**Falkirk Mine The Falkirk Mining Company**

The Falkirk Mine, operated by The Falkirk Mining Company ( Falkirk ), is located approximately 50 miles north of Bismarck, North Dakota on a paved access road off U.S. Highway 83. Falkirk holds 336 leases granting the right to mine approximately 52,705 acres of coal interests and the right to utilize approximately 34,913 acres of surface interests. In addition, Falkirk owns in fee 31,380 acres of surface interests and 858 acres of coal interests. Substantially all of the leases held by Falkirk were acquired in the early 1970s with terms totaling 40 years, many of which can be or have been further extended by the continuation of mining operations.

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The Falkirk Mine generally produces between 7.5 million to 8.5 million tons of lignite coal annually for the Coal Creek Station, an electric power generating station owned by Great River Energy. All production from the mine is used by Coal Creek Station. The mine started delivering coal in 1978.

The reserves are located in McLean County, North Dakota, from approximately nine miles northwest of the town of Washburn, North Dakota to four miles north of the town of Underwood, North Dakota. Structurally, the area is located on an intercratonic basin containing a thick sequence of sedimentary rocks. The economically mineable coals in the reserve occur in the Sentinel Butte Formation and the Bullion Creek Formation and are unconformably overlain by the Coleharbor Formation. The Sentinel Butte Formation conformably overlies the Bullion Creek Formation. The general stratigraphic sequence in the upland portions of the reserve area (Sentinel Butte Formation) consists of till, silty sands and clayey silts, main hagel lignite bed, silty clay, lower lignite of the hagel lignite interval and silty clays. Beneath the Tavis Creek, there is a repeating sequence of silty to sand clays with generally thin lignite beds.

**Sabine Mine The Sabine Mining Company**

The Sabine Mine, operated by The Sabine Mining Company ( Sabine and together with Falkirk and Coteau, the unconsolidated project mining subsidiaries ), is located approximately 150 miles east of Dallas, Texas on FM 968. The entrance to the mine is by means of a paved road. Sabine has no title, claim, lease or option to acquire any of the reserves at the Sabine Mine. Southwestern Electric Power Company controls all of the reserves within the Sabine Mine.

The Sabine Mine has two active pits generally producing between 4.0 and 4.6 million tons of lignite coal annually based upon Southwestern Electric Power Company s demand for its Henry W. Pirkey Plant and other contractual requirements. The mine started delivering coal in 1985.

**Other Mines**

**San Miguel Lignite Mining Operations The North American Coal Corporation**

The San Miguel Lignite Mining Operations ( San Miguel ), operated by NACoal, is located approximately 60 miles south of San Antonio, Texas. Access to the mine is by means of an unpaved road from FM 338. San Miguel has no title, claim, lease or option to acquire any of the reserves at the San Miguel Lignite Mine.

NACoal has operated San Miguel since July 1, 1997 under a Contract Mining Agreement with San Miguel Electric Power Cooperative, Inc. ( San Miguel Electric ). Prior to July 1, 1997, another company operated the mine under a similar contract mining arrangement. Since the development of the project in the late 1970 s, San Miguel Electric has owned the reserves and mine facilities and held all the permits and authorizations necessary to operate the power generating station and the adjacent lignite mine. The mine started delivering coal in 1980.

San Miguel generally produces between 2.9 million and 3.6 million tons of lignite coal annually. Mine staff and workforce utilize an office building and a maintenance facility that includes a parts warehouse. Roads and drainage control facilities have been built to access the lignite deposit and control runoff. Walking draglines owned by San Miguel Electric are used to uncover the lignite seam in each pit. Front-end loaders and other mining equipment are used to load belly dump coal haulers and end-dump trucks are used to deliver the lignite coal to the power plant. The same complement of equipment is used to reclaim topsoil and subsoil materials. Dozers are used to grade the land once the lignite coal has been removed.

**Red River Mine Red River Mining Company**

The Red River Mine, operated by Red River Mining Company ( Red River ), is located approximately 35 miles south of Shreveport, Louisiana. Access to the mine is by means of an unpaved road located one mile west of Highway 84 on Parish Road 604. Red River holds 18 leases granting the right to mine approximately 927 acres of coal interests and the right to utilize approximately 991 acres of surface interests. In addition, Red River owns in fee approximately 4,955 acres of surface interests and 4,915 acres of coal interests.

The Red River Mine generally produces between 500,000 and 1 million tons of lignite coal annually as a supplemental fuel source based upon the demand from the Dolet Hills Power Station. Prior to 2006, substantially all production from the mine had been delivered to the Dolet Hills Power Station near Mansfield, Louisiana. The mine delivered 42,000 tons and 205,000 tons to other plants in Louisiana during 2007 and 2006, respectively. The mine started delivering coal in 1989.

Two distinct types of land forms are present at the Red River Mine. First is the alluvial material formed by the low lying floodplain of the Red River. This material is very sandy and requires extensive dewatering prior to mining. Below the alluvial lies the Wilcox Group, which is part of the Eocene Series. The outcropping Wilcox is composed predominantly of non-marine sediments deposited on a broad flat plain.

**Red Hills Mine Mississippi Lignite Mining Company**

The Red Hills Mine, operated by Mississippi Lignite Mining Company ( MLMC ), is located approximately 120 miles north of Jackson, Mississippi. The entrance to the mine is by means of a paved road located approximately one mile west of Highway 9. MLMC holds 159 leases granting the right to mine approximately 9,481 acres of coal interests and the right to

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utilize approximately 9,440 acres of surface interests. In addition, MLMC owns in fee 2,202 acres of surface interests and 1,889 acres of coal interests. Substantially all of the leases held by MLMC were acquired during the mid-1970s to the early 1980s with terms totaling 50 years.

The Red Hills Mine generally produces between 3.5 and 3.8 million tons of lignite coal annually for the Red Hills Power Plant. The mine started delivering coal in October 2000.

The lignite deposits of the Gulf Coast are found primarily in a narrow band of strata that outcrops/subcrops along the margin of the Mississippi embayment. The potentially exploitable tertiary lignites in Mississippi are found in the Wilcox Group. The outcropping Wilcox is composed predominately of non-marine sediments deposited on a broad flat plain.

**Florida Dragline Operations The North American Coal Corporation**

NACoal s Florida Dragline Operations operate draglines to mine limerock at the following quarries in Florida pursuant to mining services agreements with the quarry owners:

| Quarry Name | Location | Quarry Owner | Year NACoal Started Dragline Operations |
|---|---|---|---|
| White Rock Quarry | Miami | WRQ | 1995 |
| Krome Quarry | Miami | Cemex | 2003 |
| Alico Quarry | Ft. Myers | Cemex | 2004 |
| FEC Quarry | Miami | Cemex | 2005 |
| Pennsuco Quarry | Miami | Tarmac | 2005 |
| SCL Quarry | Miami | Cemex | 2006 |

WRQ, Cemex and Tarmac control all of the limerock reserves within their respective quarries. WRQ and Cemex perform drilling programs only occasionally for the purpose of redefining the bottom of the limerock bed.

Access to the White Rock Quarry is by means of a paved road from 122nd Avenue, while access to the Krome Quarry is by means of a paved road from Krome Avenue and access to Pennsuco Quarry is by means of a paved road from NW 121st Way. Access to the FEC Quarry is by means of a paved road from NW 118th Avenue and access to the Alico Quarry is by means of a paved road from Alico Road. Access to the SCL Quarry is by means of a paved road from NW 137th Avenue. Florida Dragline Operations have no title, claim, lease or option to acquire any of the reserves at the White Rock Quarry, the FEC Quarry, the Krome Quarry, the Pennsuco Quarry or the Alico Quarry.

**North American Coal Royalty Company**

No operating mines currently exist on the undeveloped reserves in North Dakota, Texas and Mississippi. NACoal Royalty Company does receive certain royalty payments for production or advance royalty payments for reserves located in Ohio, Pennsylvania, North Dakota, Louisiana and Texas.

**General Information about the Mines**

*Leases*. The leases held by Coteau, Falkirk and MLMC have a variety of continuation provisions, but generally they permit the leases to be continued beyond their fixed terms. Substantially all of the leases held by Red River contain a ten-year term with continuation provisions, subject to applicable law, for as long thereafter as coal is being produced from the leased premises. Under the terms of the leases held by these companies, each respective company expects that coal mined pursuant to its leases will be available to meet its production requirements.

*No Previous Operators*. There were no previous operators of the Freedom Mine, Falkirk Mine, Sabine Mine, Red River Mine or Red Hills Mine.

*Exploration and Development*. The Freedom Mine, Falkirk Mine, Sabine Mine, San Miguel, Red Hills Mine and Red River Mine are well past the exploration stage and are in production. Additional pit development is underway at each mine. Drilling programs are routinely conducted annually for the purpose of refining guidance related to ongoing operations. For example, at the Red Hills Mine, the lignite coal reserve has been defined by a drilling program that is designed to provide 500-foot spaced drill holes for areas anticipated to be mined within six years of the current pit. Drilling beyond the six-year horizon ranges from 1,000 to 2,000-foot centers. Drilling is conducted every other year to stay current with the advance of mining operations.

*Facilities and Equipment*. The facilities and equipment for each of the mines are maintained to allow for safe efficient operation. The equipment is well maintained, in good physical condition and is either updated or replaced periodically with the latest models or upgrades available to keep up with modern technology. As equipment wears out, the mines evaluate what replacement option will be the most cost efficient, including the evaluation of both new and used equipment, and proceed with that replacement. The majority of electrical power for the draglines, shovels, coal crushers, coal conveyors and facilities generally is provided by the utility customer for the applicable mine. Electrical power for the Sabine facilities is provided by Upshur Rural Electric Co-op. Electrical power for the Sabine draglines is provided by the Pirkey Power

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Plant. The remainder of the equipment generally is powered by diesel or gasoline. The total cost of the property, plant and equipment, net of applicable accumulated amortization and depreciation as of December 31, 2007, for each of the mines is set forth in the chart below.

| Mine | | Total Historical Cost of Mine Property, Plant and Equipment (excluding Coal Lands, Real Estate and Construction in Progress), Net of Applicable Accumulated Amortization and Depreciation (*in millions*) |
|---|---|---|
| **Unconsolidated Project Mine Subsidiaries** | | |
| Freedom Mine | The Coteau Properties Company | $ 48.7 |
| Falkirk Mine | The Falkirk Mining Company | $ 72.4 |
| Sabine Mine | The Sabine Mining Company | $ 60.9 |
| **Consolidated Mining Operations** | | |
| San Miguel Lignite Mining Operations | The North American Coal Corporation | $ 0.5 |
| Red River Mine | Red River Mining Company | $ 3.6 |
| Red Hills Mine | Mississippi Lignite Mining Company | $ 37.8 |
| Florida Dragline Operations | The North American Coal Corporation | $ 21.4 |

Predominantly all of San Miguel s machinery and equipment are owned by NACoal s customer. A substantial portion of MLMC s machinery, trucks and equipment is rented under operating leases. Two Florida draglines are also rented under operating leases. All such draglines were purchased used and have been updated with the latest technology.

**Government Regulation**

NACoal s coal mining operations and dragline mining services are subject to various federal, state and local laws and regulations on matters such as employee health and safety, and certain environmental laws relating to, among others, the reclamation and restoration of properties after mining operations, air pollution, water pollution, the disposal of wastes and the effects on groundwater. In addition, the electric utility industry is subject to extensive regulation regarding the environmental impact of its power generation activities that could affect demand for lignite coal from NACoal s coal mining operations.

Numerous governmental permits and approvals are required for coal mining operations. NACoal or one of its subsidiaries holds the necessary permits at all of NACoal s coal mining operations except San Miguel, where NACoal s customer holds the permits. The Company believes, based upon present information provided to it by NACoal s customer, that NACoal s customer has all environmental permits necessary for NACoal to operate San Miguel; however, the Company cannot be certain that NACoal s customer will be able to obtain and/or maintain all such permits in the future.

At the coal mining operations where NACoal holds the permits, NACoal is required to prepare and present to federal, state or local governmental authorities data pertaining to the effect or impact that any proposed exploration for or production of coal may have upon the environment and public and employee health and safety.

The limerock quarries where NACoal provides dragline mining services are owned and operated by NACoal s customers. All environmental permits for the limerock quarries are held by NACoal s customers. During 2007, a federal district court issued an unfavorable decision that may affect NACoal s customers limerock mining permits in South Florida. NACoal s customers are currently appealing the federal district court decision. In addition, in response to the adverse court decision, the Company anticipates that the U.S. Army Corps of Engineers will issue a final Supplemental Environmental Impact Statement for limerock mining in South Florida. Accordingly, the Company

cannot be certain that NACoal s customers will be able to obtain and/or maintain all necessary permits for mining their resources in the future.

Some laws, as discussed below, place many requirements on NACoal s coal mining operations and the limerock quarries where NACoal provides dragline mining services. Federal and state regulations require regular monitoring of NACoal s operations to ensure compliance.

Mine Health and Safety Laws

The Federal Coal Mine Safety and Health Act of 1977 imposes safety and health standards on all coal, metal and nonmetal mining operations. Regulations are comprehensive and affect numerous aspects of mining operations, including training of mine personnel, mining procedures, blasting, the equipment used in mining operations and other matters. The Federal Mine Safety and Health Administration enforces compliance with these federal laws and regulations.

Environmental Laws

NACoal s coal mining operations are subject to various federal environmental laws, including:

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the Surface Mining Control and Reclamation Act of 1977 ( SMCRA );

the Clean Air Act, including amendments to that act in 1990 (the Clean Air Act );

the Clean Water Act of 1972 (the Clean Water Act );

the Comprehensive Environmental Response, Compensation and Liability Act; and

the Resource Conservation and Recovery Act.

In addition to these federal environmental laws, various states have enacted environmental laws that provide for higher levels of environmental compliance than similar federal laws. These environmental laws require reporting, permitting and/or approval of many aspects of coal mining operations. Both federal and state inspectors regularly visit mines to enforce compliance. NACoal has ongoing compliance and permitting programs to ensure compliance with such environmental laws.

Surface Mining Control and Reclamation Act

SMCRA establishes mining, environmental protection and reclamation standards for all aspects of surface coal mining operations. Where state regulatory agencies have adopted federal mining programs under the SMCRA, the state becomes the primary regulatory authority. All of the states where NACoal has active coal mining operations have achieved primary control of enforcement through federal authorization.

Coal mine operators must obtain SMCRA permits and permit renewals for coal mining operations from the regulatory agency. These SMCRA permit provisions include requirements for coal prospecting, mine plan development, topsoil removal, storage and replacement, selective handling of overburden materials, mine pit backfilling and grading, protection of the hydrologic balance, surface drainage control, mine drainage and mine discharge control and treatment, and revegetation.

Although NACoal s permits have stated expiration dates, SMCRA provides for a right of successive renewal. The cost of obtaining surface mining permits can vary widely depending on the quantity and type of information that must be provided to obtain the permits; however, the cost of obtaining a permit is usually between $500,000 and $3,000,000, and the cost of obtaining a permit renewal is usually between $15,000 and $50,000.

The Abandoned Mine Land Fund, which is part of SMCRA, imposes a tax on all current lignite coal mining operations. The proceeds are used principally to reclaim mine lands closed prior to 1977. In addition, the Abandoned Mine Land Fund also makes transfers annually to the United Mine Workers of America Combined Benefit Fund (the Fund ), which provides health care benefits to retired coal miners who are beneficiaries of the Fund. The fee is currently $0.09 per ton on lignite coal sold.

SMCRA establishes operational, reclamation and closure standards for surface coal mines. The Company accrues for the costs of current mine disturbance and final mine closure, including the cost of treating mine water discharges, where necessary. These obligations are unfunded.

SMCRA stipulates compliance with many other major environmental programs. These programs include the Clean Air Act, Clean Water Act, Resource Conservation and Recovery Act, Comprehensive Environmental Response, Compensation and Liability Act, superfund and employee right-to-know provisions. The U.S. Army Corps of Engineers regulates activities affecting navigable waters, and the U.S. Bureau of Alcohol, Tobacco and Firearms regulates the use of explosives for blasting.

The Company does not believe there are any substantial matters that pose a risk to NACoal s ability to maintain its existing mining permits or hinder its ability to acquire future mining permits.

Clean Air Act

The Clean Air Act and the corresponding state laws that regulate the emissions of materials into the air affect coal mining operations both directly and indirectly. Direct impacts on coal mining operations may occur through Clean Air Act permitting requirements and/or emission control requirements relating to particulate matter, such as fugitive dust. Indirect impacts on coal mining operations occur through regulation of the air emissions of sulfur dioxide, nitrogen oxides, mercury, particulates and other compounds emitted by coal-fired power plants. Any reduction in coal s share of

the capacity for power generation could have a material adverse effect on the Company s business, financial condition and results of operations.

In July 1997, the Environmental Protection Agency (the EPA ) adopted new, more stringent National Ambient Air Quality Standards for particulate matter that may require some states to change their existing implementation plans. Because coal mining operations and coal-fired power plants emit particulate matter, NACoal s coal mining operations and utility customers may be directly affected when the revisions to the National Ambient Air Quality Standards are implemented by the states. State and federal regulations relating to implementation of the new air quality standards may restrict NACoal s ability to develop new mines or could require it to modify its existing operations. The extent of the potential direct impact of the new air quality standards on the coal industry will depend on the policies and control strategies associated with the state implementation process under the Clean Air Act but could have a material adverse effect on the Company s financial condition and the results of operations.

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The Clean Air Act also imposes limits on sulfur dioxide emissions from coal-fired power plants. The affected electricity generators have been able to meet these requirements by, among other things, switching to lower sulfur fuels, installing pollution control devices such as flue gas desulfurization systems, which are known as scrubbers, reducing power generating levels or purchasing sulfur dioxide emission allowances.

The cost of installing scrubbers is significant, and emission allowances may become more expensive as their availability declines. Switching to other fuels may require expensive modification of existing plants. The extent to which NACoal s electric utility customers switch to lower sulfur coal or other low-sulfur fuel could materially affect the Company if NACoal cannot offset the cost of sulfur removal by lowering the costs of delivery of its coal on an energy equivalent basis. The Company cannot accurately predict the effect of these provisions of the Clean Air Act amendments on the Company in future years.

In May 2005, the EPA published the Clean Air Mercury Rule ( CAMR ) which regulates the emission of mercury from coal-fired power plants. CAMR established a two phase cap and trade regulation with phase one being implemented in 2010 and phase two in 2018. It allowed affected electrical generating units to meet these regulations by, among other things, switching to lower mercury fuels, installing mercury control devices, or purchasing mercury emissions allowances.

On February 8, 2008, the U.S. Court of Appeals for the D.C. Circuit struck down the CAMR, on the grounds that the EPA did not follow the appropriate process under the Clean Air Act to reverse the decision to list coal-fired power plants as a category of sources for regulation under the hazardous air pollutant provisions of the Clean Air Act. It is uncertain at this time if the EPA will appeal the decision.

If the Court s decision striking down the CAMR stands, it will result in more stringent regulation of mercury emissions from all coal-fired power plants. The extent of the affect on these plants will depend upon the type of control technology that the EPA requires and whether the EPA subcategorizes coal by rank. Lignite coal typically has a greater mercury content than higher rank coals; consequently, failure by the EPA to subcategorize coals by rank could have a disproportionately adverse affect on plants that burn lignite coal and the demand for lignite coal may decrease. Mercury control devices are just beginning to be demonstrated on a commercial scale; therefore, their efficiency and cost of operation is uncertain at this time. The cost of controlling mercury emissions will be significant and emission allowances may become more expensive as their availability declines. Switching to other fuels may require expensive modifications to existing plants. The extent to which NACoal s electric utility customers switch to lower mercury coal or other low-mercury fuel could materially affect the Company if NACoal cannot offset the cost of mercury removal by lowering the costs of delivery of its coal on an energy equivalent basis. The Company cannot accurately predict the effect these provisions of the Clean Air Act amendments will have on the Company in future years.

In addition, Congress and several states are considering legislation to further control air emissions of pollutants from electric generating facilities and other large emitters. To the extent these new regulations affect NACoal s customers, these regulations could have a material adverse effect on the Company s business, financial condition and results of operations.

In October 2003, twelve states, two cities and 14 environmental groups filed petitions in the United States Court of Appeals for the District of Columbia, challenging the EPA s decision denying a rulemaking petition to regulate carbon dioxide as a criteria pollutant under the Clean Air Act. If these petitioners are successful in obtaining a court order requiring the EPA to set (or the EPA agrees to set) emission limitations for carbon dioxide and/or lower emission limitations for sulfur dioxide and particulate matter, the demand for coal may decrease.

The U.S. Supreme Court ruled on April 2, 2007 that carbon dioxide is a pollutant under the Clean Air Act. As a result of the decision, the EPA has the authority to regulate greenhouse gas emissions from automobiles. This ruling increases the likelihood that carbon dioxide emissions from coal-fired power plants will be regulated in the future. Congress is considering legislation to restrict and/or control carbon dioxide emissions from power plants. Furthermore, a number of individual states are enacting laws and regulations that restrict or control carbon dioxide emissions. Until such laws are enacted and regulations promulgated, the Company cannot accurately predict the extent to which NACoal s electric utility customers will be affected or the measures that will be required for compliance. If the EPA does promulgate regulations that limit carbon dioxide emissions from power plants, the demand for coal may decrease.

The Clean Air Act sets a national goal for the prevention of any future, and the remediation of any existing, impairment of visibility in over 150 national parks and wildlife areas across the country. These requirements could affect the amount of coal supplied to NACoal s customers if they decide to switch to other sources of fuel to lower emission of sulfur dioxides and nitrogen oxides.

NACoal has obtained all necessary permits under the Clean Air Act at all of its coal mining operations where it is responsible for permitting.

The EPA promulgated the Clean Air Interstate Rule ( CAIR ) in May 2005. This rule requires reduction of nitrogen oxides and sulfur dioxides in 29 eastern States including Texas, Louisiana and Mississippi. CAIR requires more reductions in the emissions from power plants than the acid rain program, which is the current emission control regulation. Affected power plants will be required to install emission control devices, switch to lower emission fuels, or purchase emission allowances.

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The EPA promulgated the Clean Air Visibility Rule ( CAVR ) in June 2005. This rule requires power plants not covered by CAIR to install Best Available Retrofit Technology equipment to control emissions that cause haze and reduce visibility. The emissions include sulfur dioxide, nitrogen oxides and fine particulate matter.

The cost of controlling nitrogen oxides and sulfur dioxide emissions will be significant and emission allowances may become more expensive as their availability declines. Switching to other fuels may require expensive modifications to existing plants. The extent to which NACoal s electric utility customers switch to lower emitting coal or other lower emitting fuel could materially affect the Company if NACoal cannot offset the cost of removal by lowering the costs of delivery of its coal on an energy equivalent basis. The Company cannot accurately predict the effect these provisions of the Clean Air Act amendments will have on the Company in future years.

Other so-called multi-pollutant bills that could regulate additional air pollutants, including carbon dioxide, have been proposed. While the details of all of these proposed initiatives vary, there appears to be a movement towards increased regulation of power plant air pollutants. If any of these initiatives were enacted into law, power plants could choose to shift away from coal as a fuel source to meet these requirements.

Because coal mining operations emit particulate matter and other pollutants, NACoal s mining operations may be affected directly when the states revise their implementation plans to comply with the stricter standards for particulate matter and ozone. State and federal regulations relating to the new standards may restrict NACoal s ability to develop new mines or could require it to modify its existing operations. The extent of the potential direct impact of the new standards on the coal industry will depend on the policies and control strategies associated with the state implementation process, but could increase NACoal s cost of doing business and adversely affect the Company s financial condition and results of operations.

Clean Water Act

The Clean Water Act affects coal mining operations by establishing in-stream water quality standards and treatment standards for waste water discharge. Permits requiring regular monitoring, reporting and performance standards govern the discharge of pollutants into water.

Federal and state regulations establish standards for water quality. These regulations prohibit the diminution of water quality. Waters discharged from coal mines will be required to meet these standards. These federal and state requirements could require more costly water treatment and could adversely affect NACoal s coal production.

The Company believes NACoal has obtained all permits required under the Clean Water Act and corresponding state laws and is in compliance with such permits.

Bellaire Corporation, a wholly owned non-operating subsidiary of the Company ( Bellaire ), is treating mine water drainage from coal refuse piles associated with two former underground coal mines in Ohio and one former underground coal mine in Pennsylvania, and is treating mine water from a former underground coal mine in Pennsylvania. Bellaire anticipates that it will need to continue these activities indefinitely and has accrued a liability of $12.2 million as of December 31, 2007 related to these matters in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 143, Accounting for Asset Retirement Obligations.

In connection with Bellaire s normal permit renewal with the Pennsylvania Department of Environmental Protection, it was notified during 2004 that in order to obtain renewal of the permit it would be required to establish a mine water treatment trust. Bellaire is currently negotiating the terms of the timing and amount of funds necessary to establish this trust. It is also expected that once this trust is fully funded, the income from the trust would then be utilized to fund the future cost of treatment of mine water drainage from the idled mining operations.

Resource Conservation and Recovery Act

The Resource Conservation and Recovery Act affects coal mining operations by establishing requirements for the treatment, storage and disposal of wastes, including hazardous wastes. Coal mine wastes, such as overburden and coal cleaning wastes, currently are exempted from hazardous waste management.

Comprehensive Environmental Response, Compensation and Liability Act

The Comprehensive Environmental Response, Compensation and Liability Act and similar state laws create liabilities for the investigation and remediation of releases of hazardous substances into the environment and for damages to natural resources. The Company also must comply with reporting requirements under the Emergency Planning and Community Right-to-Know Act and the Toxic Substances Control Act.

From time to time, the Company has been the subject of administrative proceedings, litigation and investigations relating to environmental matters.

The Company s subsidiary, Sabine, has been named as a potentially responsible party for cleanup costs under the so-called Superfund law at a third-party site where Sabine disposed of nonhazardous waste oil in the past. The Company believes that Sabine s liability will be de minimis.

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The magnitude of the liability and the cost of complying with environmental laws cannot be predicted with certainty due to the lack of specific information available with respect to many sites, the potential for new or changed laws and regulations and for the development of new remediation technologies and the uncertainty regarding the timing of work with respect to particular sites. As a result, the Company may incur material liabilities or costs related to environmental matters in the future, and such environmental liabilities or costs could adversely affect the Company s results of operations and financial condition. In addition, there can be no assurance that changes in laws or regulations would not affect the manner in which NACoal is required to conduct its operations.

**Competition**

The coal industry competes with other sources of energy, particularly oil, gas, hydro-electric power and nuclear power. Among the factors that affect competition are the price and availability of oil and natural gas, environmental considerations, the time and expenditures required to develop new energy sources, the cost of transportation, the cost of compliance with governmental regulation of operations, the impact of federal and state energy policies and the current trend toward deregulation of energy markets. The ability of NACoal to market and develop its reserves will depend upon the interaction of these factors.

Based on industry information, NACoal believes it was one of the ten largest coal producers in the United States in 2007 based on total coal tons produced.

**Employees**

As of January 31, 2008, NACoal had approximately 1,500 employees, including approximately 900 employees at the unconsolidated project mining subsidiaries. NACoal believes its current labor relations with employees are satisfactory.

**Item 1A. RISK FACTORS**

**NMHG**

**The cost of raw materials used by NMHG s products has and may continue to fluctuate, which could materially reduce the Company s profitability.**

At times, NMHG Wholesale has experienced significant increases in its materials costs, primarily as a result of global increases in industrial metals including steel, lead and copper and other commodity prices including rubber, as a result of increased demand and limited supply. NMHG manufactures products that include raw materials that consist of steel, rubber, castings and counterweights. NMHG also purchases parts provided by suppliers that are manufactured from castings and steel or contain lead. The cost of these parts is impacted by the same economic conditions that impact the cost of the parts that NMHG manufactures. The cost to manufacture lift trucks and related service parts has been and will continue to be affected by fluctuations in prices for these raw materials. If costs of these raw materials increase, the Company s profitability could be reduced.

**The pricing and costs of NMHG s products have been and may continue to be impacted by foreign currency fluctuations, which could materially increase the Company s costs, result in material exchange losses and materially reduce operating margins.**

Because NMHG conducts transactions in various foreign currencies, including the euro, the British pound sterling, the Australian dollar and the Japanese yen, its lift truck pricing is subject to the effects of fluctuations in the value of these foreign currencies and fluctuations in the related currency exchange rates. As a result, NMHG s sales have historically been affected by, and may continue to be affected by, these fluctuations. In addition, exchange rate movements between currencies in which NMHG purchases materials and components and manufactures certain of its products and the currencies in which NMHG sells those products have been affected by and may continue to result in exchange losses that could materially reduce operating margins. Furthermore, NMHG s hedging contracts may not offset current risks from changes in currency exchange rates.

**NMHG s lift truck business is cyclical. Any downturn in the general economy could result in significant decreases in the Company s revenue and profitability and an inability to sustain or grow the business.**

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 and parts purchases. Consequently, NMHG has experienced, and in the future may continue to

experience, significant fluctuations in its revenues and net income. If there is a downturn in the general economy, or in the industries served by NMHG s lift truck customers, the Company s revenue and profitability could decrease significantly and the Company may not be able to sustain or grow the business.

**NMHG depends on a limited number of suppliers for specific critical components.**

NMHG depends on a limited number of suppliers for some of its critical components, including diesel and gasoline engines and cast-iron counterweights used to counterbalance some lift trucks. Some of these critical components are imported and subject to regulation, such as inspection by the U.S. Department of Commerce. The Company s results of operations could

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be adversely affected if NMHG is unable to obtain these critical components, or if the costs of these critical components were to increase significantly, due to regulatory compliance or otherwise, and NMHG was unable to pass the cost increases on to its customers.

**If the capital goods market worsens, the cost saving efforts implemented by NMHG may not be sufficient to achieve the benefits NMHG expects.**

If the economy or the capital goods market declines, NMHG s revenues could decline. If revenues are lower than expected, the programs implemented at NMHG may not achieve the benefits NMHG expects. Furthermore, NMHG may be forced to take additional cost savings steps that could result in additional charges that materially adversely affect its ability to compete or implement its current business strategies.

**If NMHG s current cost reduction and efficiency programs, including the introduction of new products, does not prove effective, the Company s revenues, profitability and market share could be significantly reduced.**

Changes in the timing of implementation of its current cost reduction, efficiency and new product programs may result in a delay in the expected recognition of future costs and realization of future benefits. As such, if future industry demand levels are lower than historical industry demand cycles would indicate, the actual annual cost savings could be lower than expected. If NMHG is unable to successfully implement these programs, the Company s revenues, profitability and market share could be significantly reduced.

**The failure of NMHG to compete effectively within its industry could result in a significant decrease in the Company s revenues and profitability.**

NMHG experiences intense competition in the sale of lift trucks and aftermarket parts. Competition in the lift truck industry 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 offerings, 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. These manufacturers may have greater financial resources and less debt than NMHG, which may enable them to commit larger amounts of capital in response to changing market conditions, and lower costs of manufacturing. If NMHG fails to compete effectively, the Company s revenues and profitability could be significantly reduced.

**NMHG relies primarily on its network of independent dealers to sell its lift trucks and aftermarket parts and has no direct control over sales by those dealers to customers. Ineffective or poor performance by these independent dealers could result in a significant decrease in the Company s revenues and profitability and an inability by NMHG to sustain or grow the business.**

NMHG relies primarily on independent dealers for sales of its lift trucks and aftermarket parts. Sales of NMHG s products are therefore subject to the quality and effectiveness of the dealers, who are generally not subject to NMHG s direct control. As a result, ineffective or poorly performing dealers could result in a significant decrease in the Company s revenues and profitability and NMHG may not be able to sustain or grow its business.

**NMHG s actual liabilities relating to pending lawsuits may exceed its expectations**.

NMHG is a defendant in pending lawsuits involving, among other things, product liability claims. NMHG cannot be sure that it will succeed in defending these claims, that judgments will not be rendered against NMHG with respect to any or all of these proceedings or that reserves set aside or insurance policies will be adequate to cover any such judgments. The Company could incur a charge to earnings if reserves prove to be inadequate or the average cost per claim or the number of claims exceed estimates, which could have a material adverse effect on the Company s results of operations and liquidity for the period in which the charge is taken and any judgment or settlement amount is paid.

**NMHG has guaranteed, or is subject to repurchase or recourse obligations with respect to, financing arrangements of some of its customers.**

Through arrangements with GECC and others, dealers and other customers are provided financing for new lift trucks in the United States and in major countries of the world outside of the United States. Through these arrangements, 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 such that it would become obligated in the event of default by the dealer or customer. Total amounts subject to these types of obligations

at December 31, 2007 were $251.7 million. Generally, NMHG maintains a perfected security interest in the assets financed such that, in the event that it becomes obligated under the terms of the standby recourse obligations, guarantees or repurchase obligations, it may take title to the assets financed. NMHG cannot be certain, however, that the security interest will equal or exceed the amount of the standby recourse obligations, guarantees or repurchase obligations. In addition, NMHG cannot be certain that losses under the terms of the standby recourse obligations, guarantees or repurchase obligations will not exceed the reserves that it has set aside in its consolidated financial statements. The Company could incur a charge to earnings if its reserves prove to be inadequate, which could have a material adverse effect on the Company s results of operations and liquidity for the period in which the charge is taken.

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**NMHG is subject to risks relating to its foreign operations.**

Foreign operations represent a significant portion of NMHG s business. NMHG expects revenue from foreign markets to continue to represent a significant portion of NMHG s total revenue. NMHG owns or leases manufacturing facilities in Brazil, Italy, Mexico, The Netherlands, Northern Ireland and Scotland, and owns interests in joint ventures with facilities in China, Japan and the Philippines. It also sells domestically produced products to foreign customers and sells foreign produced products to domestic customers. NMHG s foreign operations are subject to additional risks, which include:

- potential political, economic and social instability in the foreign countries in which NMHG operates;
- currency risks, see the risk factor titled The pricing and costs of NMHG s products have been and may continue to be impacted by foreign currency fluctuations, which could materially increase the Company s costs, result in material exchange losses and materially reduce operating margins;
- imposition of or increases in currency exchange controls;
- potential inflation in the applicable foreign economies;
- imposition of or increases in import duties and other tariffs on NMHG s products;
- imposition of or increases in foreign taxation of earnings and withholding on payments received by NMHG from its subsidiaries;
- regulatory changes affecting international operations; and
- stringent labor regulations.

Part of the strategy to expand NMHG s worldwide market share and decrease costs is strengthening its international distribution network and sourcing basic components in foreign countries. Implementation of this strategy may increase the impact of the risks described above and there can be no assurance that such risks will not have an adverse effect on the Company s revenues, profitability or market share.

**NMHG s actual liabilities relating to environmental matters may exceed its expectations**.

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. 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.

In addition, NMHG s products may be subject to laws and regulations relating to the protection of the environment, including those governing vehicle exhausts. 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.

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 and could require NMHG to incur significant additional expenses, which could materially adversely affect the Company s results of operations and financial condition.

**NMHG may not be able to extend its joint venture and operating agreements with GECC.**

NMHG is engaged in a joint venture with GECC to provide dealer and customer financing of new lift trucks in the United States. In addition, NMHG 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. These agreements expire December 31, 2008. If NMHG is unsuccessful in either extending or entering into new agreements with GECC upon the expiration of these contracts, the Company s profitability could decrease in the event NMHG is required to find alternative sources of financing for its dealers and customers.

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**Housewares**

**HBB depends on third-party suppliers for the manufacturing of all of its products, which subjects the Company to risks, including unanticipated increases in expenses, decreases in revenues and disruptions in the supply chain.**

HBB is dependent on third-party suppliers for the manufacturing of all of its products. HBB s ability to select reliable suppliers who provide timely deliveries of quality products will impact its success in meeting customer demand. Any inability of HBB s suppliers to timely deliver products or any unanticipated changes in suppliers could be disruptive and costly to the Company. Any significant failure by HBB to obtain products on a timely basis at an affordable cost or any significant delays or interruptions of supply would have a material adverse effect on the Company s profitability.

Because HBB s suppliers are primarily based in China and Mexico, international operations subject the Company to additional risks including, among others:

currency fluctuations;

labor unrest;

potential political, economic and social instability;

lack of developed infrastructure;

restrictions on transfers of funds;

import and export duties and quotas;

changes in domestic and international customs and tariffs;

uncertainties involving the costs to transport products;

long distance shipping routes dependent upon a small group of shipping and rail carriers;

unexpected changes in regulatory environments;

regulatory issues involved in dealing with foreign suppliers and in exporting and importing products;

difficulty in complying with a variety of foreign laws;

difficulty in obtaining distribution and support; and

potentially adverse tax consequences.

The foregoing factors could have a material adverse effect on HBB s ability to maintain or increase the supply of products, which may result in material increases in expenses and decreases in revenues.

**Increases in costs of products may materially reduce the Company s profitability.**

Factors that are largely beyond the Company s control, such as movements in commodity prices for the raw materials needed by suppliers of HBB s products, may affect the cost of products, and HBB may not be able to pass those costs on to its customers. As an example, HBB s products require a substantial amount of plastic. Because the primary resource used in plastic is petroleum, the cost and availability of plastic varies to a great extent with the price of petroleum. In recent years, the prices of petroleum, as well as steel, aluminum and copper have increased significantly. These price increases may materially reduce the Company s profitability.

**HBB is dependent on key customers and the loss of, or significant decline in business from, one or more of its key customers could materially reduce its revenues and profitability and its ability to sustain or grow its business.**

HBB relies on several key customers. Its five largest customers accounted for approximately 58%, 57% and 58% of net sales for the years ended December 31, 2007, 2006 and 2005, respectively. Wal-Mart accounted for approximately 37%, 37% and 39% of HBB s net sales in 2007, 2006 and 2005, respectively. Although HBB has long-established relationships with many customers, it does not have any long-term supply contracts with these customers, and purchases are generally made using individual purchase orders. A loss of any key customer could result in significant decreases in HBB s revenues and profitability and an inability to sustain or grow its business.

HBB must receive a continuous flow of new orders from its large, high-volume retail customers; however, it may be unable to continually meet the needs of those customers. In addition, failure to obtain anticipated orders or delays or cancellations of orders or significant pressure to reduce prices from key customers could impair its ability to sustain or grow its business.

As a result of dependence on its key customers, HBB could experience a material adverse effect on its revenues and profitability if any of the following were to occur:

the insolvency or bankruptcy of any key customer;

a declining market in which customers materially reduce orders or demand lower prices; or

a strike or work stoppage at a key customer facility, which could affect both its suppliers and customers.

If HBB were to lose, or experience a significant decline in business from, any major retail customer or if any major retail customers were to go bankrupt, HBB might be unable to find alternate distribution sources.

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**Housewares business is sensitive to the strength of the U.S. retail market and weakness in this market could adversely affect its business.**

The strength of the retail economy in the United States has a significant impact on Housewares performance. Weakness in consumer confidence and poor financial performance by mass merchandisers, warehouse clubs, department stores or any of Housewares other customers would result in lost revenues. A general slowdown in the retail sector would result in additional pricing and marketing support pressures on Housewares.

**The increasing concentration of HBB s small electric household appliance sales among a few retailers and the trend toward private label brands could materially reduce revenues and profitability.**

With the growing trend towards the concentration of HBB s small electric household appliance sales among a few retailers, HBB is increasingly dependent upon fewer customers whose bargaining strength is growing as a result of this concentration. HBB sells a substantial quantity of products to mass merchandisers, national department stores, variety store chains, drug store chains, specialty home retailers and other retail outlets. These retailers generally purchase a limited selection of small electric household appliances. As a result, HBB competes for retail shelf space with its competitors. In addition, certain of HBB s larger customers use their own private label brands on household appliances that compete directly with some of HBB s products. As the retailers in the small electric household appliance industry become more concentrated, competition for sales to these retailers may increase, which could materially reduce the Company s revenues and profitability.

**The small electric household and commercial appliance industry is consolidating, which could reduce HBB s ability to successfully secure product placements at key customers and limit its ability to sustain a cost competitive position in the industry.**

Over the past several years, the small electric household and commercial appliance industry has undergone substantial consolidation, and further consolidation is likely. As a result of this consolidation, the small electric household and commercial appliance industry primarily consists of a limited number of large distributors. To the extent that HBB does not continue to be a major participant in the small electric household and commercial appliance industry, its ability to compete effectively with these larger distributors could be negatively impacted. As a result, this condition could reduce HBB s ability to successfully secure product placements at key customers and limit the ability to sustain a cost competitive position in the industry.

**HBB s inability to compete effectively with competitors in its industry, including large established companies with greater resources, could result in lost market share and decreased revenues.**

The small electric household and commercial appliance industry does not have onerous entry barriers. As a result, HBB competes with many small manufacturers and distributors of housewares products. Additional competitors may also enter this market and cause competition to intensify. For example, some of HBB s customers have expressed interest in sourcing, or expanding the extent of sourcing, small electric household and commercial appliances directly from manufacturers in Asia. The Company believes that competition is based upon several factors, including product design and innovation, quality, price, product features, merchandising, promotion and warranty. If HBB fails to compete effectively with these manufacturers and distributors, it could lose market share and experience a decrease in revenues, which would adversely affect the Company s results of operations.

HBB also competes with established companies, a number of which have substantially greater facilities, personnel, financial and other resources. In addition, HBB competes with retail customers, who use their own private label brands, and importers and foreign manufacturers of unbranded products. Some competitors may be willing to reduce prices and accept lower profit margins to compete with HBB. As a result of this competition, HBB could lose market share and revenues.

**The market for Housewares products is highly seasonal and dependent on consumer spending, which could result in significant variations in the Company s revenues and profitability.**

Sales of Housewares products are related to consumer spending. Any downturn in the general economy or a shift in consumer spending away from small electric household appliances would adversely affect its business. In addition, the market for small electric household appliances is highly seasonal in nature. Housewares often recognizes a substantial portion of its sales in the last half of the year. Accordingly, quarter-to-quarter comparisons of past operating results of HBB are meaningful, if at all, only when comparing equivalent time periods. Any economic downturn, decrease in

consumer spending or a shift in consumer spending away from small electric household appliances could significantly reduce revenues and profitability.

**North American Coal**

**Termination of long-term mining sales contracts could materially reduce the Company s revenues and profitability.**

Substantially all of NACoal s revenues and profits are derived from long-term mining sales contracts. The contracts for NACoal s project mining subsidiaries permit the customer under some conditions of default to acquire the assets or stock of the project mining subsidiary for an amount roughly equal to book value. In one case, the customer may elect to acquire the stock of the subsidiary upon a specified period of prior notice, for any reason, in exchange for payments to NACoal on coal mined at that facility in the future. If any of NACoal s long-term mining contracts were terminated, revenues and

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profitability could be materially reduced to the extent that NACoal is unable to find alternative customers at the same level of profitability.

**NACoal s unconsolidated project mining subsidiaries are subject to risks created by changes in customer demand, inflationary adjustments and tax rates.**

The contracts with the unconsolidated 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. Unconsolidated project mining subsidiary customers pay on a cost-plus basis only for the coal that they consume and use. As a result, reduced coal usage by customers, including, but not limited to, unanticipated weather conditions and scheduled and unscheduled power plant outages, could have an adverse impact on the Company s results of operations. Because of the contractual price formulas for the sale of coal and mining services by these unconsolidated project mining subsidiaries, the profitability of these operations is also subject to fluctuations in inflationary adjustments (or lack thereof) that can impact the per ton profit or management fee paid for the coal and taxes applicable to NACoal s income on that coal.

**NACoal s other mining operations, including its consolidated mining operations, are subject to risks created by its capital investment in the mines, the costs of mining the coal and the dragline mining equipment, in addition to risks created by changes in customer demand, inflationary adjustments and tax rates.**

The consolidated mining operations are comprised of San Miguel, Red River, MLMC, dragline mining services, royalties from mineral leases to other mining companies and other activities. The profitability of these consolidated mining operations is subject to the risk of loss of its investment in these mining operations, as well as increases in the cost of mining the coal. Except at San Miguel, the costs of the consolidated mining operations are not passed on to its customers. As such, increased costs at these operations would materially reduce NACoal s profitability. NACoal s operations are also subject to customer demand, including but not limited to fluctuations in demand due to unanticipated weather conditions, the emergence of unidentified adverse mining conditions, power plant outages, inflationary adjustments and tax risks described above with respect to its unconsolidated project mining subsidiaries. These factors could materially reduce NACoal s profitability.

**Mining operations are vulnerable to weather and other conditions that are beyond NACoal s control.**

Many conditions beyond NACoal s control can decrease the delivery, and therefore the use, of lignite coal to NACoal s customers. These conditions include weather, the emergence of unidentified adverse mining conditions, unexpected maintenance problems and increased costs of replacement parts which could significantly reduce the Company s revenues and profitability.

**Government regulations could impose costly requirements on NACoal.**

The coal mining industry is subject to regulation by federal, state and local authorities on matters concerning the health and safety of employees, land use, permit and licensing requirements, air quality standards, water pollution, plant and wildlife protection, reclamation and restoration of mining properties after mining, the discharge of materials into the environment, surface subsidence from underground mining and the effects that mining has on groundwater quality and availability. Legislation mandating certain benefits for current and retired coal miners also affects the industry. Mining operations require numerous governmental permits and approvals. NACoal is required to prepare and present to federal, state or local authorities data pertaining to the impact that production of coal may have upon the environment. Compliance with these requirements may be costly and time-consuming.

New legislation and/or regulations and orders may materially adversely affect NACoal s mining operations or its cost structure. New legislation, including proposals related to environmental protection that would further regulate and tax the coal industry, may also require NACoal or its customers to change operations significantly or incur increased costs. Possible limitations on carbon emissions and requirements for a specific mix of fuel sources for energy generation methods may reduce potential coal demand. All of these factors could significantly reduce the Company s revenues and profitability.

**NACoal is subject to federal and state mining regulations, which place a burden on it.**

Federal and state statutes require NACoal to restore mine property in accordance with specified standards and an approved reclamation plan, and require that NACoal obtain and periodically renew permits for mining operations. Regulations require NACoal to incur the cost of reclaiming current mine disturbance. Although the Company believes that appropriate accruals have been recorded for all expected reclamation and other costs associated with closed

mines, future profitability would be adversely affected if accruals for these costs are later determined to be insufficient or if changed conditions, including adverse judicial proceedings or revised assumptions, require a change in these reserves.

**NACoal s operations are impacted by the Clean Air Act Amendments on coal consumption.**

The Clean Air Act and corresponding state laws that regulate emissions of materials into the air, affect coal mining operations both directly and indirectly. Measures intended to improve air quality extensively regulate the emissions of sulfur dioxide, nitrogen oxide and other substances by coal-fueled utility power plants, which are NACoal s primary customers. Those measures could make coal a less attractive fuel alternative in the planning and building of utility power plants in the future. Any reduction in coal s share of the capacity for power generation could significantly reduce the

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Company s revenues and profitability. NACoal cannot predict how present or future regulations will affect the coal industry in general and NACoal in particular. It is possible that the new air quality standards under the Clean Air Act and any other future regulatory provisions will materially increase the costs of doing business and reduce consumption of and demand for coal by NACoal s customers.

In May 2005, the EPA published the CAMR which regulates the emission of mercury from coal-fired power plants. CAMR is a two phase cap and trade regulation with phase one being implemented in 2010 and phase two in 2018. Affected electrical generating units will be able to meet these regulations by, among other things, switching to lower mercury fuels, installing mercury control devices or purchasing mercury emissions allowances. Mercury control devices are just beginning to be demonstrated on a commercial scale; therefore, their efficiency and cost of operation is uncertain at this time.

On February 8, 2008, the U.S. Court of Appeals for the D.C. Circuit struck down the CAMR, on the grounds that the EPA did not follow the appropriate process under the Clean Air Act to reverse the decision to list coal-fired power plants as a category of sources for regulation under the hazardous air pollutant provisions of the Clean Air Act. It is uncertain at this time if the EPA will appeal the decision.

If the Court s decision striking down the CAMR is upheld, it will result in more stringent regulation of mercury emissions from all coal-fired power plants. The extent of the affect on these plants will depend upon the type of control technology that the EPA requires and whether the EPA subcategorizes coal by rank. Lignite coal typically has a greater mercury content than higher rank coals; consequently, failure by the EPA to subcategorize coals by rank could have a disproportionately adverse affect on plants that burn lignite coal and the demand for lignite coal may decrease.

Mercury control devices are just beginning to be demonstrated on a commercial scale; therefore, their efficiency and cost of operation is uncertain at this time. The cost of controlling mercury emissions will be significant and emission allowances may become more expensive as their availability declines. Switching to other fuels may require expensive modifications to existing plants. The extent to which NACoal s electric utility customers switch to lower mercury coal or other low-mercury fuel could materially affect the Company if NACoal cannot offset the cost of mercury removal by lowering the costs of delivery of its coal on an energy equivalent basis. There can be no assurance that the Company will be able to offset these costs, which if incurred, could significantly reduce the Company s profitability.

The EPA promulgated the CAIR in May 2005. This rule requires reduction of nitrogen oxides and sulfur dioxides in 29 eastern states including Texas, Louisiana and Mississippi. CAIR requires more reductions in the emissions from power plants than the acid rain program, which is the current emission control regulation. Affected power plants will be required to install emission control devices, switch to lower emission fuels, or purchase emission allowances.

The EPA promulgated the CAVR in June 2005. This rule requires power plants not covered by CAIR to install Best Available Retrofit Technology equipment to control emissions that cause haze and reduce visibility. The emissions include sulfur dioxide, nitrogen oxides and fine particulate matter.

Legislation that could regulate other air pollutants, including carbon dioxide, has been proposed. While the details of all of these proposed initiatives vary, there appears to be a movement towards increased regulation of power plant air pollutants. If any of these initiatives were enacted into law, power plants could choose to shift away from coal as a fuel source to meet these requirements.

Because coal mining operations emit particulate matter, NACoal s mining operations may be affected directly when the states revise their implementation plans to comply with the stricter standards for particulate matter and ozone. State and federal regulations relating to the new standards may restrict NACoal s ability to develop new mines or could require it to modify its existing operations. The extent of the potential direct impact of the new standards on the coal industry will depend on the policies and control strategies associated with the state implementation process, but could increase NACoal s costs of doing business and significantly reduce the Company s profitability.

**NACoal is subject to the high costs and risks involved in the development of new coal and dragline mining projects.**

From time to time, NACoal seeks to develop new coal and dragline mining projects. The costs and risks associated with such projects can be substantial.

**General**

**The Company may become subject to claims under foreign laws and regulations, which may be expensive, time consuming and distracting.**

Because the Company has employees, property and business operations outside of the United States, the Company is subject to the laws and the court systems of many jurisdictions. The Company may become subject to claims outside the United States based in foreign jurisdictions for violations of their laws with respect to the foreign operations of NMHG and HBB. In addition, these laws may be changed or new laws may be enacted in the future. International litigation is often expensive, time consuming and distracting. As a result, any of these risks could significantly reduce the Company s profitability and its ability to operate its businesses effectively.

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**The Company is dependent on key personnel and the loss of these key personnel could significantly reduce its profitability.**

The Company is highly dependent on the skills, experience and services of its respective key personnel and the loss of key personnel could have a material adverse effect on its business, operating results and financial condition. Employment and retention of qualified personnel is important to the successful conduct of the Company s business. Therefore, the Company s success also depends upon its ability to recruit, hire, train and retain additional skilled and experienced management personnel. The Company s inability to hire and retain personnel with the requisite skills could impair its ability to manage and operate its business effectively and could significantly reduce its profitability.

**The amount and frequency of dividend payments made on NACCO s common stock could change.**

The Board of Directors has the power to determine the amount and frequency of the payment of dividends. Decisions regarding whether or not to pay dividends and the amount of any dividends are based on earnings, capital and future expense requirements, financial conditions, contractual limitations and other factors the Board of Directors may consider. Accordingly, holders of NACCO s common stock should not rely on past payments of dividends in a particular amount as an indication of the amount of dividends that will be paid in the future.

## Item 1B. UNRESOLVED STAFF COMMENTS

None.

## Item 2. PROPERTIES

### A. NACCO

NACCO currently leases its corporate headquarters office space in Mayfield Heights, Ohio, a suburb of Cleveland, Ohio.

### B. NMHG

#### 1. NMHG Wholesale

The following table presents the principal assembly, manufacturing, distribution and office facilities that NMHG owns or leases for use in the wholesale operations:

| Region | Facility Location | Owned/ Leased | Function(s) |
|---|---|---|---|
| **Americas** | Berea, Kentucky | Owned | Assembly of lift trucks and manufacture of component parts |
| | Danville, Illinois | Owned | Americas parts distribution center |
| | Greenville, North Carolina | Owned | Divisional headquarters and marketing and sales operations for Hyster® and Yale® in Americas; Americas warehouse development center; assembly of lift trucks and manufacture of component parts |
| | Portland, Oregon | Owned | Counterbalanced development center for design and testing of lift trucks, prototype equipment and component parts |
| | Portland, Oregon | Leased | Manufacture of production tooling and prototype units |
| | Portland, Oregon | Leased | Global headquarters |
| | Ramos Arizpe, Mexico | Owned | Manufacture of component parts for lift trucks |
| | Sao Paulo, Brazil | Owned | Assembly of lift trucks and marketing operations for Brazil |

| | | | |
|---|---|---|---|
| | Sulligent, Alabama | Owned | Manufacture of component parts for lift trucks |
| **Europe** | Craigavon, Northern Ireland | Owned | Manufacture of lift trucks; cylinder and transmission assembly; mast fabrication and assembly for Europe |
| | Fleet, England | Leased | Hyster® and Yale® marketing and sales operations in Europe |
| | Irvine, Scotland | Owned | Divisional headquarters; assembly of lift trucks, mast manufacturing and assembly |
| | Modena, Italy | Leased | Assembly of lift trucks |
| | Masate, Italy | Leased | Assembly of lift trucks; European warehouse development center |
| | Nijmegen, The Netherlands | Owned | Big trucks development center; manufacture and assembly of big trucks and component parts; European parts distribution center |

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| Region | Facility Location | Owned/ Leased | Function(s) |
|---|---|---|---|
| **Asia** | Shanghai, China | Owned (1) | Assembly of lift trucks by Shanghai Hyster joint venture |
| | Sydney, Australia | Leased | Divisional headquarters and sales and marketing for Asia-Pacific; Asia-Pacific parts distribution center |
| **India** | Pune, India | Leased | Engineering design services |

(1) This facility is owned by Shanghai Hyster Forklift Ltd., NMHG s Chinese joint venture company.

SN s operations are supported by five facilities. SN s headquarters are located in Obu, Japan at a facility owned by SN. The Obu facility also has assembly and distribution capabilities. In Cavite, the Philippines, SN owns a facility for the manufacture of frames for SN products. As a result of the acquisition of a retail operation, SN also has two dealerships in Japan.

**2. NMHG Retail**

As of January 31, 2008, NMHG Retail s four dealer operations were in 21 locations. Of these locations, four were in Europe and 17 were in Asia-Pacific, as shown below:

| Europe | Asia-Pacific |
|---|---|
| United Kingdom (4) | Australia (16) |
| | Singapore (1) |

Dealer locations generally include facilities for displaying equipment, storing rental equipment, servicing equipment, aftermarket parts storage and sales and administrative offices. NMHG leases all 21 locations. Some of the leases were entered into or assumed in connection with acquisitions and many of the lessors under these leases are former owners of businesses that NMHG acquired.

**C. NACCO Housewares Group**

The following table presents the principal distribution and office facilities owned or leased by HBB:

| Facility Location | Owned/ Leased | Function(s) |
|---|---|---|
| Glen Allen, Virginia | Leased | Corporate headquarters |
| Memphis, Tennessee | Leased | Distribution center |
| Mexico City, Mexico | (1) | Distribution center |
| Picton, Ontario, Canada | Leased | Distribution center |
| Southern Pines, North Carolina | Owned | Service center for customer returns; catalog distribution center; parts distribution center |
| Shenzhen, China | Leased | Representative office |
| Toronto, Ontario, Canada | Leased | |

| | | |
|---|---|---|
| | | Hamilton Beach Brands Canada sales and administration headquarters |
| Washington, North Carolina | Leased | Customer service center |

(1) This facility is managed by a third-party distribution provider.

Sales offices are also leased in several cities in the United States, Canada and Mexico.

KC currently leases its corporate headquarters building, a warehouse/distribution facility and a retail store in Chillicothe, Ohio. The LGC distribution center is managed by a third-party distribution provider. KC leases the remainder of its retail stores. A typical Kitchen Collection® store is approximately 3,000 square feet and a typical Le Gourmet Chef® store is approximately 4,400 square feet**.**

**D. NACoal**

NACoal currently leases its corporate headquarters office space in Dallas, Texas. NACoal s proven and probable coal reserves and deposits (owned in fee or held under leases, which generally remain in effect until exhaustion of the reserves if mining is in progress) are estimated at approximately 2.3 billion tons (including the unconsolidated project mining subsidiaries), all of which are lignite coal deposits, except for approximately 47.8 million tons of bituminous coal. Reserves are estimates of quantities of coal, made by NACoal s geological and engineering staff, which are considered mineable in the future using existing operating methods. Developed reserves are those which have been allocated to mines which are in operation; all other reserves are classified as undeveloped. Information concerning mine type, reserve data and coal quality characteristics for NACoal s properties are set forth on the table on page 10 under Item 1. Business C. North American Coal Sales, Marketing and Operations.

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**Item 3. LEGAL PROCEEDINGS**

Neither the Company nor any of its subsidiaries is a party to any material legal proceeding other than ordinary routine litigation incidental to its respective business.

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders of the Company.

**Item 4A. EXECUTIVE OFFICERS OF THE REGISTRANT**

The information under this Item is furnished pursuant to Instruction 3 to Item 401(b) of Regulation S-K.

There exists no arrangement or understanding between any executive officer and any other person pursuant to which such executive officer was elected. Each executive officer serves until his or her successor is elected and qualified.

The following tables set forth the name, age, current position and principal occupation and employment during the past five years of the Company s executive officers.

**EXECUTIVE OFFICERS OF THE COMPANY**

| Name | Age | Current Position | Other Positions |
|---|---|---|---|
| Alfred M. Rankin, Jr. | 66 | Chairman, President and Chief Executive Officer of NACCO (from prior to 2003) | |
| Charles A. Bittenbender | 58 | Vice President, General Counsel and Secretary of NACCO (from prior to 2003) | |
| J.C. Butler, Jr. | 47 | Vice President Corporate Development and Treasurer of NACCO (from prior to 2003) | |
| Mary D. Maloney | 45 | Assistant General Counsel (from October 2005) and Assistant Secretary of NACCO (from May 2007) | From prior to 2003 to October 2005, Partner, Jones Day (law firm). |
| Lauren E. Miller | 53 | Vice President Consulting Services of NACCO (from prior to 2003) | |
| Kenneth C. Schilling | 48 | Vice President and | |

| | | |
|---|---|---|
| | | Controller of NACCO (from prior to 2003) |
| Constantine E. Tsipis | 49 | Assistant General Counsel and Assistant Secretary of NACCO (from prior to 2003) |

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## PRINCIPAL OFFICERS OF THE COMPANY S SUBSIDIARIES

**A. NMHG**

| Name | Age | Current Position | Other Positions |
|---|---|---|---|
| Michael P. Brogan | 57 | President and Chief Executive Officer of NMHG (from June 2006) | From October 2005 to June 2006, Executive Vice President of NMHG. From April 2004 to October 2005, Senior Vice President, International Operations and Development of NMHG. From prior to 2003 to April 2004, Senior Vice President, Product Development and Procurement of NMHG. |
| Gregory J. Dawe | 59 | Vice President, Special Projects (from September 2007) | From January 2005 to September 2007, Vice President, Manufacturing Americas. From prior to 2003 to January 2005, Vice President Manufacturing and Quality Strategy. |
| James W. Donoghue | 49 | Vice President, Marketing and Distribution, Americas (from April 2006) | From prior to 2003 to March 2006, Vice President of Global Marketing and Business Development, Ingersoll-Rand Company (a diversified industrial company). |
| Daniel P. Gerrone | 58 | Controller of NMHG (from prior to 2003) | |
| Jeffrey C. Mattern | 55 | Treasurer of NMHG (from prior to 2003) | |
| Ralf A. Mock | 52 | Managing Director, Europe, Africa and Middle East (from February 2006) | From January 2005 to February 2006, Independent Business Consultant. From prior to 2003 to January 2005, President, Villeroy & Boch AG (an international industrial enterprise). |
| James M. Phillips | 59 | Vice President, Human Resources (from prior to 2003) | |
| Rajiv K. Prasad | 44 | Vice President, Global Product Development (from July 2007) | From November 2005 to June 2007, Vice President Global Product Development. From March 2004 to October 2005, Director, Engineering, International Truck and Engine Corporation (an industrial company). From prior to 2003 to March 2004, |

| | | | |
|---|---|---|---|
| | | | Director Product and Business Operations, Lear Corporation, Ford Europe Customer Division, UK (an industrial company). |
| Victoria L. Rickey | 55 | Vice President, Chief Marketing Officer of NMHG (from February 2006) | From October 2005 to February 2006, Vice President, Marketing of NMHG. From December 2004 to October 2005, Vice President, Marketing and Retail Operations, EAME of NMHG. From prior to 2003 to December 2004, Vice President, Chief Strategy Officer of NMHG. |
| Michael E. Rosberg | 58 | Vice President, Global Supply Chain (from November 2006) | From June 2005 to February 2006, Vice President of Supply Chain Management, Brunswick Boat Group (an industrial company). From prior to 2003 to June 2005, Vice President of International Procurement, Maytag Corporation (an international industrial enterprise). |
| Michael K. Smith | 63 | Vice President, Finance and Information Systems and Chief Financial Officer of NMHG (from prior to 2003) | |
| Colin Wilson | 53 | Vice President and Chief Operating Officer of NMHG (from October 2005) | From prior to 2003 to October 2005, Vice President of NMHG; President, Americas of NMHG. |

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**PRINCIPAL OFFICERS OF THE COMPANY S SUBSIDIARIES**

**B. NACCO HOUSEWARES GROUP**

**1. HBB**

| Name | Age | Current Position | Other Positions |
|---|---|---|---|
| Michael J. Morecroft | 65 | President and Chief Executive Officer of HBB (from prior to 2003) | |
| Keith B. Burns | 51 | Vice President Engineering and Product Development of HBB (from May 2007) | From prior to 2003 to May 2007, Vice President Engineering and New Product Development |
| Kathleen L. Diller | 56 | Vice President, General Counsel and Secretary of HBB (from May 2007) | From June 2006 to May 2007, Vice President, General Counsel and Human Resources, and Secretary of HBB. From February 2005 to June 2006, Vice President, General Counsel and Human Resources of HBB. From prior to 2003 to February 2005, Vice President, General Counsel and Secretary of HBB. |
| Gregory E. Salyers | 47 | Vice President, Operations of HBB (from May 2007) | From February 2005 to May 2007, Vice President Operations and Information Systems of HBB. From June 2003 to February 2005, Vice President Operations of HBB. From prior to 2003 to June 2003, Vice President, Customer Operations of HBB. |
| Paul C. Smith | 61 | Senior Vice President, Sales of HBB (from prior to 2003) | |
| James H. Taylor | 50 | Vice President, Chief Financial Officer and Treasurer of HBB (from January 2007) | From February 2005 to January 2007, Vice President Finance and Treasurer of HBB. From prior to 2003 to February 2005, Vice President Treasurer of HBB. |
| Gregory H. Trepp | 46 | Vice President, Marketing of HBB (from prior to 2003) | |

**2. KC**

| Name | Age | Current Position | Other Positions |
|---|---|---|---|
| Randolph J. Gawelek | 60 | President and Chief Executive Officer of KC (from prior to 2003) | |

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**PRINCIPAL OFFICERS OF THE COMPANY S SUBSIDIARIES**

**C. NACOAL**

| Name | Age | Current Position | Other Positions |
|---|---|---|---|
| Robert L. Benson | 60 | President and Chief Executive Officer of NACoal (from March 2006) | From September 2005 to March 2006, Executive Vice President and Chief Operating Officer of NACoal. From prior to 2003 to September 2005, Vice President Eastern and Southern Operations of NACoal; General Manager of MLMC. |
| Bob D. Carlton | 50 | Vice President Financial Services (from March 2005) | From prior to 2003 to June 2006, Controller of NACoal. From prior to 2003 to March 2005, Director of Tax of NACoal. |
| Douglas L. Darby | 56 | Vice President Engineering and Eastern Operations of NACoal (from June 2006) | From prior to 2003 to June 2006, President of Sabine. |
| Michael J. Gregory | 60 | Vice President Southern Operations and Human Resources of NACoal (from June 2006) | From March 2003 to June 2006, General Manager of San Miguel. From prior to 2003 to March 2003, Manager of Sales and Marketing of NACoal. |
| K. Donald Grischow | 60 | Treasurer of NACoal (from prior to 2003) | |
| Thomas A. Koza | 61 | Vice President Law and Administration, and Secretary of NACoal (from prior to 2003) | |
| Dan W. Swetich | 62 | Vice President Northern Operations of NACoal (from June 2006) and President of Falkirk (from prior to 2003). | |

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## PART II

### Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

NACCO s Class A common stock is traded on the New York Stock Exchange under the ticker symbol NC. Because of transfer restrictions, no trading market has developed, or is expected to develop, for the Company s Class B common stock. The Class B common stock is convertible into Class A common stock on a one-for-one basis. The high and low market prices for the Class A common stock and dividends per share for both classes of common stock for each quarter during the past two years are presented in the table below:

| | **2007** | | |
|---|---|---|---|
| | **Sales Price** | | **Cash** |
| | **High** | **Low** | **Dividend** |
| **First quarter** | **$149.70** | **$126.90** | **48.00¢** |
| **Second quarter** | **$174.49** | **$137.42** | **50.00¢** |
| **Third quarter** | **$162.33** | **$ 95.68** | **50.00¢** |
| **Fourth quarter** | **$111.89** | **$ 88.04** | **50.00¢** |

| | 2006 | | |
|---|---|---|---|
| | Sales Price | | Cash |
| | High | Low | Dividend |
| First quarter | $156.80 | $116.75 | 46.50¢ |
| Second quarter | $172.45 | $127.25 | 48.00¢ |
| Third quarter | $142.99 | $119.05 | 48.00¢ |
| Fourth quarter | $153.85 | $133.05 | 48.00¢ |

At December 31, 2007, there were approximately 325 Class A common stockholders of record and approximately 300 Class B common stockholders of record. See Note 20 to the Consolidated Financial Statements contained elsewhere in this Form 10-K for a discussion of the amount of NACCO s investment in subsidiaries that was restricted at December 31, 2007.

**Sales of Unregistered Company Stock**

Pursuant to the Non-Employee Directors Equity Compensation Plan, the Company issued an aggregate of 1,899 shares of its Class A common stock on January 1, 2007, April 1, 2007, July 1, 2007 and October 1, 2007 for payment of a portion of the directors annual retainer fee. In addition, pursuant to the terms of such plan, directors may elect to receive shares of Class A common stock in lieu of cash for up to 100% of the balance of their annual retainer, meeting attendance fees and any committee chairman s fees. An aggregate of 560 shares of Class A common stock were issued under voluntary elections on January 1, 2007, April 1, 2007, July 1, 2007 and October 1, 2007.

The issuance of these unregistered shares qualifies as an exempt transaction pursuant to Section 4(2) of the Securities Act of 1933.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

**Issuer Purchases of Equity Securities**

| | **(a) Total Number** | **(b)** | **(c) Total Number of Shares Purchased as** | **(d) Maximum Number of Shares (or Approximate Dollar Value) that May Yet Be** |
|---|---|---|---|---|

| Period | of Shares Purchased | Average Price Paid per Share | Part of the Publicly Announced Program | Purchased Under the Program (1) |
|---|---|---|---|---|
| Month #1 (October 1 to 31, 2007) | 0 | 0 | 0 | 0 |
| Month #2 (November 1 to 30, 2007) | 0 | 0 | 0 | $ 100,000,000 |
| Month #3 (December 1 to 31, 2007) | 0 | 0 | 0 | $ 100,000,000 |
| Total | 0 | 0 | 0 | $ 100,000,000 |

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(1) On November 15, 2007, the Company announced that its Board of Directors had authorized a stock repurchase program (the Program ). Under the terms of the Program, the Company may repurchase up to a total of $100.0 million of shares of the Company s Class A Common Stock. The Company may repurchase shares on the open market or in privately negotiated transactions, including block trades. The Program has no expiration date. During the fourth quarter of 2007, the Company did not make any purchases under the terms of the Program.

**Item 6. SELECTED FINANCIAL DATA**

| | Year Ended December 31 | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| | (In millions, except per share data) | | | | |
| **Operating Statement Data:** | | | | | |
| Revenues | **$ 3,602.7** | $ 3,349.0 | $ 3,157.4 | $ 2,782.6 | $ 2,472.6 |
| Operating profit | **$ 137.4** | $ 172.6 | $ 108.0 | $ 88.0 | $ 117.2 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Income before extraordinary gain and cumulative effect of accounting changes | **$ 89.3** | $ 93.4 | $ 57.8 | $ 47.4 | $ 49.8 |
| Extraordinary gain, net-of-tax[1] | | 12.8 | 4.7 | 0.5 | 1.8 |
| Cumulative effect of accounting changes, net-of-tax[2] | | | | | 1.2 |
| Net income | **$ 89.3** | $ 106.2 | $ 62.5 | $ 47.9 | $ 52.8 |
| Basic earnings per share: | | | | | |
| Income before extraordinary gain and cumulative effect of accounting changes | **$ 10.81** | $ 11.34 | $ 7.03 | $ 5.77 | $ 6.07 |
| Extraordinary gain, net-of-tax[1] | | 1.56 | 0.57 | 0.06 | 0.22 |
| Cumulative effect of accounting changes, net-of-tax[2] | | | | | 0.15 |
| Net income per basic share | **$ 10.81** | $ 12.90 | $ 7.60 | $ 5.83 | $ 6.44 |
| Diluted earnings per share: | | | | | |
| Income before extraordinary gain and cumulative effect of accounting changes | **$ 10.80** | $ 11.33 | $ 7.03 | $ 5.77 | $ 6.07 |
| Extraordinary gain, net-of-tax[1] | | 1.56 | 0.57 | 0.06 | 0.22 |
| Cumulative effect of accounting changes, net-of-tax[2] | | | | | 0.15 |
| Net income per diluted share | **$ 10.80** | $ 12.89 | $ 7.60 | $ 5.83 | $ 6.44 |

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| | Year Ended December 31 | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| | (In millions, except per share and employee data) | | | | |
| **Balance Sheet Data at December 31:** | | | | | |
| Total assets | **$ 2,428.2** | $ 2,156.3 | $ 2,094.0 | $ 2,038.6 | $ 1,839.8 |
| Long-term debt | **$ 439.5** | $ 359.9 | $ 406.2 | $ 407.4 | $ 363.2 |
| Stockholders equity | **$ 892.1** | $ 793.1 | $ 703.3 | $ 688.0 | $ 637.0 |
| **Cash Flow Data:** | | | | | |
| Provided by operating activities | **$ 81.6** | $ 173.5 | $ 75.2 | $ 126.2 | $ 123.6 |
| Used for investing activities | **$ (59.9)** | $ (35.3) | $ (56.3) | $ (40.3) | $ (43.1) |
| Provided by (used for) financing activities | **$ 64.4** | $ (105.8) | $ (1.8) | $ (4.1) | $ (71.9) |
| **Other Data:** | | | | | |
| Per share data: | | | | | |
| Cash dividends | **$ 1.980** | $ 1.905 | $ 1.848 | $ 1.675 | $ 1.260 |
| Market value at December 31 | **$ 99.69** | $ 136.60 | $ 117.15 | $ 105.40 | $ 89.48 |
| Stockholders equity at December 31 | **$ 107.88** | $ 96.27 | $ 85.50 | $ 83.76 | $ 77.63 |
| Actual shares outstanding at December 31 | **8.269** | 8.238 | 8.226 | 8.214 | 8.206 |
| Basic weighted average shares outstanding | **8.263** | 8.234 | 8.223 | 8.212 | 8.204 |
| Diluted weighted average shares outstanding | **8.272** | 8.242 | 8.226 | 8.214 | 8.205 |
| Total employees at December 31[3] | **10,600** | 11,300 | 11,100 | 11,600 | 11,600 |

(1) An extraordinary gain was recognized in 2006, 2005, 2004 and 2003 as a result of a reduction to Bellaire s estimated closed mine obligations relating to amounts owed to the Fund arising as a result of the Coal Act. See further discussion in the NACCO and

Other section of Management s Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-K.

(2) A cumulative effect of a change in accounting was recognized in 2003 as a result of the adoption of SFAS No. 143, Accounting for Asset Retirement Obligations.

(3) Includes employees of the unconsolidated project mining subsidiaries.

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**Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**NACCO INDUSTRIES, INC. AND SUBSIDIARIES**

*(Tabular Amounts in Millions, Except Per Share and Percentage Data)*

**OVERVIEW**

NACCO Industries, Inc. (the parent company or NACCO ), and its wholly owned subsidiaries (collectively, the Company ) operate in three principal industries: lift trucks, housewares