

HYSTER-YALE MATERIALS HANDLING, INC.  
Form 10-Q  
October 29, 2014  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2014

OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-54799

HYSTER-YALE MATERIALS HANDLING, INC.

(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.)

5875 LANDERBROOK  
DRIVE, SUITE 300,  
CLEVELAND, OHIO  
(Address of principal  
executive offices)

44124-4069  
  
(Zip code)

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

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

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

YES  NO

Edgar Filing: HYSTER-YALE MATERIALS HANDLING, INC. - Form 10-Q

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

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

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

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

YES  NO

Number of shares of Class A Common Stock outstanding at October 24, 2014: 12,293,809

Number of shares of Class B Common Stock outstanding at October 24, 2014: 3,966,715

---

HYSTER-YALE MATERIALS HANDLING, INC.  
TABLE OF CONTENTS

		Page Number
<u>Part I.</u>	<u>FINANCIAL INFORMATION</u>	
<u>Item 1</u>	<u>Financial Statements</u>	
	<u>Unaudited Condensed Consolidated Balance Sheets at September 30, 2014 and December 31, 2013</u>	<u>2</u>
	<u>Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2014 and 2013</u>	<u>3</u>
	<u>Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2014 and 2013</u>	<u>4</u>
	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013</u>	<u>5</u>
	<u>Unaudited Condensed Consolidated Statements of Changes in Equity for the Nine Months Ended September 30, 2014 and 2013</u>	<u>6</u>
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>26</u>
<u>Item 4</u>	<u>Controls and Procedures</u>	<u>26</u>
<u>Part II.</u>	<u>OTHER INFORMATION</u>	
<u>Item 1</u>	<u>Legal Proceedings</u>	<u>27</u>
<u>Item 1A</u>	<u>Risk Factors</u>	<u>27</u>
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>27</u>
<u>Item 3</u>	<u>Defaults Upon Senior Securities</u>	<u>27</u>
<u>Item 4</u>	<u>Mine Safety Disclosures</u>	<u>27</u>
<u>Item 5</u>	<u>Other Information</u>	<u>27</u>

<u>Item 6</u>	<u>Exhibits</u>	<u>27</u>
<u>Signatures</u>		<u>28</u>
<u>Exhibit Index</u>		<u>29</u>

Table of Contents

Part I  
 FINANCIAL INFORMATION  
 Item 1. Financial Statements

HYSTER-YALE MATERIALS HANDLING, INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30 2014	DECEMBER 31 2013
	(In millions, except share data)	
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$97.9	\$175.7
Accounts receivable, net	371.2	359.3
Inventories, net	364.9	330.6
Deferred income taxes	17.3	18.0
Prepaid expenses and other	36.9	38.0
Total Current Assets	888.2	921.6
Property, Plant and Equipment, Net	171.4	164.2
Long-term Deferred Income Taxes	6.7	10.2
Investment in Unconsolidated Affiliates	42.7	36.7
Other Non-current Assets	28.4	28.6
Total Assets	\$1,137.4	\$1,161.3
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities		
Accounts payable	\$350.7	\$340.3
Accounts payable, affiliate	18.1	20.8
Revolving credit facilities	7.3	39.0
Current maturities of long-term debt	22.2	23.8
Accrued payroll	46.7	57.3
Accrued warranty obligations	31.3	28.9
Other current liabilities	97.5	99.7
Total Current Liabilities	573.8	609.8
Long-term Debt	8.8	6.7
Self-insurance Liabilities	18.6	20.6
Pension and other Postretirement Obligations	17.6	25.4
Other Long-term Liabilities	46.1	47.9
Total Liabilities	664.9	710.4
Stockholders' Equity		
Common stock:		
Class A, par value \$0.01 per share, 12,451,529 shares outstanding (2013 - 12,689,454 shares outstanding)	0.1	0.1
Class B, par value \$0.01 per share, convertible into Class A on a one-for-one basis, 3,968,017 shares outstanding (2013 - 4,024,630 shares outstanding)	0.1	0.1
Capital in excess of par value	322.3	320.6
Treasury stock	(37.8	) (3.4
Retained earnings	258.4	188.4
Accumulated other comprehensive loss	(71.9	) (56.0
Total Stockholders' Equity	471.2	449.8

Edgar Filing: HYSTER-YALE MATERIALS HANDLING, INC. - Form 10-Q

Noncontrolling Interest	1.3	1.1
Total Equity	472.5	450.9
Total Liabilities and Equity	\$1,137.4	\$1,161.3

See notes to unaudited condensed consolidated financial statements.

2

---

Table of ContentsHYSTER-YALE MATERIALS HANDLING, INC. AND SUBSIDIARIES  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30		SEPTEMBER 30	
	2014	2013	2014	2013
	(In millions, except per share data)			
Revenues	\$695.8	\$643.9	\$2,056.5	\$1,948.4
Cost of sales	584.5	532.3	1,726.2	1,613.3
Gross Profit	111.3	111.6	330.3	335.1
Operating Expenses				
Selling, general and administrative expenses	75.1	80.3	232.5	235.8
Gain on sale of assets	(0.1	) —	(17.8	) —
Operating Profit	36.3	31.3	115.6	99.3
Other (income) expense				
Interest expense	1.6	2.4	3.3	7.2
Income from unconsolidated affiliates	(1.5	) (1.0	) (4.1	) (2.5
Other	(0.7	) (0.3	) (0.8	) (0.8
	(0.6	) 1.1	(1.6	) 3.9
Income Before Income Taxes	36.9	30.2	117.2	95.4
Income tax provision	8.4	6.6	33.6	11.0
Net Income	28.5	23.6	83.6	84.4
Net income attributable to noncontrolling interest	(0.1	) (0.1	) (0.2	) (0.1
Net Income Attributable to Stockholders	\$28.4	\$23.5	\$83.4	\$84.3
Basic Earnings per Share	\$1.71	\$1.41	\$4.99	\$5.04
Diluted Earnings per Share	\$1.70	\$1.40	\$4.97	\$5.02
Dividends per Share	\$0.2750	\$0.2500	\$0.8000	\$0.7500
Basic Weighted Average Shares Outstanding	16.617	16.711	16.717	16.728
Diluted Weighted Average Shares Outstanding	16.667	16.804	16.782	16.792

See notes to unaudited condensed consolidated financial statements.

Table of ContentsHYSTER-YALE MATERIALS HANDLING, INC. AND SUBSIDIARIES  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30		SEPTEMBER 30	
	2014	2013	2014	2013
	(In millions)			
Net Income	\$28.5	\$23.6	\$83.6	\$84.4
Other comprehensive income (loss)				
Foreign currency translation adjustment	(25.6	) 4.1	(22.4	) (9.9
Current period cash flow hedging activity	1.1	(0.4	) 1.5	(3.5
Reclassification of hedging activities into earnings	1.2	0.7	2.1	2.3
Current period pension adjustment	(0.4	) 3.3	(0.4	) 3.3
Reclassification of pension into earnings	1.0	0.6	3.3	3.3
Comprehensive Income	\$5.8	\$31.9	\$67.7	\$79.9
Other comprehensive income (loss) attributable to noncontrolling interest				
Net income attributable to noncontrolling interest	(0.1	) (0.1	) (0.2	) (0.1
Comprehensive Income Attributable to Stockholders	\$5.7	\$31.8	\$67.5	\$79.8

See notes to unaudited condensed consolidated financial statements.



Table of ContentsHYSTER-YALE MATERIALS HANDLING, INC. AND SUBSIDIARIES  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	NINE MONTHS ENDED SEPTEMBER 30	
	2014	2013
	(In millions)	
<b>Operating Activities</b>		
Net income	\$83.6	\$84.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22.4	22.4
Amortization of deferred financing fees	0.9	1.5
Deferred income taxes	4.3	(9.5)
Gain on sale of assets	(17.8)	—
Stock-based compensation	4.1	9.7
Dividends from unconsolidated affiliates	—	6.8
Other non-current liabilities	(0.9)	3.4
Other	(3.3)	3.8
Working capital changes:		
Accounts receivable	(23.2)	(42.4)
Inventories	(46.0)	(17.2)
Other current assets	1.3	1.0
Accounts payable	19.2	34.8
Other current liabilities	(3.4)	(9.9)
Net cash provided by operating activities	41.2	88.8
<b>Investing Activities</b>		
Expenditures for property, plant and equipment	(31.9)	(23.6)
Proceeds from the sale of assets	8.4	0.2
Other	(0.7)	9.9
Net cash used for investing activities	(24.2)	(13.5)
<b>Financing Activities</b>		
Additions to long-term debt	22.1	22.5
Reductions of long-term debt	(28.9)	(56.8)
Net change to revolving credit agreements	(31.3)	6.7
Cash dividends paid	(13.4)	(12.6)
Purchase of treasury stock	(36.8)	(3.0)
Other	(0.2)	—
Net cash used for financing activities	(88.5)	(43.2)
Effect of exchange rate changes on cash	(6.3)	1.3
<b>Cash and Cash Equivalents</b>		
Increase (decrease) for the period	(77.8)	33.4
Balance at the beginning of the period	175.7	151.3
Balance at the end of the period	\$97.9	\$184.7

See notes to unaudited condensed consolidated financial statements.



Table of ContentsHYSTER-YALE MATERIALS HANDLING, INC. AND SUBSIDIARIES  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Class A Common Stock	Class B Common Stock	Treasury Stock	Capital in Excess of Par Value	Retained Earnings	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Income (Loss)	Deferred Gain (Loss) on Cash Adjustment Flow Hedging	Pension	Total Stockholders' Equity	Noncontrol- ling Interest	Total Equity
(In millions)												
Balance, January 1, 2013	\$0.1	\$0.1	\$(2.2)	\$308.2	\$95.1	\$13.2	\$1.5	\$(74.7)		\$341.3	\$0.9	\$342.2
Stock-based compensation	—	—	—	9.7	—	—	—	—	—	9.7	—	9.7
Stock issued under stock compensation plans	—	—	1.7	(1.7)	—	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	(3.0)	—	—	—	—	—	—	(3.0)	—	(3.0)
Net income attributable to stockholders	—	—	—	—	84.3	—	—	—	—	84.3	—	84.3
Cash dividends on Class A and Class B common stock:	—	—	—	—	(12.6)	—	—	—	—	(12.6)	—	(12.6)
\$0.75 per share	—	—	—	—	—	—	—	—	—	—	—	—
Current period other comprehensive income (loss)	—	—	—	—	—	(9.9)	(3.5)	3.3	—	(10.1)	—	(10.1)
Reclassification adjustment to net income	—	—	—	—	—	—	2.3	3.3	—	5.6	—	5.6
Net loss attributable to noncontrolling interest	—	—	—	—	—	—	—	—	—	—	0.1	0.1
Balance, September 30, 2013	\$0.1	\$0.1	\$(3.5)	\$316.2	\$166.8	\$3.3	\$0.3	\$(68.1)		\$415.2	\$1.0	\$416.2
Balance, January 1, 2014	\$0.1	\$0.1	\$(3.4)	\$320.6	\$188.4	\$1.3	\$(1.9)	\$(55.4)		\$449.8	\$1.1	\$450.9
Stock-based compensation	—	—	—	4.1	—	—	—	—	—	4.1	—	4.1

Edgar Filing: HYSTER-YALE MATERIALS HANDLING, INC. - Form 10-Q

Stock issued under stock compensation plans	—	—	2.4	(2.4 )	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	(36.8 )	—	—	—	—	(36.8 )	—	(36.8 )	
Net income attributable to stockholders	—	—	—	—	83.4	—	—	—	83.4	—	83.4
Cash dividends on Class A and Class B common stock: \$0.80 per share	—	—	—	—	(13.4 )	—	—	—	(13.4 )	—	(13.4 )
Current period other comprehensive income (loss)	—	—	—	—	—	(22.4 )	1.5	(0.4 )	(21.3 )	—	(21.3 )
Reclassification adjustment to net income	—	—	—	—	—	—	2.1	3.3	5.4	—	5.4
Net income attributable to noncontrolling interest	—	—	—	—	—	—	—	—	—	0.2	0.2
Balance, September 30, 2014	\$0.1	\$0.1	\$(37.8)	\$322.3	\$258.4	\$(21.1)	\$1.7	\$(52.5)	\$471.2	\$1.3	\$472.5

See notes to unaudited condensed consolidated financial statements.

Table of Contents

HYSTER-YALE MATERIALS HANDLING, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

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

Note 1—Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Hyster-Yale Materials Handling, Inc., a Delaware corporation, and the accounts of Hyster-Yale's wholly-owned domestic and international subsidiaries (collectively, "Hyster-Yale" or the "Company"). Also included is Shanghai Hyster Forklift Ltd., a 75%-owned joint venture in China. All intercompany accounts and transactions among the consolidated companies are eliminated in consolidation.

The Company, through its wholly-owned subsidiary, NACCO Materials Handling Group, Inc. ("NMHG"), designs, engineers, manufactures, sells and services a comprehensive line of lift trucks and aftermarket parts marketed globally primarily under the Hyster® and Yale® brand names, mainly to independent Hyster® and Yale® retail dealerships. Lift trucks and component parts are manufactured in the United States, Northern Ireland, Mexico, The Netherlands, Italy, the Philippines, Vietnam, Japan, Brazil and China.

Investments in Sumitomo-NACCO Materials Handling Company, Ltd. ("SN"), a 50%-owned joint venture, and NMHG Financial Services, Inc. ("NFS"), a 20%-owned joint venture, are accounted for by the equity method. SN operates manufacturing facilities in Japan, the Philippines and Vietnam from which the Company purchases certain components and lift trucks. Sumitomo Heavy Industries, Ltd. ("Sumitomo") owns the remaining 50% interest in SN. Each stockholder of SN is entitled to appoint directors representing 50% of the vote of SN's board of directors. All matters related to policies and programs of operation, manufacturing and sales activities require mutual agreement between the Company and Sumitomo prior to a vote of SN's board of directors. NFS is a joint venture with General Electric Capital Corporation ("GECC"), formed primarily for the purpose of providing financial services to independent Hyster® and Yale® lift truck dealers and National Account customers in the United States. National Account customers are large customers with centralized purchasing and geographically dispersed operations in multiple dealer territories. The Company's percentage share of the net income or loss from these equity investments is reported on the line "Income from unconsolidated affiliates" in the "Other (income) expense" portion of the unaudited condensed consolidated statements of operations.

These financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position of the Company as of September 30, 2014 and the results of its operations for the three and nine months ended September 30, 2014 and 2013 and the results of its cash flows and changes in equity for the nine months ended September 30, 2014 and 2013 have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

The accompanying unaudited condensed consolidated balance sheet at December 31, 2013 has been derived from the audited financial statements at that date but does not include all of the information or notes required by U.S. generally accepted accounting principles for complete financial statements.

Note 2—Recently Issued Accounting Standards

Accounting Standards Adopted in 2014:

In February 2013, the Financial Accounting Standards Board ("FASB") issued authoritative guidance on joint and several liability arrangements, which was effective for the Company as of January 1, 2014. The guidance provides for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date and for which no other specific guidance in U.S. generally accepted accounting principles exists. The Company adopted the guidance on January 1, 2014 and the adoption of this guidance did not have a material effect on the Company's financial position, results of operations, cash flows or related disclosures.

Table of Contents

In March 2013, the FASB issued authoritative guidance on a parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity, which was effective for the Company as of January 1, 2014. The guidance clarifies the accounting treatment for cumulative translation adjustments when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity, an equity method investment that is a foreign entity and an equity method investment that is not a foreign entity. In addition, the guidance clarifies the attributes of a sale of an investment in a foreign entity. The Company adopted the guidance on January 1, 2014 and the adoption of this guidance did not have a material effect on the Company's financial position, results of operations, cash flows or related disclosures.

In July 2013, the FASB issued authoritative guidance on unrecognized tax benefits, which was effective for the Company as of January 1, 2014. The guidance requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward with certain exceptions. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date, the unrecognized tax benefit should be presented in the financial statements as a liability and not combined with deferred tax assets. The Company adopted the guidance on January 1, 2014 and the adoption of this guidance did not have a material effect on the Company's financial position, results of operations, cash flows or related disclosures.

Accounting Standards Not Yet Adopted:

In April 2014, the FASB issued authoritative guidance on discontinued operations, which is effective for the Company on January 1, 2015. The guidance changes the criteria for reporting discontinued operations to only those disposals which represent a strategic shift in operations. In addition, the new guidance requires expanded disclosures about discontinued operations, including pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The Company does not expect the adoption of the guidance to have a material effect on its financial position, results of operations, cash flows or related disclosures.

In May 2014, the FASB issued authoritative guidance on revenue recognition, which is effective for the Company on January 1, 2017. The new guidance is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The Company is currently evaluating the effect the adoption of the guidance will have on its financial position, results of operations, cash flows and related disclosures.

In August 2014, the FASB issued authoritative guidance on the presentation of the financial statements, which is effective for the Company for the year ending December 31, 2016. The guidance requires management to evaluate whether there are conditions and events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the financial statements are issued. The Company does not expect the adoption of the guidance to have a material effect on its financial position, results of operations, cash flows or related disclosures.

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

Table of Contents

## Note 3—Reclassifications from OCI

The following table summarizes reclassifications out of accumulated other comprehensive income (loss) ("OCI") for the three and nine months ended September 30, 2014 and 2013 as recorded in the unaudited condensed consolidated statements of operations:

Details about OCI Components	Amount Reclassified from OCI				Affected Line Item in the Statement Where Net Income Is Presented
	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30		
	2014	2013	2014	2013	
Gain (loss) on cash flow hedges:					
Interest rate contracts	\$—	\$—	\$0.8	\$—	Other
Foreign exchange contracts	(2.3	) (0.1	) (3.9	) (1.2	) Cost of sales
Total before tax	(2.3	) (0.1	) (3.1	) (1.2	) Income before income taxes
Tax (expense) benefit	1.1	(0.6	) 1.0	(1.1	) Income tax provision
Net of tax	\$(1.2	) \$(0.7	) \$(2.1	) \$(2.3	) Net income
Amortization of defined benefit pension items:					
Actuarial loss	\$(1.4	) \$(1.5	) \$(4.6	) \$(4.6	) (a)
Prior service credit	0.1	—	0.2	0.2	(a)
Transition liability	(0.1	) —	(0.1	) (0.1	) (a)
Total before tax	(1.4	) (1.5	) (4.5	) (4.5	) Income before income taxes
Tax benefit	0.4	0.9	1.2	1.2	Income tax provision
Net of tax	\$(1.0	) \$(0.6	) \$(3.3	) \$(3.3	) Net income
Total reclassifications for the period	\$(2.2	) \$(1.3	) \$(5.4	) \$(5.6	)

(a) These OCI components are included in the computation of net pension cost (see Note 11 for additional details).

## Note 4—Inventories

Inventories are summarized as follows:

	SEPTEMBER 30	DECEMBER 31
	2014	2013
Finished goods and service parts	\$ 196.2	\$ 178.4
Raw materials and work in process	219.4	203.3
Total manufactured inventories	415.6	381.7
LIFO reserve	(50.7	) (51.1
Total inventory	\$ 364.9	\$ 330.6

The cost of certain manufactured inventories, including service parts, has been determined using the last-in-first-out ("LIFO") method. At both September 30, 2014 and December 31, 2013, 52% of total inventories were determined using the LIFO method. An actual valuation of inventory under the LIFO method can be made only at the end of the year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must be based on management's estimates of expected year-end inventory levels and costs. Because these estimates are subject to change and may be different than the actual inventory levels and costs at the end of the year, interim results are subject



to the final year-end LIFO inventory valuation.

Table of Contents

Note 5—Financial Instruments and Derivative Financial Instruments

Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturities of these instruments. The fair values of revolving credit agreements and long-term debt, excluding capital leases, were determined using current rates offered for similar obligations taking into account company credit risk. This valuation methodology is Level 2 as defined in the fair value hierarchy. At September 30, 2014, the fair value and book value of revolving credit agreements and long-term debt, excluding capital leases, was \$24.4 million. At December 31, 2013, the fair value and book value of revolving credit agreements and long-term debt, excluding capital leases, was \$58.2 million.

Derivative Financial Instruments

The Company uses forward foreign currency exchange contracts to partially reduce risks related to transactions denominated in foreign currencies. The Company offsets fair value amounts related to foreign currency exchange contracts executed with the same counterparty. These contracts hedge firm commitments and forecasted transactions relating to cash flows associated with sales and purchases denominated in currencies other than its functional currencies. Changes in the fair value of forward foreign currency exchange contracts that are effective as hedges are recorded in OCI. Deferred gains or losses are reclassified from OCI to the unaudited condensed consolidated statements of operations in the same period as the gains or losses from the underlying transactions are recorded and are generally recognized in cost of sales. The ineffective portion of derivatives that are classified as hedges is immediately recognized in earnings and is also generally recognized in cost of sales. Certain of the Company's forward foreign currency contracts were designated as net investment hedges of the Company's net investment in its foreign subsidiaries. For derivative instruments that were designated and qualified as a hedge of a net investment in foreign currency, the gain or loss was reported in other comprehensive income as part of the cumulative translation adjustment to the extent it was effective, with the related amounts due to or from counterparties included in other liabilities or other assets. The Company utilizes the forward-rate method of assessing hedge effectiveness. Any ineffective portion of net investment hedges would be recognized in the unaudited condensed consolidated statement of operations in the same period as the change.

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

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

The Company periodically enters into foreign currency exchange contracts that do not meet the criteria for hedge accounting. These derivatives are used to reduce the Company's exposure to foreign currency risk related to forecasted purchase or sales transactions or forecasted intercompany cash payments or settlements. Gains and losses on these derivatives are generally recognized in cost of sales.

Cash flows from hedging activities are reported in the unaudited condensed consolidated statements of cash flows with the same classification as the hedged item, generally as a component of cash flows from operations.

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

Foreign Currency Derivatives: The Company held forward foreign currency exchange contracts with total notional amounts of \$483.9 million at September 30, 2014, primarily denominated in euros, Japanese yen, Swedish kroner, British pounds, Mexican pesos, Brazilian real and Australian dollars. The Company held forward foreign currency exchange contracts with

Table of Contents

total notional amounts of \$484.1 million at December 31, 2013, primarily denominated in euros, Japanese yen, British pounds, Swedish kroner, Mexican pesos, Brazilian real and Australian dollars. The fair value of these contracts approximated a net liability of \$0.7 million and \$2.1 million at September 30, 2014 and December 31, 2013, respectively. The fair value of all net investment hedges was a net liability of \$0.3 million at December 31, 2013.

Forward foreign currency exchange contracts that qualify for hedge accounting are generally used to hedge transactions expected to occur within the next twenty-four months. The mark-to-market effect of forward foreign currency exchange contracts that are considered effective as hedges has been included in OCI. Based on market valuations at September 30, 2014, \$0.5 million of the amount included in OCI is expected to be reclassified as a loss into the unaudited condensed consolidated statement of operations over the next twelve months, as the transactions occur.

Interest Rate Derivatives: During the second quarter of 2014, the Company determined that the hedged forecasted transactions associated with its interest rate swap agreements were probable of not occurring. As such, the Company recognized a gain of \$0.8 million in the second quarter of 2014 related to the ineffectiveness of these contracts, which begin on December 31, 2014 and extend to December 31, 2018, for a notional amount of \$100.0 million. The fair value of interest rate swap agreements was a net asset of \$1.4 million at September 30, 2014 and \$2.4 million at December 31, 2013.

The following table summarizes the fair value of derivative instruments reflected on a gross basis by contract at September 30, 2014 and December 31, 2013 as recorded in the unaudited condensed consolidated balance sheets:

Asset Derivatives		SEPTEMBER 30		DECEMBER 31		Liability Derivatives	
		Balance Sheet	Location	Balance Sheet	Location		
		2014	2013	2014	2013	2014	2013
Derivatives designated as hedging instruments							
Cash Flow Hedges							
Interest rate swap agreements							
Current	Other current liabilities	\$ —	\$ —	Other current liabilities	\$ —	\$ —	
Long-term	Other non-current assets	—	2.4	Other long-term liabilities	—	—	
Foreign currency exchange contracts							
Current	Prepaid expenses and other	3.6	0.4	Prepaid expenses and other	1.1	—	
	Other current liabilities	3.4	2.7	Other current liabilities	6.4	5.7	
Long-term	Other long-term assets	1.4	—	Other long-term liabilities	0.3	0.7	
Net Investment Hedges							
Foreign currency exchange contracts							
Current	Other current liabilities	—	—	Other current liabilities	—	0.3	
Total derivatives designated as hedging instruments		\$ 8.4	\$ 5.5			\$ 7.8	\$ 6.7
Derivatives not designated as hedging instruments							

Edgar Filing: HYSTER-YALE MATERIALS HANDLING, INC. - Form 10-Q

Cash Flow Hedges

Interest rate swap agreements

Current	Other current liabilities	\$ —	\$ —	Other current liabilities	\$ 0.7	\$ —
Long-term	Other non-current assets	2.1	—	Other long-term liabilities	—	—
Foreign currency exchange contracts						
Current	Prepaid expenses and other	2.9	4.1	Prepaid expenses and other	1.7	2.0
	Other current liabilities	1.2	0.3	Other current liabilities	3.7	1.2
Total derivatives not designated as hedging instruments		\$ 6.2	\$ 4.4		\$ 6.1	\$ 3.2
Total derivatives		\$ 14.6	\$ 9.9		\$ 13.9	\$ 9.9

Table of Contents

The following table summarizes the offsetting of the fair value of derivative instruments on a gross basis by counterparty at September 30, 2014 and December 31, 2013 as recorded in the unaudited condensed consolidated balance sheets:

	Derivative Assets as of September 30, 2014				Derivative Liabilities as of September 30, 2014			
	Gross Amounts of Recognized Assets	Gross Amounts Offset	Net Amounts Presented	Net Amount	Gross Amounts of Recognized Liabilities	Gross Amounts Offset	Net Amounts Presented	Net Amount
Cash Flow Hedges								
Interest rate swap agreements	\$2.1	\$(0.7)	\$1.4	\$1.4	\$0.7	\$(0.7)	\$—	\$—
Foreign currency exchange contracts	5.1	(5.1)	—	—	5.8	(5.1)	0.7	0.7
Total derivatives	\$7.2	\$(5.8)	\$1.4	\$1.4	\$6.5	\$(5.8)	\$0.7	\$0.7
	Derivative Assets as of December 31, 2013				Derivative Liabilities as of December 31, 2013			
	Gross Amounts of Recognized Assets	Gross Amounts Offset	Net Amounts Presented	Net Amount	Gross Amounts of Recognized Liabilities	Gross Amounts Offset	Net Amounts Presented	Net Amount
Cash Flow Hedges								
Interest rate swap agreements	\$2.4	\$—	\$2.4	\$2.4	\$—	\$—	\$—	\$—
Foreign currency exchange contracts	2.5	(2.5)	—	—	4.6	(2.5)	2.1	2.1
Total cash flow hedges	\$4.9	\$(2.5)	\$2.4	\$2.4	\$4.6	\$(2.5)	\$2.1	\$2.1
Net Investment Hedges								
Foreign currency exchange contracts	\$—	\$—	\$—	\$—	\$0.3	\$—	\$0.3	\$0.3
Total derivatives	\$4.9	\$(2.5)	\$2.4	\$2.4	\$4.9	\$(2.5)	\$2.4	\$2.4

Table of Contents

The following table summarizes the pre-tax impact of derivative instruments for the three and nine months ended September 30, 2014 and 2013 as recorded in the unaudited condensed consolidated statements of operations:

	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)				Location of Gain or (Loss) Reclassified from OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from OCI into Income (Effective Portion)				Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)			
	THREE MONTHS		NINE MONTHS			THREE MONTHS		NINE MONTHS			THREE MONTHS		NINE MONTHS	
	2014	2013	2014	2013		2014	2013	2014	2013		2014	2013	2014	2013
Derivatives designated as hedging instruments														
Cash Flow Hedges														
Interest rate swap agreements	\$—	\$(0.6)	\$(1.6)	\$2.4	Interest expense	\$—	\$—	\$—	\$—	Other	\$—	\$—	\$0.8	\$—
Foreign currency exchange contracts	(1.4 )	0.9	0.5	(5.7 )	Cost of sales	(2.3 )	(0.1 )	(3.9 )	(1.2 )	Cost of sales	0.1	—	—	—
	\$(1.4)	\$0.3	\$(1.1)	\$(3.3)		\$(2.3)	\$(0.1)	\$(3.9)	\$(1.2)		\$0.1	\$—	\$0.8	\$—
Net Investment Hedges														
Foreign currency exchange contracts	\$—	\$—	\$0.4	\$—	N/A	\$—	\$—	\$—	\$—	N/A	\$—	\$—	\$—	\$—
Total	\$(1.4)	\$0.3	\$(0.7)	\$(3.3)		\$(2.3)	\$(0.1)	\$(3.9)	\$(1.2)		\$0.1	\$—	\$0.8	\$—
Derivatives Not Designated as Hedging Instruments														

	in Income on Derivative			
Cash Flow Hedges				
Interest rate swap agreements	Other	\$0.6	\$—	\$0.6
Foreign currency exchange contracts	Cost of sales	(0.9 )	(1.1 )	(5.7 )
Total		\$(0.3)	\$(1.1)	\$(5.1)

#### Note 6—Equity Investments

The Company maintains an interest in one variable interest entity, NFS. NFS is a joint venture with GECC formed primarily for the purpose of providing financial services to independent Hyster® and Yale® lift truck dealers and National Account customers in the United States and is included in the Americas segment. The Company does not have a controlling financial interest or have the power to direct the activities that most significantly affect the economic performance of NFS. Therefore, the Company has concluded that the Company is not the primary beneficiary and uses the equity method to account for its 20% interest in NFS. The Company does not consider its variable interest in NFS to be significant.

The Company has a 50% ownership interest in SN, a limited liability company which was formed primarily to manufacture and distribute Sumitomo-branded lift trucks in Japan and export Hyster®- and Yale®-branded lift trucks and related components and service parts outside of Japan. The Company purchases products from SN under normal trade terms based on current market prices. The Company's ownership in SN is also accounted for using the equity method of accounting and is included in the Asia-Pacific segment.

The Company's percentage share of the net income or loss from its equity investments in NFS and SN is reported on the line "Income from unconsolidated affiliates" in the "Other (income) expense" section of the unaudited condensed consolidated statements of operations. The Company's equity investments are included on the line "Investment in Unconsolidated Affiliates" in the unaudited condensed consolidated balance sheets. At September 30, 2014 and December 31, 2013, the Company's investment in NFS was \$12.6 million and \$9.4 million, respectively. The Company's investment in SN was \$30.1 million and \$27.3 million at September 30, 2014 and December 31, 2013, respectively.



Table of Contents

Summarized financial information for these two equity investments is as follows:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30		SEPTEMBER 30	
	2014	2013	2014	2013
Revenues	\$84.7	\$118.5	\$254.9	\$257.5
Gross profit	\$27.0	\$32.7	\$78.3	\$71.0
Income from continuing operations	\$5.9	\$4.1	\$15.9	\$10.5
Net income	\$5.9	\$4.1	\$15.9	\$10.5

## Note 7— Contingencies

Various legal and regulatory proceedings and claims have been or may be asserted against the Company relating to the conduct of its businesses, including product liability, environmental and other claims. These proceedings and claims are incidental to the ordinary course of business. Management believes that it has meritorious defenses and will vigorously defend the Company in these actions. Any costs that management estimates will be paid as a result of these claims are accrued when the liability is considered probable and the amount can be reasonably estimated. Although the ultimate disposition of these proceedings is not presently determinable, management believes, after consultation with its legal counsel, that the likelihood is remote that costs will be incurred materially in excess of accruals already recognized.

## Note 8— Guarantees

Under various financing arrangements for certain customers, including independent retail dealerships, the Company provides recourse or repurchase obligations such that it would be obligated in the event of default by the customer. Terms of the third-party financing arrangements for which the Company is providing recourse or repurchase obligations generally range from one to five years. Total amounts subject to recourse or repurchase obligations at September 30, 2014 and December 31, 2013 were \$169.7 million and \$149.2 million, respectively. As of September 30, 2014, losses anticipated under the terms of the recourse or repurchase obligations were not significant and reserves have been provided for such losses based on historical experience in the accompanying unaudited condensed consolidated financial statements. The Company generally retains a security interest in the related assets financed such that, in the event the Company would become obligated under the terms of the recourse or repurchase obligations, the Company would take title to the assets financed. The fair value of collateral held at September 30, 2014 was approximately \$186.5 million based on Company estimates. The Company estimates the fair value of the collateral using information regarding the original sales price, the current age of the equipment and general market conditions that influence the value of both new and used lift trucks. The Company also regularly monitors the external credit ratings of the entities for which it has provided recourse or repurchase obligations. As of September 30, 2014, the Company did not believe there was a significant risk of non-payment or non-performance of the obligations by these entities; however, there can be no assurance that the risk may not increase in the future. In addition, the Company has an agreement with GECC to limit its exposure to losses at certain eligible dealers. Under this agreement, losses related to \$38.6 million of recourse or repurchase obligations for these certain eligible dealers are limited to 7.5% of their original loan balance, or \$7.2 million as of September 30, 2014. The \$38.6 million is included in the \$169.7 million of total amounts subject to recourse or repurchase obligations at September 30, 2014.

Generally, the Company sells lift trucks through its independent dealer network or directly to customers. These dealers and customers may enter into a financing transaction with NFS or other unrelated third parties. NFS provides debt and lease financing to both dealers and customers. On occasion, the credit quality of a customer or credit concentration issues within GECC may require the Company to provide recourse or repurchase obligations of the lift trucks purchased by customers and financed through NFS. At September 30, 2014, approximately \$147.4 million of the Company's total recourse or repurchase obligations of \$169.7 million related to transactions with NFS. In

connection with the joint venture agreement, the Company also provides a guarantee to GECC for 20% of NFS' debt with GECC, such that the Company would become liable under the terms of NFS' debt agreements with GECC in the case of default by NFS. At September 30, 2014, loans from GECC to NFS totaled \$801.7 million. Although the Company's contractual guarantee was \$160.3 million, the loans by GECC to NFS are secured by NFS' customer receivables, of which the Company guarantees \$147.4 million. Excluding the NFS receivables guaranteed by the Company from NFS' loans to GECC, the Company's incremental obligation as a result of this guarantee to GECC is \$137.1 million, which is secured by 20% of NFS' customer receivables and other secured assets of \$189.7 million. NFS has not defaulted under the terms of this debt financing in the past, and although there can be no assurances, the Company is not aware of any circumstances that would cause NFS to default in future periods.

Table of Contents

The following table includes the exposure amounts related to the Company's guarantees at September 30, 2014:

	NFS	Total
Total recourse or repurchase obligations	\$147.4	\$169.7
Less: exposure limited for certain dealers	38.6	38.6
Plus: 7.5% of original loan balance	7.2	7.2
	116.0	138.3
Incremental obligation related to guarantee to GECC	137.1	137.1
Total exposure related to guarantees	\$253.1	\$275.4

## Note 9—Product Warranties

The Company provides a standard warranty on its lift trucks, generally for six to twelve months or 1,000 to 2,000 hours. For certain components in some series of lift trucks, the Company provides a standard warranty of two to three years or 4,000 to 6,000 hours. The Company estimates the costs which may be incurred under its standard warranty programs and records a liability for such costs at the time product revenue is recognized.

In addition, the Company sells separately-priced extended warranty agreements which generally provide a warranty for an additional two to five years or up to 2,400 to 10,000 hours. The specific terms and conditions of those warranties vary depending upon the product sold and the country in which the Company does business. Revenue received for the sale of extended warranty contracts is deferred and recognized in the same manner as the costs incurred to perform under the warranty contracts.

The Company also maintains a quality enhancement program under which it provides for specifically identified field product improvements in its warranty obligation. Accruals under this program are determined based on estimates of the potential number of claims to be processed and the cost of processing those claims based on historical costs.

The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. Factors that affect the warranty liability include the number of units sold, historical and anticipated rates of warranty claims and the cost per claim.

Changes in the Company's current and long-term warranty obligations, including deferred revenue on extended warranty contracts, are as follows:

	2014	
Balance at January 1	\$45.1	
Current year warranty expense	25.3	
Change in estimate related to pre-existing warranties	(2.1	)
Payments made	(19.6	)
Foreign currency effect	(1.0	)
Balance at September 30	\$47.7	

## Note 10—Income Taxes

The income tax provision includes U.S. federal, state and local, and foreign income taxes and is based on the application of a forecasted annual income tax rate applied to the current quarter's year-to-date pre-tax income or loss. In determining the estimated annual effective income tax rate, the Company analyzes various factors, including projections of the Company's

annual earnings, taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, the

Company's ability to use tax credits, net operating loss carryforwards and capital loss carryforwards, and available tax planning alternatives. Discrete items, including the effect of changes in tax laws, tax rates and certain circumstances with respect to valuation allowances or the tax effect of other unusual or non-recurring transactions or adjustments are reflected in the period in which they occur as an addition to, or reduction from, the income tax provision, rather than included in the estimated effective annual income tax rate.

Table of Contents

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

	THREE MONTHS		NINE MONTHS		
	2014	2013	2014	2013	
Income before income taxes	\$36.9	\$30.2	\$117.2	\$95.4	
Gain on sale of Brazil plant	—	—	17.7	—	
	\$36.9	\$30.2	\$99.5	\$95.4	
Statutory taxes at 35%	\$12.9	\$10.6	\$34.8	\$33.4	
Permanent adjustments:					
Foreign rate differences	(3.5 )	(2.6 )	(7.8 )	(8.2 )	
Federal tax credits	—	(0.3 )	—	(0.8 )	
State income taxes	0.9	0.7	2.1	2.1	
Other	(0.2 )	(0.3 )	(0.9 )	(0.3 )	
	\$(2.8 )	\$(2.5 )	\$(6.6 )	\$(7.2 )	
Discrete items:					
Valuation allowance	—	—	—	(12.8 )	
Provision to return adjustments	(1.9 )	(1.0 )	(1.9 )	(1.0 )	
Other	0.2	(0.5 )	1.1	(1.4 )	
	\$(1.7 )	\$(1.5 )	\$(0.8 )	\$(15.2 )	
Income tax expense on gain on sale of Brazil plant	—	—	6.2	—	
Income tax provision	\$8.4	\$6.6	\$33.6	\$11.0	
Effective income tax rate	22.8	% 21.9	% 28.7	% 11.5	%

The Company's effective tax rate differed from the U.S. federal statutory tax rate of 35% as a result of income in non-U.S. jurisdictions being taxed at rates lower than the U.S. rate, partially offset by U.S. state income tax expense.

During the three and nine months ended September 30, 2014, the Company recognized discrete tax items primarily related to certain foreign earnings and repatriations and the effect of U.S. tax deductions for manufacturing activities. In addition, during the first nine months of 2014, the Company recognized a gain on the sale of real estate and an operating facility in Brazil of \$17.7 million, and related income tax expense of \$6.2 million. The income tax expense related to the gain was considered an unusual and non-recurring transaction and excluded from the computation of the estimated effective annual tax rate.

During the third quarter of 2013, the Company recognized discrete tax items for the settlement of certain U.S. income tax audits, research and development credits and a change in the United Kingdom tax law and rate. During the first nine months of 2013, the Company determined that its United Kingdom deferred tax assets met the more likely than not threshold required for realization based upon the anticipated timing of deferred temporary differences, the continuing trend of earnings, the projection of future taxable income, and the improving assessment of the economic environment affecting the Company's European operations. As a result, a discrete tax benefit was recognized primarily from the release of the valuation allowance recorded against deferred tax assets in the United Kingdom and income in non-U.S. jurisdictions being taxed at rates lower than the U.S. rate. In addition, the Company recognized discrete tax benefits, primarily related to changes in certain U.S. and foreign tax laws during the first nine months of 2013.

Table of Contents

## Note 11—Retirement Benefit Plans

The Company maintains various defined benefit pension plans that provide benefits based on years of service and average compensation during certain periods. The Company's policy is to make contributions to fund these plans within the range allowed by applicable regulations. Plan assets consist primarily of publicly traded stocks and government and corporate bonds.

Pension benefits for employees covered under the Company's U.S. and U.K. plans are frozen. Only certain grandfathered employees in the Netherlands still earn retirement benefits under a defined benefit pension plan. All other eligible employees of the Company, including employees whose pension benefits are frozen, receive retirement benefits under defined contribution retirement plans.

During the third quarter of 2014, the defined benefit pension plan in the U.K. was frozen. The Company remeasured the plan as of September 30, 2014 using a discount rate of 3.80% compared with the December 31, 2013 discount rate of 4.40%. As result of the remeasurement, the unfunded status of the plan increased by \$0.5 million and accumulated other comprehensive income decreased by \$0.5 million (\$0.4 million net of tax), primarily as a result of the reduction in the discount rate which more than offset the benefit of the plan closure.

During the third quarter of 2013, the Company recognized a settlement loss of \$1.2 million resulting from lump-sum distributions during the first nine months of 2013 exceeding the total projected interest cost for the plan year for one of its U.S. pension plans. The Company remeasured the plan as of September 30, 2013 using a discount rate of 4.30%. As result of the remeasurement, the funded status of the plan increased by \$4.3 million and accumulated other comprehensive income increased by \$5.5 million (\$3.3 million net of tax).

The Company previously disclosed in its Annual Report on Form 10-K for the year ended December 31, 2013 that it expected to contribute approximately \$3.7 million to its non-U.S. pension plans in 2014. The Company now expects to contribute approximately \$8.1 million to its non-U.S. pension plans in 2014.

The components of pension (income) expense are set forth below:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30		SEPTEMBER 30	
	2014	2013	2014	2013
U.S. Pension				
Service cost	\$—	\$—	\$—	\$—
Interest cost	0.8	0.8	2.5	2.4
Expected return on plan assets	(1.4 )	(1.4 )	(4.3 )	(4.1 )
Settlement loss	—	1.2	—	1.2
Amortization of actuarial loss	0.4	0.5	1.1	1.5
Amortization of prior service credit	(0.1 )	—	(0.2 )	(0.2 )
Total	\$(0.3 )	\$1.1	\$(0.9 )	\$0.8
Non-U.S. Pension				
Service cost	\$0.5	\$0.7	\$1.7	\$2.2
Interest cost	1.7	1.7	5.3	4.9
Expected return on plan assets	(2.7 )	(2.2 )	(7.7 )	(6.6 )
Amortization of actuarial loss	1.0	1.0	3.5	3.1
Amortization of transition liability	0.1	—	0.1	0.1
Total	\$0.6	\$1.2	\$2.9	\$3.7

Table of Contents

## Note 12—Business Segments

The Company's reportable segments include the following three management units: the Americas, Europe and Asia-Pacific. Americas includes operations in the United States, Canada, Mexico, Brazil, Latin America and the corporate headquarters. Europe includes operations in Europe, the Middle East and Africa. Asia-Pacific includes operations in the Asia-Pacific region including China, as well as the equity earnings of SN operations. Certain amounts are allocated to these geographic management units and are included in the segment results presented below, including product development costs, corporate headquarter's expenses and certain information technology infrastructure costs. These allocations among geographic management units are determined by senior management and not directly incurred by the geographic operations. In addition, other costs are incurred directly by these geographic management units based upon the location of the manufacturing plant or sales units, including manufacturing variances, product liability, warranty and sales discounts, which may not be associated with the geographic management unit of the ultimate end user sales location where revenues and margins are reported. Therefore, the reported results of each segment cannot be considered stand-alone entities as all segments are inter-related and integrate into a single global business.

Financial information for each reportable segment is presented in the following table:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30		SEPTEMBER 30	
	2014	2013	2014	2013
Revenues from external customers				
Americas	\$479.1	\$448.6	\$1,376.8	\$1,300.3
Europe	163.5	147.0	516.7	492.9
Asia-Pacific	53.2	48.3	163.0	155.2
	\$695.8	\$643.9	\$2,056.5	\$1,948.4
Gross profit				
Americas	\$76.2	\$80.4	\$219.7	\$233.0
Europe	28.2	24.4	93.1	80.7
Asia-Pacific	6.9	6.8	17.5	21.4
	\$111.3	\$111.6	\$330.3	\$335.1
Operating profit (loss)				
Americas	\$31.1	\$28.5	\$94.7	\$81.1
Europe	4.4	1.9	21.5	14.9
Asia-Pacific	0.8	0.9	(0.6)	3.3
	\$36.3	\$31.3	\$115.6	\$99.3
Net income attributable to stockholders				
Americas	\$24.0	\$21.2	\$65.9	\$54.4
Europe	3.5	0.9	17.3	26.5
Asia-Pacific	0.9	1.4	0.2	3.4
	\$28.4	\$23.5	\$83.4	\$84.3

## Note 13—Other Events and Transactions

In June 2014, NACCO Materials Handling Group Brasil Ltda. ("NMHG Brasil"), an indirect, wholly-owned subsidiary of the Company, completed the sale of real estate and an operating facility to Synergy Empreendimentos E Participacoes Ltda. During the second quarter of 2014, NMHG Brasil received \$8.2 million related to the sale and recognized a gain of \$17.7 million, which is included on the line "Gain on sale of assets" in the unaudited condensed consolidated statements of operations. The proceeds from the sale are included in the Investing Activities section of the unaudited condensed consolidated statements of cash flows and have been used for the construction of a new

facility in Brazil. An upfront payment of \$9.9 million was received in the second quarter of 2013, when the sale agreement was executed. In addition, \$0.8 million was deposited into an escrow account which will be released to NMHG Brasil upon conclusion of certain environmental remediation activities.



Table of ContentsItem 2. - Management's Discussion and Analysis of Financial Condition and Results of Operations  
(Tabular Amounts in Millions, Except Per Share and Percentage Data)

Hyster-Yale Materials Handling, Inc. and its subsidiaries ("Hyster-Yale" or the "Company"), including its operating company, NACCO Materials Handling Group, Inc. ("NMHG"), is a leading designer, engineer, manufacturer, seller and servicer of a comprehensive line of lift trucks and aftermarket parts marketed globally primarily under the Hyster® and Yale® brand names, mainly to independent Hyster® and Yale® retail dealerships. Lift trucks and component parts are manufactured in the United States, Northern Ireland, Mexico, The Netherlands, Italy, the Philippines, Vietnam, Japan, Brazil and China.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Please refer to the discussion of Critical Accounting Policies and Estimates as disclosed on pages 13 through 15 in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. Critical Accounting Policies and Estimates have not materially changed since December 31, 2013.

## FINANCIAL REVIEW

The results of operations for the Company were as follows for the three and nine months ended September 30:

	THREE MONTHS		Favorable / (Unfavorable)		NINE MONTHS		Favorable / (Unfavorable)		
	2014	2013	% Change		2014	2013	% Change		
Unit Shipments (in thousands)									
Americas	14.7	15.0	(2.0	)%	41.8	41.8	—	%	
Europe	5.3	4.8	10.4	%	17.0	16.7	1.8	%	
Asia-Pacific	1.7	1.4	21.4	%	5.3	4.3	23.3	%	
	21.7	21.2	2.4	%	64.1	62.8	2.1	%	
Revenues									
Americas	\$479.1	\$448.6	6.8	%	\$1,376.8	\$1,300.3	5.9	%	
Europe	163.5	147.0	11.2	%	516.7	492.9	4.8	%	
Asia-Pacific	53.2	48.3	10.1	%	163.0	155.2	5.0	%	
	\$695.8	\$643.9	8.1	%	\$2,056.5	\$1,948.4	5.5	%	
Gross profit									
Americas	\$76.2	\$80.4	(5.2	)%	\$219.7	\$233.0	(5.7	)%	
Europe	28.2	24.4	15.6	%	93.1	80.7	15.4	%	
Asia-Pacific	6.9	6.8	1.5	%	17.5	21.4	(18.2	)%	
	\$111.3	\$111.6	(0.3	)%	\$330.3	\$335.1	(1.4	)%	
Selling, general and administrative expenses									
Americas	\$45.1	\$51.9	13.1	%	\$142.7	\$151.9	6.1	%	
Europe	23.9	22.5	(6.2	)%	71.7	65.8	(9.0	)%	
Asia-Pacific	6.1	5.9	(3.4	)%	18.1	18.1	—	%	
	\$75.1	\$80.3	6.5	%	\$232.5	\$235.8	1.4	%	
Operating profit (loss)									
Americas	\$31.1	\$28.5	9.1	%	\$94.7	\$81.1	16.8	%	
Europe	4.4	1.9	131.6	%	21.5	14.9	44.3	%	
Asia-Pacific	0.8	0.9	(11.1	)%	(0.6	)	3.3	(118.2	)%
	\$36.3	\$31.3	16.0	%	\$115.6	\$99.3	16.4	%	
Interest expense	\$1.6	\$2.4	33.3	%	\$3.3	\$7.2	54.2	%	

Edgar Filing: HYSTER-YALE MATERIALS HANDLING, INC. - Form 10-Q

Other income	\$(2.2 )	\$(1.3 )	69.2	%	\$(4.9 )	\$(3.3 )	48.5	%
Net income attributable to stockholders	\$28.4	\$23.5	20.9	%	\$83.4	\$84.3	(1.1 )	%
Diluted earnings per share	\$1.70	\$1.40	21.4	%	\$4.97	\$5.02	(1.0 )	%
Effective income tax rate	22.8 %	21.9 %			28.7 %	11.5 %		

19

---

Table of Contents

## Third Quarter of 2014 Compared with Third Quarter of 2013

The following table identifies the components of change in revenues for the third quarter of 2014 compared with the third quarter of 2013:

	Revenues
2013	\$643.9
Increase (decrease) in 2014 from:	
Unit volume and product mix	43.2
Parts	10.7
Foreign currency	4.9
Unit price	(3.6 )
Other	(3.3 )
2014	\$695.8

Revenues increased 8.1% to \$695.8 million in the third quarter of 2014 from \$643.9 million in the third quarter of 2013. The improvement was primarily due to a shift in sales to higher-priced lift trucks in the Americas and higher unit volumes, mainly in North America and Europe, partially offset by a decrease in Brazil. In addition, an increase in parts revenue and the effect of translating sales in foreign currencies to the U.S. dollar in all geographic regions also contributed to the increase in revenues during the third quarter of 2014 compared with the third quarter of 2013. Revenues were unfavorably affected by lower pricing in the Americas and Europe. Worldwide new unit shipments increased in the third quarter of 2014 to 21,721 units from shipments of 21,176 units in the third quarter of 2013.

The following table identifies the components of change in operating profit for the third quarter of 2014 compared with the third quarter of 2013:

	Operating Profit
2013	\$31.3
Increase (decrease) in 2014 from:	
Selling, general and administrative expenses	5.3
Gross profit	(0.3 )
2014	\$36.3

The Company recognized operating profit of \$36.3 million in the third quarter of 2014 compared with \$31.3 million in the third quarter of 2013, mainly as a result of a decrease in selling, general and administrative expenses primarily from lower incentive compensation estimates, of which \$4.5 million related to non-cash equity compensation, and the absence of a required non-cash charge of \$1.2 million recognized in the third quarter of 2013 related to the remeasurement of one of the Company's U.S. defined benefit pension plans for the settlement of a portion of this plan for lump-sum payments. These items were partially offset by unfavorable foreign currency movements of \$1.1 million. The improvement in operating profit during the third quarter of 2014 was partially offset by lower gross profit as benefits from higher unit and parts volumes were more than offset by unfavorable foreign currency movements of \$2.0 million, lower earnings on the remarketing of used trucks and increased warranty expense as favorable adjustments in the third quarter of 2013 did not recur in 2014. In addition, modest declines in unit pricing in all geographic segments were fully offset by lower material costs. Gross margin decreased to 16.0% in the third quarter of 2014 from 17.3% in the third quarter of 2013.

The Company recognized net income attributable to stockholders of \$28.4 million in the third quarter of 2014 compared with \$23.5 million in the third quarter of 2013. The increase was primarily due to improved operating profit and reduced interest expense as a result of lower debt levels and lower interest rates in the third quarter of 2014 compared with the third quarter of 2013.

## Backlog

As of September 30, 2014, the Company's backlog of unfilled orders placed with its manufacturing and assembly operations for new lift trucks was approximately 26,800 units, or approximately \$710 million, of which substantially all is expected to be sold within the next twelve months. This compares with backlog as of September 30, 2013 of approximately 28,400 units, or approximately \$705 million, and backlog as of June 30, 2014 of approximately 28,800 units, or approximately \$745 million. The dollar value of backlog is calculated using the current unit backlog and the forecasted average sales price per unit.

20

---

Table of Contents

## First Nine Months of 2014 Compared with First Nine Months of 2013

The following table identifies the components of change in revenues for the first nine months of 2014 compared with the first nine months of 2013:

	Revenues
2013	\$1,948.4
Increase in 2014 from:	
Unit volume and product mix	74.7
Parts	18.8
Unit price	6.7
Foreign currency	4.2
Other	3.7
2014	\$2,056.5

Revenues increased 5.5% to \$2,056.5 million in the first nine months of 2014 from \$1,948.4 million in the first nine months of 2013. The improvement was primarily as a result of an increase in unit volumes in North America and Asia-Pacific, partially offset by Brazil, and a shift in sales to higher-priced lift trucks in the Americas. In addition, revenues increased in the first nine months of 2014 compared with the first nine months of 2013 due to an increase in parts revenue in the Americas, the favorable effect of unit price increases, primarily in the Americas to offset the impact of weakness in the Brazilian real, and the effect of translating sales in foreign currencies to the U.S. dollar in all geographic regions. Worldwide new unit shipments increased in the first nine months of 2014 to 64,081 units from shipments of 62,790 units in the first nine months of 2013.

The following table identifies the components of change in operating profit for the first nine months of 2014 compared with the first nine months of 2013:

	Operating Profit
2013	\$99.3
Increase (decrease) in 2014 from:	
Gross profit	(4.8 )
Selling, general and administrative expenses	3.4
	97.9
Gain on the sale of assets	17.7
2014	\$115.6

The Company recognized operating profit of \$115.6 million in the first nine months of 2014 compared with \$99.3 million in the first nine months of 2013. Operating profit for the first nine months of 2014 includes a gain of \$17.7 million related to the sale of the Brazil real estate and operating facility. Excluding the gain on the sale of assets, the decrease in operating profit was primarily the result of lower gross profit mainly attributable to unfavorable foreign currency movements of \$8.0 million, mainly in the Americas and Asia-Pacific partially offset by Europe, a shift in sales mix to units with lower average profit margins, higher warranty expense as favorable adjustments in the first nine months of 2013 did not recur in 2014, and higher U.S. health care costs. The decrease in gross profit was partially offset by lower material costs in the Americas and Europe, an increase in parts volumes and unit price increases mainly in the Americas to offset the impact of weakness in the Brazilian real. Operating profit was favorably affected by lower selling, general and administrative expenses primarily due to lower incentive compensation estimates, of which \$5.6 million related to non-cash equity compensation, and the absence of a required non-cash charge of \$1.2 million recognized in the third quarter of 2013 related to the remeasurement of one of the Company's U.S. defined benefit pension plans for the settlement of a portion of this plan for lump-sum payments. The decrease in selling, general and administrative expenses during the first nine months of 2014 was partially offset by an increase in other

employee-related expenses as a result of increased headcount in marketing and engineering to support the Company's five strategic initiatives, higher U.S. health care costs and unfavorable foreign currency movements of \$1.4 million.

The Company recognized net income attributable to stockholders of \$83.4 million in the first nine months of 2014 compared with \$84.3 million in the first nine months of 2013. The change was primarily the result of the absence of the release of \$12.8 million in the second quarter of 2013 of certain portions of previously recorded income tax valuation allowances related to the Company's United Kingdom operations. See Note 10 to the unaudited condensed consolidated financial statements for additional information. The reduction in net income attributable to stockholders was mostly offset by higher operating profit,

Table of Contents

including the gain on the sale of the Brazil facility, and lower interest expense due to lower debt outstanding and lower interest rates during the first nine months of 2014 compared with the first nine months of 2013.

## LIQUIDITY AND CAPITAL RESOURCES

## Cash Flows

The following tables detail the changes in cash flow for the nine months ended September 30:

	2014	2013	Change
Operating activities:			
Net income	\$83.6	\$84.4	\$(0.8 )
Depreciation and amortization	22.4	22.4	—
Gain on sale of assets	(17.8 )	—	(17.8 )
Dividends from unconsolidated affiliates	—	6.8	(6.8 )
Other	5.1	8.9	(3.8 )
Working capital changes	(52.1 )	(33.7 )	(18.4 )
Net cash provided by operating activities	41.2	88.8	(47.6 )
Investing activities:			
Expenditures for property, plant and equipment	(31.9 )	(23.6 )	(8.3 )
Other	7.7	10.1	(2.4 )
Net cash used for investing activities	(24.2 )	(13.5 )	(10.7 )
Cash flow before financing activities	\$17.0	\$75.3	\$(58.3 )

Net cash provided by operating activities decreased \$47.6 million in the first nine months of 2014 compared with the first nine months of 2013. The decrease was primarily a result of the change in working capital, the adjustment to net income for the gain on the sale of the real estate and operating facility in Brazil and the absence of dividends received from an unconsolidated affiliate in 2013. The change in working capital was mainly attributable to a larger increase in inventory and a smaller increase in accounts payable during the first nine months of 2014 compared with the first nine months of 2013 primarily due to lower than anticipated unit volume in Europe and the timing of shipments in the Americas. These items were partially offset by a change in accounts receivable during the first nine months of 2014 compared with the first nine months of 2013 mainly due to lower unit volume and a change in the timing of receipts from customers in Europe.

The increase in net cash used for investing activities during the first nine months of 2014 compared with the first nine months of 2013 is mainly the result of expenditures for the new facility in Brazil. Other investing activities included the receipt of a \$9.9 million deposit related to the sale of the Brazil real estate and operating facility during the second quarter of 2013 and \$8.2 million of proceeds received in the second quarter of 2014 when the sale was finalized.

	2014	2013	Change
Financing activities:			
Net reductions of long-term debt and revolving credit agreements	\$(38.1 )	\$(27.6 )	\$(10.5 )
Cash dividends paid	(13.4 )	(12.6 )	(0.8 )
Purchase of treasury stock	(36.8 )	(3.0 )	(33.8 )
Other	(0.2 )	—	(0.2 )
Net cash used for financing activities	\$(88.5 )	\$(43.2 )	\$(45.3 )

The increase in net cash used for financing activities during the first nine months of 2014 compared with the first nine months of 2013 was primarily the result of higher repurchases of the Company's stock and higher repayments of

borrowings under the Company's revolving credit facilities in the first nine months of 2014 compared with the first nine months of 2013.



## Table of Contents

### Financing Activities

The Company has a \$220.0 million secured, floating-rate revolving credit facility (the "Facility") that expires in December 2018. There were no borrowings outstanding under the Facility at September 30, 2014. The excess availability under the Facility at September 30, 2014 was \$214.4 million, which reflects reductions of \$5.6 million for letters of credit. The Facility consists of a U.S. revolving credit facility of \$120.0 million and a non-U.S. revolving credit facility of \$100.0 million. The Facility can be increased up to \$320.0 million over the term of the agreement in minimum increments of \$25.0 million subject to certain conditions. The obligations under the Facility are generally secured by a lien on the working capital assets of the borrowers in the Facility, which include but are not limited to, cash and cash equivalents, accounts receivable and inventory. The approximate book value of assets held as collateral under the Facility was \$560 million as of September 30, 2014.

Borrowings bear interest at a floating rate that can be a base rate or LIBOR, as defined in the Facility, plus an applicable margin. The applicable margins, effective September 30, 2014, for U.S. domestic base rate loans and LIBOR loans were 0.50% and 1.50%, respectively. The applicable margin, effective September 30, 2014, for foreign base rate loans and LIBOR loans was 1.50%. The applicable LIBOR interest rates under the Facility on September 30, 2014 were 1.63% and 1.56%, respectively, for the U.S. and non-U.S. facility including the applicable floating rate margin. The Facility also requires the payment of a fee of 0.375% per annum on the unused commitment as of September 30, 2014.

The Facility includes restrictive covenants, which, among other things, limit additional borrowings and investments of the borrowers subject to certain thresholds, as defined in the Facility and limits the payment of dividends. If the minimum availability threshold, as defined in the Facility, is greater than fifteen percent for both total and U.S. revolving credit facilities, the Company may pay dividends subject to maintaining a certain level of availability prior to and upon payment of a dividend and achieving a minimum fixed charge coverage ratio of 1.00 to 1.00, as defined in the Facility. If the minimum availability threshold, as defined in the Facility, is greater than twenty percent for both total and U.S. revolving credit facilities, the Company may pay dividends without any minimum fixed charge coverage ratio requirement. The Facility also requires the Company to achieve a minimum fixed charge coverage ratio in certain circumstances in which total excess availability is less than ten percent of the total commitments under the Facility or excess availability under the U.S. revolving credit facility is less than ten percent of the domestic revolver commitments, as defined in the Facility. At September 30, 2014, the Company was in compliance with the covenants in the Facility.

The Company had borrowings of approximately \$24.4 million of other debt at September 30, 2014. In addition to the excess availability under the Facility, at September 30, 2014, the Company had remaining availability of \$31.2 million related to other foreign revolving credit agreements.

The Company believes funds available from cash on hand, the Facility, other available lines of credit and operating cash flows will provide sufficient liquidity to meet its operating needs and commitments during the next twelve months and until the expiration of the Facility in December 2018.

### Contractual Obligations, Contingent Liabilities and Commitments

Since December 31, 2013, there have been no significant changes in the total amount of the Company's contractual obligations or commercial commitments, or the timing of cash flows in accordance with those obligations, as reported on pages 23 and 24 in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

### Capital Expenditures

Expenditures for property, plant and equipment were \$31.9 million during the first nine months of 2014. Capital expenditures are estimated to be an additional \$23.5 million for the remainder of 2014. Planned expenditures for the remainder of 2014 are primarily for a new facility in Brazil, improvements at manufacturing locations, product development and improvements to information technology infrastructure. The principal sources of financing for these capital expenditures are expected to be internally generated funds and bank borrowings.

Table of Contents

## Capital Structure

The Company's capital structure is presented below:

	SEPTEMBER 30 2014	DECEMBER 31 2013	Change
Cash and cash equivalents	\$ 97.9	\$ 175.7	\$(77.8 )
Other net tangible assets	412.9	344.7	68.2
Net assets	510.8	520.4	(9.6 )
Total debt	(38.3 )	(69.5 )	31.2
Total equity	\$ 472.5	\$ 450.9	\$21.6
Debt to total capitalization	7 %	13 %	(6 )%

## OUTLOOK

Growth rates for the global forklift truck market are expected to decelerate during the remainder of 2014 and in 2015, resulting in only modest growth compared with the comparable prior year periods. Growth in the remainder of 2014 and in 2015 is expected to be driven by the Western Europe, Middle East and Africa markets with smaller growth in Asia-Pacific due to softening in the Japanese and Chinese market growth rates. The Americas market growth is expected to slow in the fourth quarter of 2014 and have only modest growth in 2015 as growth rates decelerate in North America, and the Brazil market shows only a partial recovery. Other areas in Latin America are expected to strengthen moderately in 2015.

Despite these mixed market conditions, the Company anticipates an overall modest increase in unit shipments and parts volumes and, as a result, increased sales over the remainder of 2014 and in 2015 compared with the prior year periods. The majority of the 2014 unit shipment increase is expected to come from North America, with smaller increases in Asia-Pacific, partially offset by weakness in Latin America, including volume shortfalls in Brazil, and in certain European markets, particularly Russia. The increase in unit shipments in 2015 is expected to be driven by Europe and North America, with smaller increases in Asia-Pacific. Unit shipments in Brazil and Russia are expected to increase slightly in 2015 from very low 2014 levels.

The Company expects material costs in the fourth quarter of 2014 to be comparable with the prior year period and expects full year 2015 to increase moderately compared with 2014. Although commodity costs have remained relatively stable over the first nine months of 2014, these markets, particularly steel, remain volatile and sensitive to changes in the global economy. The Company will continue to monitor commodity costs, economic conditions, currency movements and the resulting effects on costs and pricing, and will take appropriate pricing actions, if necessary.

The Company expects to generate a moderate increase in operating profit during the fourth quarter of 2014. Significantly lower estimated incentive compensation, in addition to anticipated increased unit volumes, a shift in sales mix to higher-margin units and product enhancements are all expected to contribute to this improvement. These favorable items are expected to be substantially offset by anticipated pricing pressures, higher manufacturing costs and continued investments in strategic initiatives. Net income in the fourth quarter of 2014 is expected to improve compared with the 2013 fourth quarter. The effect of improved operating profit, as well as lower interest expense due to lower debt outstanding and lower interest rates under the Company's revolving credit agreement, in addition to the absence of a \$2.8 million pre-tax write-off of deferred financing fees taken in 2013, are expected to be partially offset by a higher effective income tax rate. The higher effective income tax rate in 2014 is expected to result primarily from an anticipated increase in the portion of the Company's income earned in the Americas operations which have a higher tax rate.

Fourth quarter 2014 operating profit results are expected to improve in the Americas segment, which includes the North America, Latin America and Brazil markets, with anticipated lower employee-related expenses and increases in unit and parts margins partially offset by unit pricing pressure, higher manufacturing costs and unfavorable foreign currency movements. Operating profit in the Europe segment, which includes the Middle East and Africa markets, is expected to decline in the fourth quarter of 2014 compared with the respective prior year period due to lower unit volumes and pricing pressures. Asia-Pacific results for the fourth quarter of 2014 are expected to be higher than the fourth quarter of 2013 resulting from an expected increase in unit volume.

After excluding the \$17.7 million gain on sale of the Brazil plant realized in 2014, the Company expects operating profit in 2015 to be similar to 2014. Anticipated increases in unit shipments and parts sales, expected favorable foreign currency movements largely from the strengthening of the U.S. dollar and an anticipated shift in sales mix to lift trucks with higher

Table of Contents

average profit margins are expected to be offset by increases in employee-related expenses and higher marketing expenses associated with the execution of the Company's strategic initiatives compared with 2014, as well as costs associated with the transition to a new plant in Brazil and the roll out of global manufacturing information technology systems in 2015. An increase in material costs is also expected in 2015 compared with 2014. However, these costs are expected to be mostly offset by price increases. Excluding the gain on sale of the Brazil plant, 2015 net income is expected to decline moderately from 2014 primarily as a result of higher interest expense.

Full year 2015 operating profit in the Americas segment, which includes the North America, Latin America and Brazil markets, is expected to be comparable to 2014, excluding the gain on sale of the Brazil facility. Operating profit in the Europe segment, which includes the Middle East and Africa markets, is expected to decrease in 2015 compared with 2014 and Asia-Pacific operating results are expected to increase compared with 2014.

Cash flow before financing activities for 2014 is expected to decrease significantly from 2013. This decrease is primarily due to an increase in capital expenditures, largely driven by the construction of a new plant in Brazil, which is not expected to be fully completed until early 2015, and increases in working capital. Cash flow before financing activities is expected to improve in 2015 compared with 2014 due to moderated working capital requirements and lower capital expenditures because the Brazil plant construction is expected to be largely completed in 2014.

The Company remains focused on gaining market share over time, as well as on improving margins in its internal combustion engine business, through the execution of its five strategic initiatives: (1) understanding customer needs at the product and aftermarket levels in order to create and provide a full range of differentiated product and service solutions for specific industry applications, (2) offering the lowest cost of ownership by utilizing the Company's understanding of customers' major cost drivers and developing solutions that consistently lower cost of ownership and create a differentiated competitive position, (3) enhancing independent distribution by implementing programs aimed at broadening account coverage of the market, expanding the number of dual-brand dealers, and ensuring dealer excellence in all areas of the world, (4) improving the Company's warehouse market position through enhancing dealer and customer support, adding products, increasing incentives, and implementing programs to increase focus on key customers, and (5) expanding in Asian markets by offering products aimed at the needs of these markets, enhancing distribution excellence and focusing on strategic alliances with local partners in China, India and Japan.

To meet the specific application needs of its customers, the Company is focusing on developing utility, standard and premium products. To this end, development programs are underway for its electric-rider, warehouse, internal combustion engine (ICE) and big truck product lines. In addition, stricter diesel emission regulations for new trucks began to go into effect in 2011 and will be fully in effect by 2015 in certain global markets. The Company has launched and expects to continue to launch lift truck series over this period that will meet these new emission requirements.

Within its premium product warehouse line, the Company began production of a 4,500 pound heavy duty pedestrian pallet truck at its Greenville, North Carolina plant in the first quarter of 2014. Over time this platform is expected to be produced in other regions, which will maximize design and component commonality. In addition, during the third quarter of 2014, the Company expanded its newly introduced European Reach Truck range to offer options for freezer operations including a new integrated cab, 4-stage mast and wider chassis for heavy duty applications. The Company also introduced a new warehouse rider truck in the North America market in the third quarter of 2014 which has an enclosed operator compartment and, based on the customer's need, either an 8,000 pound or a 10,000 pound capacity to enable multiple pallet handling in trailer loading/unloading and cross-dock applications.

During the second quarter of 2014, as part of the 2014 model year improvements for the premium counterbalanced product line, the Company introduced a new premium 2.5 liter spark-ignited engine for its 2 to 3.5 ton cushion and pneumatic ICE trucks and upgraded the hydraulic system and dual hydraulic tanks to improve overall efficiency and

lower ownership costs on the 4 to 5.5 ton ICE cushion trucks. During the third quarter of 2014, the Company introduced a new 5 to 5.5 ton pneumatic tire electric rider truck. As stated previously, the Company's model year programs will keep its platforms soundly positioned in the market over time. Further, new platforms are expected to be developed and launched over the next few years based on longer-term segment needs and technological change opportunities.

Finally, during the third quarter of 2014, the Company introduced the first group of its premium Big Truck models with Tier IV final emission solutions, as well as expanded use of premium transmissions on trucks up to 32 ton capacity and implemented load-sensing hydraulic systems on its 18 to 22 ton trucks.

The Company offers one model of the standard ICE lift truck for medium-duty applications in both pneumatic and cushion tires for both Hyster® and Yale®. The Company expects to launch additional trucks in the standard ICE model series in future years.

## Table of Contents

The Company expanded the UTILEV®-branded series of utility lift trucks by introducing a 1 to 3 ton ICE cushion tire truck in North America and a 3-wheel electric rider truck globally in 2013. The Company further expanded the UTILEV range with the introduction of the 4 to 7 ton ICE pneumatic tire trucks for Tier 3 emission markets. The UTILEV®-branded series of lift trucks is expected to continue to gain market position in the remainder of 2014 and in 2015.

All of these new products and upgraded products, including the new Reach Truck and new Big Truck models introduced in late 2013, are expected to help increase market share, to improve revenues and to enhance operating margins in the remainder of 2014 and in 2015.

## EFFECTS OF FOREIGN CURRENCY

The Company operates internationally and enters into transactions denominated in foreign currencies. As a result, the Company is subject to the variability that arises from exchange rate movements. The effects of foreign currency fluctuations on revenues, operating profit and net income are addressed in the previous discussions of operating results. See also Item 3, "Quantitative and Qualitative Disclosures About Market Risk," in Part I of this Quarterly Report on Form 10-Q.

## FORWARD-LOOKING STATEMENTS

The statements contained in this Form 10-Q that are not historical facts are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are made subject to certain risks and uncertainties, which could cause actual results to differ materially from those presented. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Among the factors that could cause plans, actions and results to differ materially from current expectations are, without limitation: (1) reduction in demand for lift trucks and related aftermarket parts and service on a global basis, (2) the ability of dealers, suppliers and end-users to obtain financing at reasonable rates, or at all, as a result of current economic and market conditions, (3) the political and economic uncertainties in Eastern Europe and Brazil, (4) customer acceptance of pricing, (5) delays in delivery or increases in costs, including transportation costs, of raw materials or sourced products and labor or changes in or unavailability of quality suppliers, (6) exchange rate fluctuations, changes in foreign import tariffs and monetary policies and other changes in the regulatory climate in the foreign countries in which the Company operates and/or sells products, (7) delays in manufacturing and delivery schedules, (8) bankruptcy of or loss of major dealers, retail customers or suppliers, (9) customer acceptance of, changes in the costs of, or delays in the development of new products, (10) introduction of new products by, or more favorable product pricing offered by, competitors, (11) product liability or other litigation, warranty claims or returns of products, (12) the effectiveness of the cost reduction programs implemented globally, including the successful implementation of procurement and sourcing initiatives, (13) changes mandated by federal, state and other regulation, including health, safety or environmental legislation and (14) delays in or increased costs associated with the Brazil plant construction.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

See pages 28, F-12, F-13 and F-18 through F-21 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for a discussion of the Company's derivative hedging policies and use of financial instruments. There have been no material changes in the Company's market risk exposures since December 31, 2013.

## Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures: An evaluation was carried out under the supervision and with the participation of the Company's management, including the principal executive officer and the principal financial officer, of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, these officers have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in internal control over financial reporting: During the third quarter of 2014, there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



Table of ContentsPART II  
OTHER INFORMATIONItem 1 Legal Proceedings  
None

## Item 1A Risk Factors

There have been no material changes from risk factors previously disclosed in the Annual Report on Form 10-K for the fiscal year ended December 31, 2013 in the section entitled "Risk Factors."

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds  
Purchases of Equity Securities by the Issuer and Affiliated Purchasers  
Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of the Publicly Announced Program	(d) Maximum Number of Shares (or Approximate Dollar Value) that May Yet Be Purchased Under the Program (1)
Month #1 (July 1 to 31, 2014)	20,853	\$83.59	20,853	\$37,492,415
Month #2 (August 1 to 31, 2014)	223,615	\$75.51	223,615	\$20,606,687
Month #3 (September 1 to 30, 2014)	120,123	\$75.78	120,123	\$11,492,788
Total	364,591	\$76.09	364,591	\$11,492,788

On December 7, 2012, the Company announced that the Company's Board of Directors approved the repurchase of up to \$50.0 million of the Company's outstanding Class A common stock. The timing and amount of any repurchases will be determined at the discretion of the Company's management based on a number of factors, including the availability of capital, other capital allocation alternatives and market conditions for the Company's Class A common stock. The share repurchase program does not require the Company to acquire any specific number of shares but it is limited to a maximum number of shares not to exceed ten percent of all Class A and (1) Class B common stock outstanding. It may be modified, suspended, extended or terminated by the Company at any time without prior notice and will be executed through open market purchases. All or part of the repurchases may be implemented under a Rule 10b5-1 trading plan, which would allow repurchases under pre-set terms at times when the Company might otherwise be prevented from doing so. As of September 30, 2014, the Company had repurchased 534,976 shares of Class A common stock for an aggregate purchase price of \$38.5 million, including 431,357 shares purchased during the nine months ended September 30, 2014 for an aggregate purchase price of \$33.3 million.

Item 3 Defaults Upon Senior Securities  
NoneItem 4 Mine Safety Disclosures  
Not applicableItem 5 Other Information  
None

Item 6 Exhibits

Incorporated by reference to the Exhibit Index on page 29 of this Quarterly Report on Form 10-Q for the period ended September 30, 2014.

27

---

Table of Contents

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Hyster-Yale Materials Handling, Inc.

Date: October 29, 2014

/s/ Kenneth C. Schilling  
Kenneth C. Schilling  
Senior Vice President and Chief Financial  
Officer (principal financial and accounting  
officer)

Table of Contents

Exhibit Index

Exhibit

Number\*

Description of Exhibits

10.1	Consulting Agreement, dated August 29, 2014, by and between NMHG and Michael P. Brogan is incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated September 5, 2014, Commission File Number 000-54799.
31(i)(1)	Certification of Alfred M. Rankin, Jr. pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act
31(i)(2)	Certification of Kenneth C. Schilling pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act
32	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed and dated by Alfred M. Rankin, Jr. and Kenneth C. Schilling
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Numbered in accordance with Item 601 of Regulation S-K.