NACCO INDUSTRIES INC
Form 10-Q
May 02, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q
(Mark One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended March 31, 2012
OR	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to

Commission file number 1-9172

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

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

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

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

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

YES þ NO o

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

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

YES þ NO 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.

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

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

YES o NO þ

Number of shares of Class A Common Stock outstanding at April 27, 2012: 6,797,404
Number of shares of Class B Common Stock outstanding at April 27, 2012: 1,590,571

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Part I
FINANCIAL INFORMATION
Item 1. Financial Statements

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

	MARCH 31 2012	DECEMBER 31 2011
	(In millions, except share data)	
ASSETS		
Current Assets		
Cash and cash equivalents	$314.9	$338.6
Accounts receivable, net	445.4	464.5
Inventories, net	477.9	470.3
Deferred income taxes	28.8	30.7
Prepaid expenses and other	64.4	39.6
Assets held for sale	10.0	31.4
Total Current Assets	1,341.4	1,375.1
Property, Plant and Equipment, Net	253.3	254.3
Coal Supply Agreement, Net	57.3	57.9
Long-term Deferred Income Taxes	3.7	3.5
Other Non-current Assets	94.1	110.6
Total Assets	$1,749.8	$1,801.4
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$412.0	$412.5
Revolving credit agreements - not guaranteed by the parent company	45.0	67.0
Current maturities of long-term debt - not guaranteed by the parent company	229.9	178.1
Accrued payroll	32.0	61.7
Deferred revenue	11.7	11.2
Other current liabilities	139.9	160.7
Total Current Liabilities	870.5	891.2
Long-term Debt - not guaranteed by the parent company	63.5	129.1
Pension and other Postretirement Obligations	75.7	81.0
Long-term Deferred Income Taxes	17.1	12.7
Other Long-term Liabilities	112.3	110.4
Total Liabilities	1,139.1	1,224.4
Stockholders' Equity		
Common stock:		
Class A, par value $1 per share, 6,795,404 shares outstanding (2011 - 6,778,346 shares outstanding)	6.8	6.8
Class B, par value $1 per share, convertible into Class A on a one-for-one basis, 1,592,571 shares outstanding (2011 - 1,595,581 shares outstanding)	1.6	1.6
Capital in excess of par value	23.2	22.7
Retained earnings	640.4	619.7
Accumulated other comprehensive loss	(62.1)	(74.6)
Total Stockholders' Equity	609.9	576.2
Noncontrolling Interest	0.8	0.8
Total Equity	610.7	577.0

Total Liabilities and Equity	$1,749.8	$1,801.4

See notes to unaudited condensed consolidated financial statements.

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NACCO INDUSTRIES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	THREE MONTHS ENDED MARCH 31	
	2012	2011
	(In millions, except per share data)	
Revenues	$803.2	$745.5
Cost of sales	658.6	608.9
Gross Profit	144.6	136.6
Earnings of unconsolidated mines	12.0	12.1
Selling, general and administrative expenses	118.8	113.4
Operating Profit	37.8	35.3
Other (income) expense		
Interest expense	5.5	6.2
Applica settlement and litigation costs	—	(57.2)
Other	(1.4)	(0.7)
	4.1	(51.7)
Income Before Income Taxes	33.7	87.0
Income tax provision	8.5	24.2
Net Income	25.2	62.8
Net Income Attributable to Stockholders	$25.2	$62.8
Comprehensive Income	$37.7	$72.1
Basic Earnings per Share	$3.01	$7.51
Diluted Earnings per Share	$3.00	$7.48
Dividends per Share	$0.5325	$0.5225
Basic Weighted Average Shares Outstanding	8.379	8.363
Diluted Weighted Average Shares Outstanding	8.394	8.399

See notes to unaudited condensed consolidated financial statements.

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

	THREE MONTHS ENDED MARCH 31	
	2012	2011
	(In millions)	
Operating Activities		
Net income	$25.2	$62.8
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation, depletion and amortization	10.3	11.5
Amortization of deferred financing fees	0.6	0.7
Deferred income taxes	3.4	12.2
Other non-current liabilities	(3.0)	(4.5)
Other	5.4	3.2
Working capital changes:		
Accounts receivable	27.9	(25.6)
Inventories	(2.0)	(30.4)
Other current assets	(13.3)	(11.8)
Accounts payable	(5.2)	(1.4)
Other current liabilities	(46.8)	(25.5)
Net cash provided by (used for) operating activities	2.5	(8.8)
Investing Activities		
Expenditures for property, plant and equipment	(5.5)	(6.2)
Proceeds from the sale of assets	20.6	—
Other	—	0.4
Net cash provided by (used for) investing activities	15.1	(5.8)
Financing Activities		
Additions to long-term debt	4.7	3.3
Reductions of long-term debt	(20.3)	(7.2)
Net additions (reductions) to revolving credit agreements	(22.0)	7.4
Cash dividends paid	(4.5)	(4.4)
Purchase of treasury shares	(0.6)	—
Financing fees paid	(1.7)	—
Other	0.1	(0.1)
Net cash used for financing activities	(44.3)	(1.0)
Effect of exchange rate changes on cash	3.0	3.5
Cash and Cash Equivalents		
Decrease for the period	(23.7)	(12.1)
Balance at the beginning of the period	338.6	261.9
Balance at the end of the period	$314.9	$249.8

See notes to unaudited condensed consolidated financial statements.

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

	THREE MONTHS ENDED MARCH 31	
	2012	2011
	(In millions, except per share data)	
Stockholders' Equity:		
Class A Common Stock	$6.8	$6.8
Class B Common Stock	1.6	1.6
Capital in Excess of Par Value		
Beginning balance	22.7	22.6
Stock-based compensation	0.9	0.7
Shares issued under stock compensation plans	0.2	0.1
Purchase of treasury shares	(0.6)	—
	23.2	23.4
Retained Earnings		
Beginning balance	619.7	475.4
Net income attributable to stockholders	25.2	62.8
Cash dividends on Class A and Class B common stock:		
2012 $0.5325 per share	(4.5)	—
2011 $0.5225 per share	—	(4.4)
	640.4	533.8
Accumulated Other Comprehensive Income (Loss)		
Foreign currency translation adjustment		
Beginning balance	13.2	28.1
Current period other comprehensive income	10.9	10.2
	24.1	38.3
Deferred gain (loss) on cash flow hedging		
Beginning balance	2.6	(9.0)
Current period other comprehensive loss	(0.6)	(4.7)
Reclassification adjustment to net income	0.2	1.9
	2.2	(11.8)
Pension and postretirement plan adjustment		
Beginning balance	(90.4)	(78.1)
Reclassification adjustment to net income	2.0	1.9
	(88.4)	(76.2)
	(62.1)	(49.7)
Total Stockholders' Equity	609.9	515.9
Noncontrolling Interest	0.8	0.8
Total Equity	$610.7	$516.7

See notes to unaudited condensed consolidated financial statements.

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NACCO INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012
(Tabular Amounts in Millions, Except Per Share and Percentage Data)

Note 1 - Basis of Presentation

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

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

These financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position of the Company as of March 31, 2012 and the results of its operations, cash flows and changes in equity for the three months ended March 31, 2012 and 2011 have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

The balance sheet at December 31, 2011 has been derived from the audited financial statements at that date but does not include all of the information or notes required by U.S. generally accepted accounting principles for complete financial statements.

Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2012. Because the HBB and KC businesses are seasonal, a majority of revenues and operating profit typically occurs in the second half of the calendar year when sales of small electric household appliances to retailers and consumers increase significantly for the fall holiday-selling season. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Note 2 - Recently Issued Accounting Standards

Accounting Standards Adopted in 2012:

On January 1, 2012, the Company adopted authoritative guidance issued by the Financial Accounting Standard Board ("FASB") on fair value measurement. The guidance resulted in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. generally accepted accounting principles and International Financial Reporting Standards. The adoption of the guidance did not have a material effect on the Company's financial position, results of operations, cash flows or related disclosures.

On January 1, 2012, the Company adopted authoritative guidance issued by the FASB on the presentation of comprehensive income. The guidance provides an entity with the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive

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income and a total amount for comprehensive income. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in equity. The adoption of the guidance did not have a material effect on the Company's financial position, results of operations, cash flows or related disclosures.

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

Note 3 - Restructuring and Related Programs

During 2009, NMHG's management approved a plan to close its facility in Modena, Italy and consolidate its activities into NMHG's facility in Masate, Italy. These actions were taken to further reduce NMHG's manufacturing capacity to more appropriate levels. As a result, NMHG recognized a charge of approximately $5.6 million during 2009. Of this amount, $5.3 million related to severance and $0.3 million related to lease impairment. During 2010, $1.9 million of the accrual was reversed as a result of a reduction in the expected amount to be paid to former employees due to the finalization of an agreement with the Italian government. Severance payments of $0.1 million were made during the first three months of 2012. Payments related to this restructuring program are expected to continue through 2012. No further charges related to this plan are expected.

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

Following is the activity related to the liability for the NMHG programs. Amounts for severance expected to be paid within one year are included on the line “Accrued payroll” in the Unaudited Condensed Consolidated Balance Sheets.

	Severance
Balance at January 1, 2012	$1.4
Payments	(0.1)
Balance at March 31, 2012	$1.3

Note 4 - Inventories

Inventories are summarized as follows:

	MARCH 31 2012	DECEMBER 31 2011
Manufactured inventories:		
Finished goods and service parts - NMHG	$167.6	$160.3
Raw materials and work in process - NMHG	201.7	198.8
Total manufactured inventories	369.3	359.1
Sourced inventories - HBB	75.1	75.6
Retail inventories - KC	59.8	61.5
Total inventories at FIFO	504.2	496.2
Coal - NACoal	14.0	13.1
Mining supplies - NACoal	11.9	11.1
Total inventories at weighted average	25.9	24.2
NMHG LIFO reserve	(52.2)	(50.1)
	$477.9	$470.3

The cost of certain manufactured inventories at NMHG, including service parts, has been determined using the last-in-first-out ("LIFO") method. At March 31, 2012 and December 31, 2011, 33% and 35%, respectively, of total inventories were determined using the LIFO method. An actual valuation of inventory under the LIFO method can be made only at the end of the year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must be based on management's estimates of expected year-end inventory levels and costs. Because these estimates are subject to change and may be different than the actual inventory levels and costs at the end of the year, interim results are subject to the final year-end LIFO inventory valuation.

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Note 5 - Current and Long-Term Financing

On March 8, 2012, NMHG entered into an amended and restated credit agreement for a $200.0 million secured, floating-rate revolving credit facility (the "NMHG Facility”). The NMHG Facility expires in March 2017. There were no borrowings outstanding under the NMHG Facility at March 31, 2012. At March 31, 2012, the excess availability under the NMHG Facility was $192.9 million, which reflects reductions of $7.1 million for letters of credit. The obligations under the NMHG Facility are secured by a first lien on the cash and cash equivalents, accounts receivable and inventory of NMHG. The approximate book value of NMHG's assets held as collateral under the NMHG Facility was $700 million as of March 31, 2012.

The maximum availability under the NMHG Facility is governed by a borrowing base derived from advance rates against the inventory and accounts receivable of the borrowers, as defined in the NMHG Facility. Adjustments to reserves booked against these assets, including inventory reserves, will change the eligible borrowing base and thereby impact the liquidity provided by the NMHG Facility. A portion of the availability can be denominated in British pounds or euros. Borrowings bear interest at a floating rate which can be a base rate or LIBOR, as defined in the NMHG Facility, plus an applicable margin. The applicable margins, effective March 31, 2012, for domestic base rate loans and LIBOR loans were 0.75% and 1.75%, respectively. The domestic and foreign floating rates of interest applicable to the NMHG Facility on March 31, 2012 were 4.00% and a range of 2.25% to 3.00%, respectively, including the applicable floating rate margin. The applicable margin, effective March 31, 2012, for foreign overdraft loans was 2.00%. The NMHG Facility also requires the payment of a fee of 0.375% to 0.50% per annum on the unused commitment based on the average daily outstanding balance during the preceding month. At March 31, 2012, the fee was 0.50%.

The NMHG Facility includes restrictive covenants, which, among other things, limit the payment of dividends to NACCO. Prior to the repayment of the NMHG term loan agreement and subject to achieving availability thresholds and a maximum leverage ratio, annual dividends to NACCO are limited to the larger of $5.0 million or 50% of the preceding year's net income for NMHG. After the repayment of the NMHG term loan agreement, annual dividends to NACCO are subject to maintaining a certain level of availability prior to and upon payment of a dividend and achieving a minimum fixed charge coverage ratio, as defined in the NMHG Facility. The NMHG Facility also requires NMHG to achieve a minimum fixed charge coverage ratio in certain circumstances, as defined in the NMHG Facility. At March 31, 2012, NMHG was in compliance with the covenants in the NMHG Facility.

NMHG incurred fees and expenses of $1.7 million in the first quarter of 2012 related to the amended and restated NMHG Facility. These fees were deferred and are being amortized as interest expense over the term of the NMHG Facility.

Note 6 - Financial Instruments and Derivative Financial Instruments

Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturities of these instruments. The fair values of revolving credit agreements and long-term debt, excluding capital leases, were determined using current rates offered for similar obligations taking into account subsidiary credit risk, which is Level 2 as defined in the fair value hierarchy. At March 31, 2012, the fair value of revolving credit agreements and long-term debt, excluding capital leases, was $332.8 million compared with the book value of $333.1 million. At December 31, 2011, the fair value of revolving credit agreements and long-term debt, excluding capital leases, was $369.4 million compared with the book value of $370.7 million.

Derivative Financial Instruments

The Company uses forward foreign currency exchange contracts to partially reduce risks related to transactions denominated in foreign currencies. The Company offsets fair value amounts related to foreign currency exchange contracts executed with the same counterparty. These contracts hedge firm commitments and forecasted transactions relating to cash flows associated with sales and purchases denominated in currencies other than the subsidiaries' functional currencies. Changes in the fair value of forward foreign currency exchange contracts that are effective as hedges are recorded in accumulated other comprehensive income (loss) (“OCI”). Deferred gains or losses are reclassified from OCI to the Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) in the same period as the gains or losses from the underlying transactions are recorded and are generally recognized in cost of sales. The ineffective portion of derivatives that are classified as hedges is immediately recognized in earnings and generally recognized in cost of sales.

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

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

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

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

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

Foreign Currency Derivatives: NMHG and HBB held forward foreign currency exchange contracts with total notional amounts of $357.3 million and $19.5 million, respectively, at March 31, 2012, primarily denominated in euros, U.S. dollars, British pounds, Japanese yen, Canadian dollars, Swedish kroner, Mexican pesos and Australian dollars. NMHG and HBB held forward foreign currency exchange contracts with total notional amounts of $395.6 million and $15.6 million, respectively, at December 31, 2011, primarily denominated in euros, U.S. dollars, British pounds, Japanese yen, Canadian dollars, Swedish kroner, Australian dollars and Mexican pesos. The fair value of these contracts approximated a net asset of $4.4 million and $5.2 million at March 31, 2012 and December 31, 2011, respectively.

Forward foreign currency exchange contracts that qualify for hedge accounting are used to hedge transactions expected to occur within the next twelve months. The mark-to-market effect of forward foreign currency exchange contracts that are considered effective as hedges has been included in OCI. Based on market valuations at March 31, 2012, $4.7 million of the amount included in OCI is expected to be reclassified as income into the Consolidated Statement of Comprehensive Income (Loss) over the next twelve months, as the transactions occur.

Interest Rate Derivatives: NMHG and HBB have interest rate swap agreements that hedge interest payments on their term loan agreements. The following table summarizes the notional amounts, related rates and remaining terms of active interest rate swap agreements at March 31, 2012 and December 31, 2011:

Notional Amount	Average Fixed Rate

	MARCH 31 2012	DECEMBER 31 2011	MARCH 31 2012		DECEMBER 31 2011		Remaining Term at March 31, 2012
NMHG	$204.5	$ 204.5	4.5	%	4.5	%	Various, extending to February 2013
HBB	$40.0	$ 40.0	4.6	%	4.6	%	Various, extending to June 2012

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In addition to the interest rate swap agreements reflected in the table, at March 31, 2012, HBB holds certain contracts that begin on various dates starting in June 2012 and extend to various dates through June 2013. These contracts increase the notional amount to $65.0 million at March 31, 2012, but the amount outstanding at any one time will not exceed the balance of the HBB term loan agreement. The fair value of all interest rate swap agreements was a net liability of $5.8 million and $7.3 million at March 31, 2012 and December 31, 2011, respectively. The mark-to-market effect of interest rate swap agreements that are considered effective as hedges has been included in OCI. Based on market valuations at March 31, 2012, $2.4 million of the amount included in OCI is expected to be reclassified as expense into the Consolidated Statement of Comprehensive Income (Loss) over the next twelve months, as cash flow payments are made in accordance with the interest rate swap agreements. The interest rate swap agreements held by NMHG and HBB on March 31, 2012 are expected to continue to be effective as hedges.

The following table summarizes the fair value of derivative instruments reflected on a gross basis at March 31, 2012 and December 31, 2011 as recorded in the Unaudited Condensed Consolidated Balance Sheets: