

NMHG HOLDING CO
Form 10-K
March 15, 2004

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SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2003

Commission File No 333-89248

NMHG HOLDING CO.

(Exact name of registrant as specified in its charter)

Delaware
**(State or other jurisdiction of
incorporation or organization)**

31-1637659
**(I.R.S. Employer
Identification No.)**

650 NE Holladay Street, Suite 1600
Portland, Oregon
(Address of principal executive offices)

97232
(Zip Code)

Registrant's telephone number, including area code: (503) 721-6000

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

Title of Each Class	Name of Each Exchange on Which Registered
None	None

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

None

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 X

NO

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

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YES

NO

Aggregate market value of the outstanding common equity held by nonaffiliates of the registrant as of June 30, 2003 (the last business day of the registrant's most recently completed second fiscal quarter):

None

As of February 29, 2004, the registrant had 100 shares of common stock outstanding, all of which was held by an affiliate of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

None

The registrant meets the conditions set forth in General Instruction I 1(a) and (b) of Form 10-K and is therefore filing this Form 10-K with the reduced disclosure format.

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PART I

Item 1. BUSINESS.

General

NMHG Holding Co. (NMHG) is a wholly owned subsidiary of NACCO Industries, Inc. (NACCO). NMHG and its wholly owned subsidiary, NACCO Materials Handling Group, Inc. design, engineer, manufacture, sell, service and lease a comprehensive line of lift trucks and aftermarket parts marketed globally under the Hyster® and Yale® brand names.

NMHG was incorporated in Delaware in 1999 to serve as a holding company for Hyster-Yale Materials Handling, Inc., which was incorporated in Delaware in 1991 as part of a holding company reorganization.

NMHG operates in two reportable segments: NMHG Wholesale and NMHG Retail.

NMHG Wholesale

NMHG Wholesale designs, engineers, manufactures and sells a comprehensive line of lift trucks and aftermarket parts on a global basis 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 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. NMHG Wholesale operates 14 manufacturing and assembly facilities worldwide with six plants in the Americas, five in Europe and three in Asia-Pacific, including joint venture operations.

Sales of lift trucks represented approximately 83% of NMHG Wholesale's annual revenues in 2003 and 81% in each of 2002 and 2001.

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, direct advertising, 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 organization.

Dealers

Independent Dealers

The majority of NMHG Wholesale's dealers are independently owned and operated. In the Americas, NMHG Wholesale had 61 independent Hyster dealers and 75 independent Yale dealers as of December 31, 2003. In Europe, including the Middle East and Africa, Hyster had 75 independent dealers with locations in 94 countries and Yale had 90 independent dealers with locations in 38 countries as of December 31, 2003. Hyster had 15

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independent dealers in Asia-Pacific as of December 31, 2003. Yale was represented by 11 independent dealers in Asia-Pacific as of December 31, 2003.

Owned Dealers

From time to time, NMHG has acquired, on an interim basis, certain independent Hyster, Yale and competitor dealers and rental companies to strengthen or protect Hyster's and Yale's presence in select territories. See section following entitled "NMHG Retail" for a description of NMHG's owned dealers.

National Accounts

NMHG Wholesale operates a National Accounts organization for both Hyster and Yale focused on large customers with centralized purchasing and geographically dispersed operations in multiple dealer territories. The National Accounts organization accounted for 17% of new lift truck unit volume in 2003. The dealer network described above supports the National Accounts organization 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 organization markets services including full maintenance leases and total fleet management.

Customers

NMHG Wholesale's customer base is diverse and fragmented, including, among others, food distributors, trucking and automotive companies, lumber, metal products, rental, paper and building materials suppliers, warehouses, light and heavy manufacturers, retailers and container handling companies. No single customer comprised 10% or more of the Company's revenues from unaffiliated customers.

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 to obtain the required aftermarket parts to service lift trucks and an aftermarket parts ordering system. Aftermarket parts sales represented approximately 17% of NMHG Wholesale's annual revenues in 2003 and 19% in each of 2002 and 2001.

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 competitor 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. The Company has an agreement with GECC to extend this agreement into 2008. NMHG accounts for its ownership of NFS using the equity method of accounting.

In addition, NMHG Wholesale has also 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 reached. This agreement expires in 2004. NMHG and GECC are negotiating for the renewal of this agreement which is expected to be completed prior to expiration of the agreement in 2004.

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

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or the financing of lift trucks that are sold or leased to customers. For some of these arrangements, NMHG provides residual value guarantees or standby recourse 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.

Backlog

As of December 31, 2003, NMHG Wholesale's backlog of new lift trucks was approximately 19,100 units, or \$369 million, of which substantially all is expected to be filled during fiscal 2004. This compares to the backlog as of December 31, 2002 of approximately 18,800 units, or \$340 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 United States government.

Key Suppliers

In 2003, no single supplier accounted for more than 5% of NMHG Wholesale's purchases. NMHG Wholesale believes there are competitive alternatives to all suppliers.

Competition

Competition in the lift truck industry is based primarily on strength and quality of dealers, brand loyalty, customer service, 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's management believes that it is competitive in all of these areas.

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

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

Patents, Trademarks and Licenses

NMHG Wholesale is not materially dependent upon patents or patent protection. NMHG Wholesale 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.

NMHG Retail

General

From time to time, NMHG, through NMHG Retail, has acquired, on an interim basis, certain independent Hyster, Yale and competitor dealers and rental companies to strengthen or protect 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, 2003, NMHG Retail had eight dealerships and rental companies in Europe and nine dealerships and rental companies in Asia-Pacific.

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Company Operations

An NMHG Retail dealership is authorized to sell and rent either Hyster or Yale brand materials handling equipment. These dealerships will typically also sell 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 branch facilities located in major cities within NMHG Retail's assigned area of operations.

Competition

The materials handling equipment sales and rental industry is highly fragmented and competitive. NMHG Retail's competitors include dealers owned by original equipment manufacturers, original equipment manufacturer direct sales efforts, independently owned competitive dealerships and forklift rental outlets, independent parts operations, independent service shops and, to a lesser extent, independent Hyster or Yale dealers. The forklift truck industry also competes with alternative methods of materials handling, including conveyor systems, automated guided vehicle systems and manual labor.

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. No single customer accounted for more than 10% of NMHG Retail's revenues during 2003. NMHG Retail's customer base varies widely by branch and is determined by several factors, including the equipment mix and marketing focus of the particular branch 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 with a wide variety of financial products at competitive rates. See also "NMHG Wholesale - Financing of Sales" above.

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. As a result, 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 an assembly facility for warehouse equipment.

NMHG's engineering centers utilize a three-dimensional CAD/CAM system and are electronically connected to one another, to all of NMHG's manufacturing and assembly facilities and to some suppliers. This allows for collaboration in technical engineering designs and collaboration with suppliers. Additionally, NMHG solicits

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customer feedback throughout the design phase to improve product development efforts. NMHG invested \$51.2 million, \$43.7 million and \$44.7 million on product design and development activities in 2003, 2002 and 2001, respectively.

Sumitomo-NACCO Joint Venture

NMHG has a 50% ownership interest in Sumitomo-NACCO Materials Handling Group (S-N), 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 S-N. Each shareholder of S-N is entitled to appoint directors representing 50% of S-N 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 S-N s board of directors. As a result, NMHG accounts for its ownership in S-N using the equity method of accounting. NMHG purchases Hyster and Yale branded lift trucks and related components and aftermarket parts from S-N under normal trade terms for sale outside of Japan.

Employees

As of February 29, 2004, NMHG had approximately 7,150 employees, approximately 6,100 of whom were employed by the wholesale operations and approximately 1,050 of whom were employed by owned dealers. 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 2006 and October 2004, respectively. Negotiations with respect to these contracts have not yet commenced. Employees at the facilities in Berea, Kentucky; Sulligent, Alabama; and Greenville and Lenoir, North Carolina are not represented by unions. In Mexico, shop employees are unionized.

In Europe, some employees in the Craigavon, Northern Ireland; Irvine, Scotland; Masate, Italy; and Modena, Italy facilities are unionized. Employees in the Nijmegen, The Netherlands facility are not represented by unions, but the employees have organized a works council, as required by Dutch law, which performs a consultative role on employment matters. All of the European employees are part of European Works Council that performs a consultative role on business and employment matters.

In Asia Pacific, 14 locations have Certified Industrial Agreements for hourly employees, of which seven of the locations have union involvement. The Certified Industrial Agreement for one of these locations expires in 2004.

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.

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 or criminal sanctions. In addition, future changes to environmental laws could require NMHG to incur significant additional expense or restrict operations. Based on current information, management 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 will require NMHG and

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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 expenditures to comply with these requirements will not have a material adverse effect on its business.

NMHG is investigating or remediating historical contamination caused by its operations or those of businesses it acquired at some current and former sites. 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 Superfund 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.

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 a prior owner of the business. 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

Since June 1988, Japanese-built internal combustion engine lift trucks imported into the United States, with lifting capacities between 2,000 and 15,000 pounds, including finished and unfinished lift trucks, chassis, frames and frames assembled with one or more component parts, have been subject to an anti-dumping duty order. Anti-dumping duty rates in effect through 2003 range from 7.39% to 56.81% depending on manufacturer or importer. The anti-dumping duty rate applicable to imports from S-N is 51.33%. NMHG does not currently import for sale in the United States any lift trucks or components subject to the anti-dumping duty order. This anti-dumping duty order will remain in effect until the Japanese manufacturers and importers satisfy the U.S. Department of Commerce that they have not individually sold merchandise subject to the order in the United States below fair market value for at least three consecutive years, or unless the Commerce Department or the U.S. International Trade Commission finds that changed circumstances exist sufficient to warrant the retirement of the order. All of NMHG's major Japanese competitors have either built or acquired manufacturing or assembly facilities over the past decade in the United States and any products manufactured at these facilities are not subject to the anti-dumping duty order. The legislation implementing the Uruguay round of The General Agreement on Tariffs and Trade (GATT) negotiations passed in 1994 provided for the anti-dumping order to be reviewed for possible retirement in 2000. NMHG opposed retirement of the order and the 2000 review did not result in retirement of the anti-dumping duty. The anti-dumping order will again be reviewed for possible retirement in 2005.

There are no formal restraints on foreign lift truck manufacturers in the European Union. Several Japanese manufacturers have established manufacturing or assembly facilities within the European Union.

Segment and Foreign Operations Financial Disclosures

For financial information on each of NMHG's segments, see Note 15 to the Consolidated Financial Statements contained in Item 15 of this Form 10-K. For a description of revenues and other financial information by geographic region, see Note 15 to the Consolidated Financial Statements contained in Item 15 of this Form 10-K.

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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
	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
	Lenoir, North Carolina	Owned	Manufacture and assembly of component parts for lift trucks
	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
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; distribution of aftermarket parts

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

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

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NMHG Retail

NMHG's 17 dealerships operate from 45 locations. Of these locations, 18 are in Europe and 27 are in Asia-Pacific, as shown below:

<u>Europe</u>	<u>Asia-Pacific</u>
France (14)	Australia (26)
Germany (2)	Singapore (1)
The Netherlands (1)	
United Kingdom (1)	

Dealer locations generally include facilities for displaying equipment, storing rental equipment, servicing equipment, aftermarket parts storage and sales and administrative offices. NMHG owns three of these locations and leases 42 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. In Europe, NMHG Retail continues to be a lessee for two locations that are no longer being used for its operations. One of these properties is being sub-leased.

NMHG Retail geographic headquarters are shared with NMHG Wholesale in Fleet, England and Sydney, Australia.

Item 3. LEGAL PROCEEDINGS.

Various legal proceedings and claims have been or may be asserted against NMHG relating to the conduct of its business, including product liability, environmental and other claims. These proceedings are incidental to the ordinary course of NMHG's business.

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

Omitted pursuant to General Instruction I 2(c) of Form 10-K.

PART II

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

NMHG is a wholly owned subsidiary of NACCO Industries, Inc. and there is no established public trading market for its common stock. In 2003 and 2002, NMHG declared a cash dividend of \$5.0 million and \$15.0 million, respectively, on its common stock. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for a description of the restrictions on NMHG's ability to pay such dividends.

NMHG does not maintain compensation plans under which equity securities of NMHG are authorized for issuance.

Item 6. SELECTED FINANCIAL DATA.

Omitted pursuant to General Instruction I 2(a) of Form 10-K.

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**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
NMHG HOLDING CO. AND SUBSIDIARIES**

(Tabular Amounts in Millions, Except, Unit and Percentage Data)

OVERVIEW

NMHG Holding Co., through its wholly owned subsidiary, NACCO Materials Handling Group, Inc. (collectively, NMHG or the Company) 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. The Company manages its operations as two reportable segments: wholesale manufacturing (NMHG Wholesale) and retail distribution (NMHG Retail). Lift trucks and component parts are manufactured in the United States, Northern Ireland, Scotland, the Netherlands, China, Italy, Japan, Mexico, the Philippines and Brazil. NMHG Wholesale includes the manufacture and sale of lift trucks and related service parts, primarily to independent and wholly owned Hyster and Yale retail dealerships. NMHG Retail includes the sale, leasing and service of Hyster and Yale lift trucks and related service parts by wholly owned retail dealerships and rental companies. NMHG Retail includes the elimination of intercompany revenues and profits resulting from sales by NMHG Wholesale to NMHG Retail.

Demand for lift trucks is cyclical and depends upon capital budgeting in a variety of end markets where lift trucks are sold. NMHG believes its market, like the broader global economy, has begun to recover and is poised for further growth. In order to streamline manufacturing processes and transfer processes and sourcing to low-cost locations, NMHG developed and implemented global restructuring programs during the last three years, which included the closure of assembly facilities, labor and overhead reductions and restructuring of its owned dealers. These programs have reduced and will continue to reduce costs and more closely align operations with the demand for products and services, while maintaining substantially the same lift truck production capacity in fewer facilities.

In addition to the global restructuring programs, NMHG has undertaken other global programs to reduce costs, while improving the quality of its products in order to take advantage of opportunities in its markets. NMHG's quality improvement program has focused on improving quality in all aspects of its business, including specific programs to enhance reliability, improve vendor and plant quality and reduce warranty costs.

Along with its programs to reduce costs and improve quality, NMHG has continued to focus on growth opportunities through developing new products, expanding its national and global accounts and strengthening its dealer network. NMHG continuously strives to improve its product offerings by the development of new products and enhancements to existing products. Included in current product development activities is the development of a new series of 1 to 8 ton internal combustion engine lift trucks, which represents one of the most significant product development projects in NMHG's history. Global and national accounts programs focus on large customers with centralized purchasing but geographically diverse operations and offer these customers the ability to purchase equipment directly from NMHG while receiving service and support from its dealer network. NMHG continues to develop its worldwide network of owned and independent dealers as a critical component of its growth strategy.

NMHG believes these cost-reduction, quality-improvement and growth programs have positioned the Company to take advantage of the continued recovery in the capital goods market, and will result in reduced fixed overhead costs, lower manufacturing costs and improvements in both gross margins and operating profit. Some savings are volume-sensitive and the program benefits are based on future unit volume levels that are consistent with historical industry demand cycle patterns. In addition, in 2004, the costs associated with current development programs will continue to be significant and offset the benefits of cost-reduction programs. If future industry demand levels are lower than historical industry demand cycles would indicate, or if on-going operating costs, including engineering costs, are higher than projected, the actual annual savings and benefits from these programs could be lower than anticipated.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities (if any). On an ongoing basis, the Company evaluates its estimates, including those related to product discounts and returns, bad debts, inventories, income taxes, warranty obligations, product liabilities, restructuring, pensions and other post-retirement benefits, and contingencies and litigation. The Company bases its estimates on historical experience, actuarial valuations and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

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NMHG HOLDING CO. AND SUBSIDIARIES***(Tabular Amounts in Millions, Except, Unit and Percentage Data)*

Product liabilities: The Company provides for the estimated cost of personal and property damage relating to the Company's products. Reserves are made for estimates of the costs for known claims and estimates of the costs of incidents that have occurred but for which a claim has not yet been reported to the Company, in excess of available insurance coverage. While the Company engages in extensive product quality reviews and customer education programs, the Company's product liability provision is affected by the number and magnitude of claims of alleged product-related damage and the cost to defend those claims. In addition, the provision for product liabilities is also affected by changes in assumptions for medical costs, inflation rates, trends in damages awarded by juries and estimates of the number of claims that have been incurred but not yet reported. Changes to the estimate of any of these factors could result in a material change to the Company's product liability provision causing a related increase or decrease in reported net operating results in the period of change in the estimate.

Goodwill: In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, the Company is required to test goodwill for impairment at least annually. Changes in management's judgments and estimates could significantly affect the Company's analysis of the impairment of goodwill. To test goodwill for impairment, the Company is required to estimate the fair value of each of its reporting units. Since quoted market prices in an active market are not available for the Company's reporting units, the Company uses other valuation techniques. The Company has developed a model to estimate the fair value of the reporting units, primarily incorporating a discounted cash flow valuation technique. This model incorporates the Company's estimates of future cash flows, allocations of certain assets and cash flows among reporting units, future growth rates and management's judgment regarding the applicable discount rates to use to discount those estimated cash flows. Changes to these judgments and estimates could result in a significantly different estimate of the fair value of the reporting units which could result in an impairment of goodwill.

Revenue recognition: Revenues are generally recognized when title transfers or risk of loss passes as customer orders are completed and shipped. For NMHG's National Account customers, revenue is recognized upon customer acceptance. Reserves for discounts, returns and product warranties are maintained for anticipated future claims. The accounting policies used to develop these product discounts, returns and warranties include:

Product discounts: The Company records estimated reductions to revenues for customer programs and incentive offerings, including special pricing agreements, price competition, promotions and other volume-based incentives. Truck sales revenue is recorded net of projected discounts. The estimated discount amount is based upon historical trends for each truck model. In addition to standard discounts, dealers can also request additional discounts that allow them to offer price concessions to customers. From time to time, NMHG offers special incentives to increase retail share or dealer stock and offers certain customers volume rebates if a specified cumulative level of purchases is obtained. If market conditions were to decline or if competition was to increase, the Company may take actions to increase customer incentive offerings, possibly resulting in an incremental reduction of revenues at the time the incentive is offered.

Product returns: Products generally are not sold with the right of return. However, based on the Company's historical experience, a portion of products sold are estimated to be returned due to reasons such as product failure and excess inventory stocked by the customer which, subject to certain terms and conditions, the Company will agree to accept. The Company records estimated reductions to revenues at the time of sale based on this historical experience and the limited right of return provided to certain customers. If future trends were to change significantly from those experienced in the past, incremental reductions to revenues may result based on this new experience.

Product warranties: The Company provides for the estimated cost of product warranties at the time revenues are recognized. While the Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component suppliers, the Company's warranty obligation is affected by product failure rates, labor costs and replacement component costs incurred in correcting a product failure. Should actual product failure rates, labor costs or replacement component costs differ from the Company's estimates, revisions to the estimated warranty liability would be required which would affect net income.

Allowances for doubtful accounts: The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. These allowances are based on both recent trends of certain customers estimated to be a greater credit risk as well as general trends of the entire customer pool. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventory reserves: The Company writes down its inventory to the lower of cost or market, which includes an estimate for obsolescence or excess inventory based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. Upon a subsequent sale or disposal of the impaired inventory, the corresponding reserve for impaired value is relieved to ensure that the cost basis of the inventory reflects any write-downs.

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Deferred tax valuation allowances: The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. A valuation allowance has been provided against certain deferred tax assets related to non-U.S. and state net operating loss carryforwards. Management believes the reserves are adequate after considering future taxable income, allowable carryforward periods and ongoing prudent and feasible tax planning strategies. In the event the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount (including the valuation allowance), an adjustment to the deferred tax asset would increase income in the period such determination was made. Conversely, should the Company determine that it would not be able to realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset would be expensed in the period such determination was made.

Retirement Benefit Plans: The Company maintains various defined benefit pension plans covering most of its employees. In 1996, pension benefits were frozen for employees covered under NMHG's United States plans, except for those NMHG employees participating in collective bargaining agreements. As a result, in the United States only certain employees covered under collective bargaining agreements will earn retirement benefits under defined benefit pension plans. Other employees of the Company, including employees whose pension benefits were frozen as of December 31, 1996, will receive retirement benefits under defined contribution retirement plans. The Company's policy is to periodically make contributions to fund these plans within the range allowed by applicable regulations. Plan assets consist primarily of publicly traded stocks, investment contracts and government and corporate bonds. There is no guarantee that the actual return on the plans' assets will equal the expected long-term rate of return on plan assets or that the plans will not incur investment losses.

The expected long-term rate of return on plan assets reflects management's expectations of long-term rates of return on funds invested to provide for benefits included in the projected benefit obligations. The Company has established the expected long-term rate of return assumption for plan assets by considering historical rates of return over a period of time that is consistent with the long-term nature of the underlying obligations of these plans. The historical rates of return for each of the asset classes used by the Company to determine its estimated rate of return assumption at its September 30 measurement date were based upon the rates of return earned by investments in the equivalent benchmark market indices for each asset class over the time period from January 1, 1960 to September 30, 2003 and 2002. During both the significant market gains in the 1990s and 2003, as well as the recent period of depressed market returns during 2000 through 2002, the Company has held to a 9.00% expected rate of return assumption.

The Plans maintain an investment policy that, among other things, establishes a portfolio asset allocation methodology with percentage allocation bands for individual asset classes. This investment policy states that the plans invest from 60% to 70% in equity securities and from 30% to 40% in fixed income securities. The investment policy further divides the investments in equity securities among separate allocation bands for equities of large cap companies, equities of medium and small cap companies and equities of non-U.S. companies. The investment policy provides that investments are reallocated between asset classes as balances exceed or fall below the appropriate allocation bands.

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

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in the assumed health care cost trend rates would have the following effects on pre-tax income:

	1 - Percentage -Point Increase	1 - Percentage -Point Decrease
Effect on total of service and interest cost	\$	\$
Effect on postretirement benefit obligation	\$ 0.2	\$ (0.1)

See Note 14 to the Consolidated Financial Statements for further discussion of the Company's Retirement Benefit Plans.

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The segment and geographic results of operations for NMHG were as follows for the year ended December 31:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues			
Wholesale			
Americas	\$1,068.7	\$ 958.3	\$1,031.1
Europe, Africa and Middle East	446.5	385.8	363.9
Asia-Pacific	101.8	72.1	68.3
	<u>1,617.0</u>	<u>1,416.2</u>	<u>1,463.3</u>
Retail (net of eliminations)			
Americas	1.2	26.2	30.9
Europe, Africa and Middle East	78.3	66.2	106.8
Asia-Pacific	83.1	79.8	71.4
	<u>162.6</u>	<u>172.2</u>	<u>209.1</u>
NMHG Consolidated	<u>\$1,779.6</u>	<u>\$1,588.4</u>	<u>\$1,672.4</u>
Operating profit (loss)			
Wholesale			
Americas	\$ 47.1	\$ 49.0	\$ 10.0
Europe, Africa and Middle East	6.3	(2.8)	(13.7)
Asia-Pacific	2.1	0.4	(1.8)
	<u>55.5</u>	<u>46.6</u>	<u>(5.5)</u>
Retail (net of eliminations)			
Americas	0.1	(2.7)	(2.4)
Europe, Africa and Middle East	(4.8)	0.4	(34.8)
Asia-Pacific	(2.0)	(0.9)	(2.2)
	<u>(6.7)</u>	<u>(3.2)</u>	<u>(39.4)</u>
NMHG Consolidated	<u>\$ 48.8</u>	<u>\$ 43.4</u>	<u>\$ (44.9)</u>
Operating profit (loss) excluding goodwill amortization			
Wholesale			
Americas	\$ 47.1	\$ 49.0	\$ 17.8
Europe, Africa and Middle East	6.3	(2.8)	(10.4)
Asia-Pacific	2.1	0.4	(1.5)
	<u>55.5</u>	<u>46.6</u>	<u>5.9</u>

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Retail (net of eliminations)			
Americas	0.1	(2.7)	(2.1)
Europe, Africa and Middle East	(4.8)	0.4	(34.4)
Asia-Pacific	(2.0)	(0.9)	(1.4)
	<u>(6.7)</u>	<u>(3.2)</u>	<u>(37.9)</u>
NMHG Consolidated	\$ 48.8	\$ 43.4	\$ (32.0)
Interest expense			
Wholesale	\$ (28.9)	\$ (25.9)	\$ (12.9)
Retail (net of eliminations)	(6.2)	(8.0)	(10.2)
	<u>(35.1)</u>	<u>(33.9)</u>	<u>(23.1)</u>
NMHG Consolidated	\$ (35.1)	\$ (33.9)	\$ (23.1)
Other income (expense) - net			
Wholesale	\$ 3.9	\$ (1.2)	\$ 4.2
Retail (net of eliminations)		1.5	0.4
	<u>3.9</u>	<u>0.3</u>	<u>4.6</u>
NMHG Consolidated	\$ 3.9	\$ 0.3	\$ 4.6
Net income (loss)			
Wholesale	\$ 22.4	\$ 21.5	\$ (14.1)
Retail (net of eliminations)	(6.0)	(9.2)	(35.3)
	<u>16.4</u>	<u>12.3</u>	<u>(49.4)</u>
NMHG Consolidated	\$ 16.4	\$ 12.3	\$ (49.4)
Effective tax rate			
Wholesale	28.5%	(4.1%)	4.2%
Retail (net of eliminations)	53.5%	5.2%	28.3%
NMHG Consolidated	10.2%	(13.3%)	22.9%

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A detail of Other income (expense)-net is as follows for the year ended December 31:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Other income (expense)-net			
NMHG Wholesale			
Interest income	\$ 2.6	\$ 3.3	\$ 3.4
U.S. customs award		2.0	
Foreign currency exchange gain	0.8	0.8	0.4
Income from unconsolidated affiliates	3.6	0.5	2.6
Insurance recovery			8.0
Loss on interest rate swap agreements	(1.5)	(5.7)	(1.4)
Discount on the sale of accounts receivable		(0.5)	(4.7)
Other	(1.6)	(1.6)	(4.1)
	<u>3.9</u>	<u>(1.2)</u>	<u>4.2</u>
NMHG Retail			
Interest income	0.2	0.1	0.2
Other	(0.2)	1.4	0.2
		<u>1.5</u>	<u>0.4</u>
NMHG Consolidated	<u>\$ 3.9</u>	<u>\$ 0.3</u>	<u>\$ 4.6</u>

Income from unconsolidated affiliates increased in 2003 compared with 2002 primarily as a result of two adjustments to the value of investments in unconsolidated affiliates, which totaled \$4.0 million. A \$2.4 million pre-tax write-down was recorded in 2002 for an other-than-temporary decline in the value of a preferred stock investment in a U.S. dealer accounted for under the cost method. As a result of significant losses in 2002 and 2001 at the dealer and the uncertainty concerning the dealer's future financial performance, it was determined that the investment had suffered an other-than-temporary impairment. Accordingly, the Company recorded a write-down of its investment for the difference between the carrying amount and the fair value of the investment. No other significant losses are anticipated as a result of this investment. Additionally, in 2002, the Company recorded a \$1.6 million impairment charge against its investment related to a 25% interest in the equity of an unconsolidated parts distributor in Australia. In the third quarter of 2002, an independent third party purchased the remaining 75% of the equity of the distributor. Based on the purchase price paid for the remaining 75%, NMHG determined that its 25% investment was impaired and, thus, recorded a pre-tax impairment charge of \$1.6 million. Subsequently, in the fourth quarter of 2002, NMHG sold its 25% investment in the parts distributor to the 75% owner. No significant additional loss was recorded at the time of the sale. Similarly, the decline in income from unconsolidated affiliates in 2002 compared with 2001 was due to the adjustments recorded during 2002.

The U.S. customs award of \$2.0 million represents an anti-dumping settlement received by NMHG during 2002. The insurance recovery of \$8.0 million recognized in 2001 relates to a final recovery from flood damages incurred in September 2000 at Sumitomo-NACCO Materials Handling Group, Ltd. (SN), a 50%-owned joint venture with Sumitomo Heavy Industries, Inc. in Japan.

The loss on interest rate swap agreements of \$1.5 million in 2003 compared with \$5.7 million in 2002 is primarily due to the 2002 recognition of the ineffective portion of interest rate swap agreements which no longer qualified for hedge accounting as a result of the refinancing of NMHG's debt in May 2002. The increase in the loss on interest rate swap agreements from 2001 to 2002 was also primarily due to the recognition of the ineffective portion of interest rate swap agreements. All of NMHG's interest rate swap agreements were terminated prior to December 31, 2002. See "Liquidity and Capital Resources" for further discussion. Discounts on the sale of receivables decreased in 2002 to \$0.5 million from \$4.7 million in 2001 due to the December 2001 termination in Americas and the May 2002 termination in Europe of programs to sell accounts receivable.

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A reconciliation of NMHG Wholesale's federal statutory and effective income tax is as follows for the year ended December 31:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
NMHG Wholesale			
Income (loss) before income taxes and minority interest:	\$30.5	\$19.5	\$(14.2)
Statutory taxes at 35%	\$10.7	\$ 6.8	\$ (5.0)
Recognition of prior losses on investment in China		(1.9)	
Settlement for transfer pricing tax audit		(4.2)	
Amortization of goodwill			3.8
Other permanent items	(2.0)	(1.5)	0.6
Income tax provision (benefit)	\$ 8.7	\$ (0.8)	\$ (0.6)
Effective tax rate	28.5%	(4.1%)	4.2%

During 2002, NMHG Wholesale recognized certain favorable tax adjustments including a \$4.2 million settlement from a transfer pricing tax audit and \$1.9 million related to the recognition of previously generated losses from its investment in China.

A reconciliation of NMHG Retail's federal statutory and effective income tax is as follows for the year ended December 31:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
NMHG Retail (net of eliminations)			
Loss before income taxes:	\$(12.9)	\$(9.7)	\$(49.2)
Statutory taxes at 35%	\$ (4.5)	\$(3.4)	\$(17.2)
Release of valuation reserve related to foreign net operating loss	(2.8)		
Amortization of goodwill			0.5
Other permanent items	0.4	2.9	2.8
Income tax benefit	\$ (6.9)	\$(0.5)	\$(13.9)
Effective rate	53.5%	5.2%	28.3%

During 2003, NMHG Retail reversed \$2.8 million in valuation allowances related to foreign net operating loss carryforwards. As a result of non-U.S. tax law changes, the Company now expects to utilize these foreign net operating loss carryforwards.

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The following table identifies the components of the changes in revenues for 2003 compared with 2002:

	Revenues
	<hr/>
2002	\$ 1,416.2
Increase (decrease) in 2003 from:	
Unit volume	105.8
Foreign currency	76.5
Service parts	(19.8)
Sales mix and other	38.3
	<hr/>
2003	\$ 1,617.0
	<hr/>

Revenues increased \$200.8 million, or 14.2%, to \$1,617.0 million for the year ended December 31, 2003 compared with \$1,416.2 million for the year ended December 31, 2002. The increase in revenues was primarily due to increases in unit volume and the favorable impact of foreign currencies. Unit shipments increased 9.3% to 70,406 units in 2003 from 64,437 units in 2002. The increase in unit shipments was due in part to a low level of sales in the first half of 2002 due to depressed market conditions. In addition to improved unit volumes, 2003 revenues also benefited from the favorable impact of foreign currencies in Europe and Asia-Pacific compared with 2002 as a result of the strength of foreign currencies compared with the U.S. dollar during 2003. The decline in service parts revenues, despite an increase in parts volume, was a result of a partial shift to direct ship sales. Under direct ship sales, NMHG's dealers sell parts that are shipped directly from NMHG to the end user and NMHG recognizes commissions on the sales rather than the gross sales amount.

Operating profit:

The following table identifies the components of the changes in operating profit for 2003 compared with 2002:

	Operating Profit
	<hr/>
2002	\$ 46.6
2002 Restructuring charge	12.5
	<hr/>
	59.1
Increase (decrease) in 2003 from:	
Standard margin	54.0
Other cost of sales	(12.8)
Selling, general and administrative	(26.9)
Foreign currency	(17.9)
	<hr/>
2003	\$ 55.5
	<hr/>

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NMHG Wholesale's operating profit increased \$8.9 million, or 19.1%, to \$55.5 million in 2003 compared with \$46.6 million in 2002. The increase was primarily due to an increase in standard margin as a result of the increase in unit volume discussed above and an improvement in units and parts margins. The increase in margins on units was the result of a shift in sales to higher-margin lift trucks. Operating profit also increased in 2003 compared with 2002 as a result of restructuring charges taken in 2002. In 2002, NMHG Wholesale recorded a \$12.5 million charge for the restructuring of certain operations in the Americas and Europe. See further discussion in 2002 Restructuring Plan below. The factors positively impacting operating profit were partially offset by an increase in selling, general and administrative expenses, net of foreign currency effects, primarily due to increased spending on product development and marketing, as well as increased employee-related expenses. The increase in product development and marketing expenses were in large part due to spending on redesign and introduction of the 1 to 8 ton internal combustion engine lift trucks. The expenses of this program, primarily product development and marketing expenses related to product introductions, are anticipated to continue to

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increase in 2004. Also negatively impacting operating profit was the unfavorable effect of foreign currencies on domestic operations as a result of the weakening U.S. dollar.

Net income:

The following table identifies the after-tax components of the changes in net income for 2003 compared with 2002:

	Net Income
2002	\$21.5
2002 Restructuring	8.0
2002 Income tax items	(6.1)
	<hr/>
	23.4
Increase (decrease) in 2003 from:	
Impact of other items affecting operating profit	(2.3)
Interest expense	(2.0)
Other income (expense), net	3.3
	<hr/>
2003	\$22.4
	<hr/>

Net income increased \$0.9 million, or 4.2%, to \$22.4 million in 2003, primarily due to the factors impacting operating profit discussed above, as well as increases in income from unconsolidated affiliates and a decrease in loss on interest rate swap agreements as a result of NMHG's May 2002 debt refinancing. See further discussion of unconsolidated affiliates in *Related Party Transactions* below. These increases in net income were partially offset by an increase in income taxes compared with 2002 as a result of certain favorable tax adjustments recognized in 2002 and an increase in interest expense as a result of NMHG's May 2002 debt refinancing. See further discussion of the refinancing in *Liquidity and Capital Resources* below. During 2002, NMHG Wholesale recognized certain favorable tax adjustments including a \$4.2 million settlement from a transfer pricing tax audit and a \$1.9 million tax benefit related to the recognition of previously generated losses in China.

Backlog

The worldwide backlog level was 19,100 units at December 31, 2003 compared with 18,800 units at December 31, 2002 and 20,100 units at September 30, 2003. The increase from 2002 was primarily due to increased demand for lift trucks in the Americas. The decrease from September was primarily due to strong shipping performance in the fourth quarter of 2003.

2002 Restructuring Plan

In 2002, management committed to the restructuring of certain operations in the Americas and Europe. As such, NMHG Wholesale recognized a restructuring charge of \$12.5 million pre-tax (\$8.0 million after-tax), of which \$3.8 million relates to a non-cash asset impairment charge and \$8.7 million relates to severance and other employee benefits to be paid to approximately 615 manufacturing and administrative employees. Severance payments began in 2003 and are expected to continue through 2006. As announced in December 2002, NMHG Wholesale will phase out its Lenoir, North Carolina, lift truck component facility and restructure other manufacturing and administrative operations, primarily its Irvine, Scotland, lift truck assembly and component facility. These actions are designed to essentially complete the restructuring of NMHG Wholesale's global manufacturing facility infrastructure. Previously announced programs, such as Demand Flow Technology, selected component outsourcing and innovative lift truck designs have enabled NMHG to maintain substantially unchanged lift truck production capacity in fewer facilities and at a reduced cost.

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The phase-out of the Lenoir component facility is expected to be completed during 2004. The Lenoir plant's lift truck component operations, including mast and cylinder manufacturing, are being consolidated into plants in Sulligent, Alabama; Berea, Kentucky; and Greenville, North Carolina. The Irvine assembly and component facility is expected to be restructured to an appropriately sized operation. The restructured facility is expected to manufacture three- and four-wheel electric rider lift trucks and mast components for the European market. Other lift truck components currently manufactured in Irvine will be outsourced to independent suppliers.

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During 2003, payments of \$1.4 million were made to approximately 169 employees. In addition, \$0.3 million of the amount accrued at December 31, 2002 was reversed in 2003 as a result of a reduction in the estimate of employees eligible to receive severance payments. Also included in the original restructuring charge was \$0.9 million accrued for post-employment medical benefits, of which \$0.3 million was paid out during 2003. Approximately \$9.3 million of pre-tax restructuring related costs, which were primarily related to manufacturing inefficiencies and were not eligible for accrual as of December 31, 2002, were expensed in 2003. Of the \$9.3 million additional costs incurred during 2003, \$9.0 million is classified as cost of sales and \$0.3 million is classified as selling, general, and administrative expenses in the Consolidated Statements of Operations and Comprehensive Income (Loss) for the year ended December 31, 2003.

Additional costs, which were not eligible for previous accrual, of \$8.9 million and \$8.2 million are expected under these programs in 2004 and 2005, respectively. NMHG Wholesale estimates that these additional costs will be offset by cost savings, primarily from reduced employee wages and benefits, from these programs of \$7.8 million in 2004, \$10.0 million in 2005 and \$12.8 million annually thereafter.

2002 Compared With 2001**Revenues:**

The following table identifies the components of the changes in revenues for 2002 compared with 2001:

	Revenues
2001	\$ 1,463.3
Increase (decrease) in 2002 from:	
Unit volume	(77.7)
Foreign currency	15.8
Service parts	6.1
Sales mix and other	8.7
2002	\$ 1,416.2

Revenues decreased 3.2% to \$1,416.2 million in 2002 from \$1,463.3 million in 2001. The decline in revenues was primarily driven by decreased unit volume in the first half of 2002 that was partially offset by increased unit volume in the second half of 2002, compared with volumes in the same periods of 2001. Unit shipments declined 6.5% to 64,437 units in 2002 compared with 68,929 units in 2001 primarily as a result of the low levels of unit shipments during the first half of 2002. Lift truck shipments in the second half of 2002 increased 15.3% to 33,331 units compared with 28,903 units in the second half of 2001. The decline in revenues from unit volume for the full year, however, was partially offset by the favorable effect of currency movements in Europe and a shift in mix to higher-priced lift trucks. While revenues declined in 2002, bookings increased steadily from the low levels in mid-2001, reflecting an increase from the severe decline in the lift truck segment of the broader capital goods market in North America in 2001.

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The following table identifies the components of the changes in operating profit for 2002 compared with 2001:

	Operating Profit
2001	\$ (5.5)
2001 Danville plant closure	12.0
2001 Europe restructuring charge	4.5
2001 Goodwill amortization	11.4
	<u>22.4</u>
Increase (decrease) in 2002 from:	
Standard margin	20.4
Other cost of sales	23.4
Other selling, general and administrative	(2.2)
Foreign currency	(4.9)
	<u>59.1</u>
2002 Restructuring charge	(12.5)
	<u>\$ 46.6</u>

Despite the decrease in revenues, operating profit increased to \$46.6 million in 2002 from an operating loss of \$5.5 million in 2001. Results in 2002 include a restructuring charge of \$12.5 million, discussed in further detail above under 2002 Restructuring Program. Results in 2001 included \$12.0 million of expenses incurred during 2001 related to the Danville plant closure announced in 2000 and a restructuring charge of \$4.5 million recognized in 2001 for cost reductions in Europe. In addition, 2001 includes goodwill amortization expense of \$11.4 million, which is no longer required beginning in 2002 as a result of the adoption of SFAS No. 142, Goodwill and Other Intangible Assets. The adoption of the Statement is discussed further in Note 2 and Note 8 to the Consolidated Financial Statements. Excluding these non-comparable items, the increase in operating profit was primarily driven by an increase in standard margin mainly due to a shift in mix to higher-margin lift trucks and the positive impact on the cost of sales from improvement programs initiated in 2001, including the completion of the Danville, Illinois, plant closure in the fourth quarter of 2001 and the benefits of procurement, restructuring and cost control programs. The impact of these factors was partially offset by reduced unit volume.

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The following table identifies the after-tax components of the changes in net income (loss) for 2002 compared with 2001:

	Net Income (Loss)
2001	\$(14.1)
2001 Danville plant closure	7.8
2001 Europe restructuring charge	2.9
2001 Goodwill amortization	11.4
2001 SN insurance recovery	(5.2)
2001 Cumulative effect of accounting changes	1.3
	<hr/> 4.1
Increase (decrease) in 2002 from:	
Impact of other items affecting operating profit	23.8
Interest expense	(8.5)
Impact of other items affecting other income (expense) net	2.0
Other difference between effective and statutory tax rates	1.6
Minority interest	0.4
	<hr/> 23.4
2002 Restructuring	(8.0)
2002 Income tax items	6.1
	<hr/> \$ 21.5

Net income increased to \$21.5 million in 2002 from a net loss of \$14.1 million in 2001 as a result of the factors affecting operating profit and due to certain favorable tax adjustments including a \$4.2 million settlement from a transfer pricing tax audit and a \$1.9 million tax benefit related to the recognition of previously generated losses in China. The positive effect of these factors was partially offset by (i) increased interest expense, including the amortization of deferred financing fees, (ii) the negative effect of interest rate swap agreements and (iii) a charge for the impairment of certain investments in unconsolidated affiliates. The increase in interest expense, the negative effect of interest rate swap agreements and the amortization of deferred financing fees relate to the refinancing of NMHG's debt during the second quarter of 2002, which is discussed further in Liquidity and Capital Resources.

Also affecting the year-over-year comparability of net income is a pre-tax insurance recovery of \$8.0 million (\$5.2 million after-tax) included in other income in 2001 relating to flood damage in September 2000 at SN and a \$1.3 million after-tax charge in 2001 for the cumulative effect of accounting changes for derivatives and pension costs.

2001 and 2000 Restructuring Plans

In 2001, management committed to the restructuring of certain wholesale operations in Europe. As such, NMHG Wholesale recognized a restructuring charge of approximately \$4.5 million pre-tax for severance and other employee benefits to be paid to approximately 285 manufacturing and administrative personnel in Europe. As of December 31, 2003, approximately \$4.6 million has been paid to approximately 262 employees and \$0.2 million of the amount accrued at December 31, 2001 was reversed in 2002. No further payments are expected.

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Additional pre-tax costs of \$0.2 million were recognized in 2002 for the NMHG Wholesale European restructuring plan for costs not eligible to be accrued as of December 31, 2001. As a result of the reduced headcount in Europe, NMHG Wholesale realized pre-tax cost savings primarily from reduced employee wages and benefits of \$9.2 million and \$7.1 million in 2003 and 2002, respectively, and estimates annual pre-tax cost saving of \$9.2 million continuing in 2004 and thereafter. Although a majority of the projected savings is the result of a reduction in fixed factory costs, including employee expenses, the overall benefit estimates could vary depending on unit volumes and the resulting impact on manufacturing efficiencies.

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In 2000, the Board of Directors approved management's plan to transfer manufacturing activities from NMHG's Danville, Illinois assembly plant to its other global manufacturing plants. The adoption of this plan resulted in \$11.7 million of costs accrued in 2000, relating to retirement costs, medical costs and employee severance benefits. In addition, an impairment charge of \$2.2 million was recognized in 2000 as a result of the anticipated disposition of certain assets at an amount below net book value. During 2001, payments for severance and other benefits of \$1.6 million were made to approximately 350 employees. In addition, the accrual for severance was reduced by \$0.4 million. Approximately \$12.0 million of pre-tax costs associated with the Danville phase-out, which were not eligible for accrual as of December 31, 2000, were expensed during 2001.

In 2002, final severance payments of \$2.1 million were made to approximately 215 employees of the Danville, Illinois assembly plant. Also in 2002, NMHG Wholesale recognized a charge of approximately \$2.0 million, which had not previously been accrued, related primarily to the costs of the idle Danville facility. During 2003, an additional impairment charge of \$1.1 million was recorded to further reduce the book value of this facility to its market value based upon market conditions at year end. Cost savings primarily from reduced employee wages and benefits of approximately \$12.4 million and \$10.9 million pre-tax were realized in 2003 and 2002, respectively, related to this program. Cost savings primarily from reduced employee wages and benefits are estimated to be \$12.4 million pre-tax, net of idle facility costs, in 2004 and \$13.4 million pre-tax annually thereafter, as a result of anticipated improved manufacturing efficiencies and reduced fixed factory overhead. Although a significant portion of the projected savings is the result of a reduction in fixed factory costs, the overall benefit estimates could vary depending on unit volumes and the resulting impact on manufacturing efficiencies. See also discussion in Note 3 to the Consolidated Financial Statements.

NMHG RETAIL (net of eliminations)**2003 Compared With 2002****Revenues:**

The following table identifies the components of the changes in revenues for 2003 compared with 2002:

	Revenues
2002	\$ 172.2
2002 Impact of U.S. dealer sold in Jan. 2003	(26.2)
	<hr/>
	146.0
Increase (decrease) in 2003 from:	
Foreign currency	35.6
Sales of lift trucks	10.1
Intercompany sales eliminations	(20.9)
Service, parts & other	(9.4)
	<hr/>
	161.4
2003 Impact of U.S. dealer sold in Jan. 2003	1.2
	<hr/>
2003	\$ 162.6
	<hr/>

Revenues decreased \$9.6 million, or 5.6%, to \$162.6 million for the year ended December 31, 2003. The decrease in revenues was primarily due to the January 2003 sale of NMHG Retail's only wholly owned U.S. dealer. See further discussion below. Excluding the results of the sold U.S. dealers, revenues increased \$15.4 million, or 10.5%, primarily due to the favorable impact of foreign currency and, to a lesser extent, an increase in lift truck sales. The favorable effects of foreign currencies and improved lift truck sales were partially offset by an increase in intercompany sales eliminations due to higher sales from NMHG Wholesale to NMHG Retail in Asia-Pacific and Europe. Additionally, NMHG

Retail had a decrease in service and parts revenues in 2003 compared with 2002.

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NMHG HOLDING CO. AND SUBSIDIARIES***(Tabular Amounts in Millions, Except, Unit and Percentage Data)***Operating loss:**

The following schedule identifies the components of the changes in operating loss for 2003 compared with 2002:

	Operating Loss
	<u> </u>
2002	\$(3.2)
2002 Impact of U.S. dealer sold in Jan. 2003	2.7
	<u> </u>
	(0.5)
Increase (decrease) in 2003 from:	
Service contracts	(2.6)
Sales of lift trucks	(1.7)
Other	(2.0)
	<u> </u>
	(6.8)
2003 Impact of U.S. dealer sold in Jan. 2003	0.1
	<u> </u>
2003	\$ (6.7)
	<u> </u>

NMHG Retail's operating loss for the year ended December 31, 2003 was \$6.7 million, \$3.5 million higher than the 2002 operating loss of \$3.2 million. Excluding the results of the U.S. operations sold in January 2003, NMHG Retail's operating loss increased \$6.3 million in 2003. The increased operating loss was due in part to a decrease in service contract profits as a result of lower revenues and lower margins, primarily in Asia-Pacific. Also contributing to the increased operating loss was a decrease in profits on sales of lift trucks in Europe and Asia-Pacific. The remaining increase was primarily due to the impact of lower revenues from parts sales.

Net loss:

Despite the increase in operating loss from 2002 to 2003, NMHG Retail's net loss decreased \$3.2 million as a result of the favorable effect of certain tax adjustments, primarily a \$2.8 million tax benefit recorded during 2003 in NMHG's Retail's Asia-Pacific operations for the reversal of valuation allowances related to foreign net operating loss carryforwards. As a result of non-U.S. tax law changes, the Company now expects to utilize these operating loss carryforwards.

2003 Sale of U.S. Dealer:

On January 3, 2003, NMHG sold substantially all of the assets and liabilities of its wholly owned dealer in the U.S., which comprises the Americas component of NMHG Retail. The loss recognized in 2002 as a result of the write-down to fair value, less cost to sell, of the disposed net assets was not material to the operating results of the Company. Furthermore, no significant additional loss was recognized in 2003 as a result of this transaction. Revenues from the NMHG Retail-Americas operation in 2003 and 2002 were \$1.2 million and \$26.2 million, respectively, net of eliminations from transactions with NMHG Wholesale. In 2003, NMHG Retail realized \$0.1 million in operating income from the Americas operations compared with a \$2.7 million operating loss in 2002, net of eliminations. As a result of the sale of this business, no additional revenues and losses are expected in 2004. However, NMHG Wholesale sold lift trucks and service parts to the new independent owner of this retail dealership in 2003 and such sales are expected to continue in 2004.

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NMHG HOLDING CO. AND SUBSIDIARIES***(Tabular Amounts in Millions, Except, Unit and Percentage Data)***2002 Compared With 2001****Revenues:**

The following table identifies the components of the changes in revenues for 2002 compared with 2001:

	Revenues
	<hr/>
2001	\$ 209.1
2001 Impact of dealers sold in 2001	(26.4)
	<hr/>
	182.7
Increase (decrease) in 2002 from:	
Sales of lift trucks	(9.9)
Service, parts & other	(8.8)
Foreign currency	8.2
	<hr/>
2002	\$ 172.2
	<hr/>

Revenues decreased 17.6% to \$172.2 million in 2002 from \$209.1 million in 2001. Revenues declined primarily due to the sale of certain European retail dealerships in the fourth quarter of 2001 (the sold operations), which generated revenues of \$26.4 million, net of intercompany eliminations, in 2001. The decline in revenues is also attributable to reduced market demand in the Americas and in Europe, especially in the territories in which NMHG's owned retail dealerships operated.

Operating loss:

The following table identifies the components of the changes in operating loss for 2002 compared with 2001:

	Operating Loss
	<hr/>
2001	\$ (39.4)
2001 Loss on sale of dealers	10.4
2001 Operating loss of dealers sold in 2001	9.5
2001 Restructuring charge	4.7
2001 Other non-cash charges	7.1
2001 Goodwill amortization	1.5
	<hr/>
	(6.2)
Increase (decrease) in 2002 from:	
Sales of lift trucks	3.1
Other	(0.1)
	<hr/>
2002	\$ (3.2)
	<hr/>

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Operating loss in 2002 was \$3.2 million compared with \$39.4 million in 2001. Operating results improved primarily due to (i) several non-cash charges recognized in 2001, primarily in Europe, including a \$4.7 million restructuring charge for downsizing retail operations in Europe and approximately \$7.1 million in other non-cash charges discussed below, (ii) lower operating costs in Europe resulting from restructuring programs implemented in 2001 as discussed below, (iii) the elimination of operating losses incurred by the sold operations in 2001 and (iv) the elimination of goodwill amortization as a result of the adoption of SFAS No. 142.

The \$7.1 million in other non-cash charges recorded in 2001 consisted of \$4.7 million in charges to reduce asset values and increase reserves reflective of weakened capital goods markets. These adjustments were made at wholly owned Retail dealers, primarily in Europe. The adjustment to reduce asset values consisted primarily of a write-down of inventory values to their estimated fair value. Due to softening demand during the second half of 2001, estimates of the fair value declined significantly such that a write-down of new and used units and parts was necessary. The increase in reserves was primarily for uncollectible accounts receivable and estimated losses on warranty, extended service and rental contracts. The increase in the reserve for uncollectible accounts receivable was primarily due to a significant deterioration in the aging of accounts receivable such that collection of certain

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accounts was not likely. The recognition of estimated losses in warranty, service and rental contracts was primarily due to recent trends and changes in estimates on certain warranty, service and rental contracts, which indicated that future costs would exceed future revenues under those contracts. Also included in the \$7.1 million of other non-cash charges was a \$1.5 million charge to establish full accounting consistency among owned dealers, primarily for acquisition accounting adjustments recorded outside of the one-year window from the date of acquisition and final integration of corporate accounting policies by recently acquired foreign dealers. In addition, a \$0.9 million charge was included to have those dealers previously reporting on a one-month lag report on months consistent with the rest of NMHG.

Net loss:

Net loss improved to \$9.2 million in 2002 compared with \$35.3 million in 2001 primarily due to the factors affecting operating loss, partially offset by a decrease in the effective tax rate benefit on the losses in 2002, as discussed above.

2001 Restructuring Plan

In 2001, as previously discussed, management committed to the restructuring of certain retail operations in Europe. As such, NMHG Retail recognized a restructuring charge of approximately \$4.7 million pre-tax, of which \$0.4 million relates to lease termination costs and \$4.3 million relates to severance and other employee benefits to be paid to approximately 140 service technicians, salesmen and administrative personnel at wholly owned dealers in Europe. In 2001, \$0.4 million was paid to approximately 40 employees.

Severance payments of \$0.4 million and \$2.5 million were made to approximately seven and 70 employees during 2003 and 2002, respectively. In addition, \$0.7 million of the amount accrued in 2001 was reversed during 2003 as a result of a reduction in the estimate of the total number of employees to receive severance as well as a reduction in the average amount to be paid to each employee. The remaining severance payments are expected to be completed during 2004. In addition, the lease impairment accrual was increased by \$0.2 million during 2003 as a result of additional lease expense and lease payments of \$0.1 million were made during 2003. Cost savings primarily from reduced employee wages, employee benefits and lease costs of approximately \$3.1 million and \$2.9 million pre-tax were realized in 2003 and 2002, respectively, related to this program. Cost savings primarily from reduced employee wages, employee benefits and lease costs are estimated to be \$3.1 million pre-tax annually continuing in 2004 and thereafter. Estimated benefits could be reduced by additional severance payments, if any, made to employees above the statutory or contractually required amount that was accrued in 2001.

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NMHG HOLDING CO. AND SUBSIDIARIES***(Tabular Amounts in Millions, Except, Unit and Percentage Data)***LIQUIDITY AND CAPITAL RESOURCES****Cash Flows****2003 Compared With 2002**

The following tables detail the changes in cash flow for the years ended December 31:

	2003	2002	Increase (decrease)	Percentage impact on cash flow before financing activities⁽¹⁾
Operating activities:				
Net income	\$ 16.4	\$ 12.3	\$ 4.1	6.3%
Depreciation and amortization	44.1	47.7	(3.6)	(5.5)%
Non-cash items	14.9	4.3	10.6	16.3%
Working capital changes	(25.3)	7.8	(33.1)	(51.1)%
Net cash provided by operating activities	50.1	72.1	(22.0)	(34.0)%
Investing activities:				
Expenditures for property, plant and equipment	(27.6)	(16.1)	(11.5)	(17.7)%
Proceeds from the sale of assets	16.5	6.2	10.3	15.9%
Proceeds from unconsolidated affiliates		2.3	(2.3)	(3.5)%
Other net		0.3	(0.3)	(0.5)%
Net cash used for investing activities	(11.1)	(7.3)	(3.8)	(5.8)%
Cash flow before financing activities	\$ 39.0	\$ 64.8	\$ (25.8)	(39.8)%

(1) Percentage impact on cash flow before financing activities is computed by dividing the increase (decrease) amount by the 2002 cash flow before financing activities of \$64.8 million.

Cash provided by operations decreased \$22.0 million primarily due to a decrease in cash from working capital. The decrease in working capital cash flow was primarily due to an increase in receivables during 2003 as a result of increased sales. Cash used in investing activities increased \$3.8 million, primarily due to an increase in spending on property, plant and equipment, partially offset by an increase in proceeds from the sale of assets. The increase in capital spending was primarily due to increased spending on plant improvements as a result of global restructuring programs begun in 2002 and 2001 and spending on tooling for production of 1 to 8 ton lift trucks currently in development. The increase in proceeds from the sale of assets was primarily due to the sale of NMHG Retail's only wholly owned U.S. dealer in January 2003.

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	<u>2003</u>	<u>2002</u>	<u>Increase (decrease)</u>	<u>Percentage impact on net cash used for financing activities⁽¹⁾</u>
Financing activities:				
Additions (reductions) of long-term debt and revolving credit agreements	\$(29.0)	\$(35.1)	\$ 6.1	8.3%
Financing fees paid	(0.1)	(15.7)	15.6	21.1%
Cash dividends paid to NACCO	(5.0)	(15.0)	10.0	13.6%
Note receivable/ payable, parent company		(8.0)	8.0	10.8%
Net cash used for financing activities	\$(34.1)	\$(73.8)	\$ 39.7	53.8%

(1) Percentage impact on net cash used for financing activities is computed by dividing the increase (decrease) amount by the 2002 net cash used for financing activities of \$73.8 million.

Cash used for financing activities decreased \$39.7 million in 2003 compared with 2002 due in part to a decrease in payments of financing fees related to NMHG's May 2002 Refinancing. Also contributing to the decrease was a reduction in dividends paid to NACCO.

2002 Compared With 2001

The following tables detail the changes in cash flow for the years ended December 31:

	<u>2002</u>	<u>2001</u>	<u>Increase (decrease) ⁽¹⁾</u>
Operating activities:			
Net income (loss)	\$ 12.3	\$(49.4)	\$ 61.7
Depreciation and amortization	47.7	60.4	(12.7)
Non-cash items	4.3	13.2	(8.9)
Working capital changes	7.8	6.8	1.0
Net cash provided by operating activities	72.1	31.0	41.1
Investing activities:			
Expenditures for property, plant and equipment	(16.1)	(53.5)	37.4
Proceeds from the sale of property, plant and equipment	6.2	13.0	(6.8)
Acquisitions of businesses, net of cash acquired		(3.9)	3.9
Investments in/proceeds from unconsolidated affiliates	2.3	(0.3)	2.6
Other net	0.3	(2.5)	2.8
Net cash used for investing activities	(7.3)	(47.2)	39.9
Cash flow before financing activities	\$ 64.8	\$(16.2)	\$ 81.0

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- (1) The percentage impact on cash flow before financing activities is not meaningful due to the cash outflow in 2001 and is therefore not included.

Cash provided by operating activities increased \$41.1 million as the favorable impact of 2002 net income compared with 2001 net loss was partially offset by the negative impact of decreases in non-cash adjustments for depreciation expense of \$12.7 million and loss on sale of assets of \$9.2 million. Cash used for investing activities decreased \$39.9 million, primarily due to a decrease in spending on property, plant and equipment. The decrease in capital spending was primarily due to 2001 spending for several large projects, the movement of production as a result of global restructuring programs and the global implementation of enterprise system software.

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	<u>2002</u>	<u>2001</u>	<u>Increase (decrease) ⁽¹⁾</u>
Financing activities:			
Additions (reductions) of long-term debt and revolving credit agreements	\$(35.1)	\$46.9	\$ (82.0)
Financing fees paid	(15.7)	(0.7)	(15.0)
Cash dividends paid to NACCO	(15.0)	(5.0)	(10.0)
Notes receivable/ payable, parent company	(8.0)	11.0	(19.0)
Other net		0.1	(0.1)
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by (used for) financing activities	\$(73.8)	\$52.3	\$(126.1)
	 	 	

(1) The percentage impact on net financing cash flows is not meaningful due to the cash provided by financing activities in 2001 and is therefore not included.

Financing cash flow decreased primarily due to the use of available cash to pay down long-term debt and revolving credit borrowings in 2002 compared with an increase in borrowings in 2001 primarily to fund investing activities. Also contributing to the decrease was an increase in financing fees as a result of the May 2002 debt refinancing and increases in payments to NACCO for dividends and notes payable.

Financing Activities

On May 9, 2002, NMHG replaced its primary financing agreement, an unsecured floating-rate revolving line of credit with availability of up to \$350.0 million, certain other lines of credit with availability of \$28.6 million and a program to sell accounts receivable in Europe, with the proceeds from the sale of \$250.0 million of 10% unsecured Senior Notes due 2009 and borrowings under a secured, floating-rate revolving credit facility which expires in May 2005. The proceeds from the Senior Notes were reduced by an original issue discount of \$3.1 million. The \$250.0 million of 10% Senior Notes mature on May 15, 2009.

Availability under the revolving credit facility is up to \$175.0 million and is governed by a borrowing base derived from advance rates against the inventory and accounts receivable of the borrowers, as defined in the revolving credit 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 facility. The current applicable margins, effective December 31, 2003, for base rate loans and LIBOR loans were 1.875% and 3.0%, respectively. At December 31, 2003, the borrowing base under the revolving credit facility was \$119.1 million, which has been reduced by the commitments or availability under certain foreign credit facilities and an excess availability requirement of \$15.0 million. There were no borrowings outstanding under this facility at December 31, 2003. See Note 9 to the Consolidated Financial Statements for further discussion of the Senior Notes, the revolving credit facility and NMHG's additional borrowings.

Both the revolving credit facility and terms of the Senior Notes include restrictive covenants, which, among other things, limit the payment of dividends to NACCO. The new revolving credit facility also requires NMHG to meet certain financial tests, including, but not limited to, minimum excess availability, maximum capital expenditures, maximum leverage ratio and minimum fixed charge coverage ratio tests. The borrowers must maintain aggregate excess availability under the revolving credit facility of at least \$15.0 million.

NMHG believes that funds available under the revolving credit facility, other available lines of credit and operating cash flows will provide sufficient liquidity to meet its operating needs and commitments arising during the next twelve months and until the expiration of NMHG's revolving credit facility in May 2005.

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NMHG HOLDING CO. AND SUBSIDIARIES***(Tabular Amounts in Millions, Except, Unit and Percentage Data)***Contractual Obligations, Contingent Liabilities and Commitments**

Following is a table summarizing the contractual obligations of NMHG:

Contractual Obligations	Payments Due by Period						
	Total	2004	2005	2006	2007	2008	Thereafter
NMHG senior notes ⁽¹⁾	\$250.0	\$	\$	\$	\$	\$	\$250.0
NMHG revolving credit facilities	17.1	17.1					
Term loans	20.0	7.9	6.2	5.9			
Capital lease obligations including principal and interest	25.3	14.0	6.6	3.2	1.0	.5	
Operating lease obligations	161.4	54.3	42.5	31.0	18.7	8.7	6.2
Unconditional purchase obligations	3.9	0.8	0.6	0.9	0.2	1.4	
Total contractual cash obligations	\$477.7	\$94.1	\$55.9	\$41.0	\$19.9	\$10.6	\$256.2

- (1) The face value of the Senior Notes due in 2009 is \$250.0 million. The initial proceeds from the Senior Notes received in 2002 were reduced by an original issue discount of \$3.1 million. The unamortized balance of this discount at December 31, 2003 is \$2.5 million. Therefore, the amount recognized as Senior Notes in the Consolidated Balance Sheet at December 31, 2003 is \$247.5 million.

An event of default, as defined in the Indenture governing NMHG's Senior Notes, in NMHG's revolving credit facilities, in NMHG's term loan agreements and in NMHG's operating and capital lease agreements, could cause an acceleration of the payment schedule. No such event of default has occurred under these agreements.

NMHG's pension funding to its U.S. Plans is expected to be approximately \$4.6 million in 2004. NMHG expects to make payments related to its other postretirement plans. These plans are not required to be funded in advance, but are pay as you go. Pension and postretirement funding can vary significantly each year due to changes in legislation and the Company's significant assumptions. As a result, pension and postretirement funding has not been included in the table above.

In addition, NMHG has the following commitments, stated at the maximum undiscounted potential liability, at December 31, 2003:

	Total
Standby recourse obligations	\$179.5
Guarantees or repurchase obligations	3.7
Total commercial commitments	\$183.2

Guarantees and standby recourse or repurchase obligations primarily represent contingent liabilities assumed by NMHG to support financing agreements made between NMHG's customers and third-party finance companies for the customer's purchase of lift trucks from NMHG. These contingent liabilities may take the form of guarantees of residual values or standby recourse or repurchase obligations. For these transactions, NMHG generally retains a perfected security interest in the lift truck, such that NMHG would take possession of the lift truck in the event that NMHG would become liable under the terms of the guarantees or standby recourse or repurchase obligations. Generally, these commitments are due upon demand in the event of default by the customer. The security interest is normally expected to equal or exceed the amount of the commitment. To the extent that NMHG would be required to provide funding as a result of these commitments, NMHG believes that the value

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of its perfected security interest and amounts available under existing credit facilities are adequate to meet these commitments in the foreseeable future.

The amount of the standby recourse or repurchase obligations increase and decrease over time as obligations under existing arrangements expire and new obligations arise in the ordinary course of business. Losses anticipated under the terms of the guarantees or standby recourse or repurchase obligations are not significant and reserves have been provided for such losses in the Consolidated Financial Statements. See also Related Party Transactions.

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NMHG HOLDING CO. AND SUBSIDIARIES***(Tabular Amounts in Millions, Except, Unit and Percentage Data)***Capital Expenditures**

The following table summarizes actual and planned capital expenditures:

	Planned 2004	Actual 2003	Actual 2002
NMHG Wholesale	\$32.1	\$22.0	\$12.1
NMHG Retail	—	5.6	4.0
Total NMHG	\$32.1	\$27.6	\$16.1

NMHG's planned expenditures in 2004 include approximately \$13.5 million for tooling related to the launch of the new 1 to 8 ton internal combustion engine lift trucks currently in development, as well as investments in manufacturing equipment and plant improvements. The principal sources of financing for these capital expenditures are expected to be internally generated funds and facility borrowings.

Capital Structure

NMHG's capital structure is presented below:

	December 31		Increase (decrease)
	2003	2002	
Total net tangible assets	\$ 380.1	\$ 362.8	\$ 17.3
Goodwill and other intangibles at cost	499.3	487.7	11.6
Net assets before amortization of intangibles	879.4	850.5	28.9
Accumulated goodwill and other intangibles amortization	(146.4)	(142.3)	(4.1)
Debt	(307.7)	(324.8)	17.1
Minority interest	(0.5)	(1.1)	0.6
Stockholder's equity	\$ 424.8	\$ 382.3	\$ 42.5
Debt to total capitalization	42%	46%	(4%)

The increase in total net tangible assets is primarily due to a \$21.8 million increase in working capital, net of debt, due to increases in receivables and inventories partially offset by an increase in payables. These increases are primarily attributable to an increase in sales volume and changes in foreign currencies during 2003. Property, plant and equipment increased slightly as increases due to capital expenditures and foreign currency translation were offset by increases in depreciation and property dispositions. Goodwill and other intangible assets increased as a result of the impact of foreign currency translation. Debt decreased as a result of the availability of excess cash to pay down outstanding balances during 2003.

Stockholder's equity increased \$42.5 million in 2003 as a result of net income of \$16.4 million and favorable adjustments of \$35.8 million to the foreign currency cumulative translation balance and \$1.8 million to the balance of deferred cash flow hedges, which were partially offset by a dividend to NACCO of \$5.0 million and an increase to the minimum pension liability adjustment of \$6.5 million.

RELATED PARTY TRANSACTIONS

NACCO charges fees to its operating subsidiaries for services provided by the corporate headquarters. NACCO charged fees of \$8.1 million, \$7.0 million and \$7.7 million in 2003, 2002 and 2001, respectively, which are included as a component of selling, general and administrative expenses in the Consolidated Statements of Operations and Comprehensive Income (Loss).

NMHG has a 20% ownership interest in NMHG Financial Services, Inc. (NFS), a joint venture with GE Capital Corporation (GECC), formed primarily for the purpose of providing financial services to independent and wholly owned Hyster and Yale lift truck dealers in the United States and national account customers in the United States. NMHG's ownership percentage in NFS is accounted for using the equity method of accounting.

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NMHG HOLDING CO. AND SUBSIDIARIES**

(Tabular Amounts in Millions, Except, Unit and Percentage Data)

Generally, NMHG sells lift trucks through its independent dealer network or directly to customers. These dealers and customers may enter into a financing transaction with NFS or another unrelated third-party. NFS provides debt financing to dealers and lease financing to both dealers and customers. NFS' total purchases of Hyster and Yale lift trucks from dealers, customers and directly from NMHG, such that NFS could provide lease financing to dealers and customers, for the years ended December 31, 2003, 2002 and 2001 were \$234.6 million, \$194.5 million and \$251.2 million, respectively. Of this amount, \$36.0 million, \$32.2 million and \$40.5 million for the years ended December 31, 2003, 2002 and 2001, respectively, was invoiced directly from NMHG to NFS so that the dealer or customer could obtain operating lease financing from NFS. Amounts receivable from NFS at December 31, 2003 and 2002 were immaterial.

Under the terms of the joint venture agreement with GECC, NMHG provides recourse for financing provided by NFS to NMHG dealers. Additionally, the credit quality of a customer or concentration issues within GECC may necessitate providing standby recourse or repurchase obligations or a guarantee of the residual value of the lift trucks purchased by customers and financed through NFS. At December 31, 2003, approximately \$142.9 million of the Company's total guarantees, recourse or repurchase obligations of \$183.2 million related to transactions with NFS. NMHG has reserved for losses under the terms of the guarantees or standby recourse or repurchase obligations in its consolidated financial statements. Historically, NMHG has not had significant losses with respect to these obligations. In 2003 and 2002, one and four customers, respectively, for which NMHG provided a guarantee or had standby recourse or repurchase obligations, defaulted under their obligations to NFS. NMHG exercised its rights under the terms of the guarantees and obtained possession of the lift truck purchased for each of these customer defaults. In each of the years 2003, 2002 and 2001, the net losses resulting from customer defaults did not have a material impact on NMHG's results of operations or financial position.

In connection with the joint venture agreement, NMHG also provides a guarantee to GECC for 20% of NFS' debt with GECC, such that NMHG would become liable under the terms of NFS' debt agreements with GECC in the case of default by NFS. At December 31, 2003, loans from GECC to NFS totaled \$546.1 million. Although NMHG's contractual guarantee was \$109.2 million, the loans by GECC to NFS are secured by NFS' customer receivables, of which NMHG guarantees \$142.9 million. Excluding the \$142.9 million of NFS receivables guaranteed by NMHG from NFS' loans to GECC, NMHG's incremental obligation as a result of this guarantee to GECC is \$80.6 million. NFS has not defaulted under the terms of this debt financing in the past and although there can be no assurances, NMHG is not aware of any circumstances that would cause NFS to default in future periods.

In addition to providing financing to NMHG's dealers, NFS provides operating lease financing to NMHG. Operating lease obligations primarily relate to specific sale-leaseback-sublease transactions for certain NMHG customers whereby NMHG sells lift trucks to NFS, NMHG leases these lift trucks back under an operating lease agreement and NMHG subleases those lift trucks to customers under an operating lease agreement. Total obligations to NFS under the operating lease agreements were \$7.1 million and \$10.0 million at December 31, 2003 and 2002, respectively.

In addition, NMHG is reimbursed for certain services, primarily administrative functions, provided to NFS. The amount of NMHG's expenses reimbursable by NFS was \$1.9 million, \$1.7 million and \$1.8 million in 2003, 2002 and 2001, respectively.

NMHG has a 50% ownership interest in SN, a limited liability company which was formed in 1970 to manufacture and distribute lift trucks in Japan. Sumitomo Heavy Industries, Ltd. owns the remaining 50% interest in SN. Each shareholder of SN is entitled to appoint directors re