NACCO INDUSTRIES INC
Form 10-Q
May 05, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q
(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015

OR

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

Commission file number 1-9172

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

DELAWARE (State or other jurisdiction of incorporation or organization)	34-1505819 (I.R.S. Employer Identification No.)
5875 LANDERBROOK DRIVE, SUITE 220, CLEVELAND, OHIO (Address of principal executive offices)	44124-4069 (Zip code)

(440) 229-5151
(Registrant's telephone number, including area code)

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

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

YES þ NO o

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

YES þ NO o

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

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

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

YES o NO þ

Number of shares of Class A Common Stock outstanding at April 30, 2015: 5,487,987
Number of shares of Class B Common Stock outstanding at April 30, 2015: 1,572,627

NACCO INDUSTRIES, INC.
TABLE OF CONTENTS

Table of Contents

Part I
FINANCIAL INFORMATION
Item 1. Financial Statements

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

	MARCH 31 2015	DECEMBER 31 2014	MARCH 31 2014
	(In thousands, except share data)		
ASSETS			
Cash and cash equivalents	$29,312	$ 61,135	$70,070
Accounts receivable, net	92,007	123,466	74,788
Accounts receivable from affiliates	2,119	57,421	32,247
Inventories, net	187,096	190,382	193,913
Deferred income taxes	17,562	18,566	10,721
Prepaid expenses and other	26,918	14,743	21,498
Total current assets	355,014	465,713	403,237
Property, plant and equipment, net	156,551	159,644	245,858
Goodwill	6,253	6,253	—
Other Intangibles, net	59,737	60,821	58,920
Deferred income taxes	11,660	15,806	736
Other non-current assets	64,422	62,283	71,249
Total assets	$653,637	$ 770,520	$780,000
LIABILITIES AND EQUITY			
Accounts payable	$101,011	$ 133,668	$103,642
Revolving credit agreements of subsidiaries - not guaranteed by the parent company	22,512	55,000	47,364
Current maturities of long-term debt of subsidiaries - not guaranteed by the parent company	1,476	1,467	7,868
Accrued payroll	24,135	23,567	10,351
Other current liabilities	36,083	40,979	32,836
Total current liabilities	185,217	254,681	202,061
Long-term debt of subsidiaries - not guaranteed by the parent company	164,935	191,431	168,069
Mine closing reserves	37,875	37,399	29,878
Pension and other postretirement obligations	10,498	10,616	7,409
Deferred income taxes	—	—	22,918
Other long-term liabilities	52,162	64,919	60,122
Total liabilities	450,687	559,046	490,457
Stockholders' equity			
Common stock:			
Class A, par value $1 per share, 5,574,814 shares outstanding (December 31, 2014 - 5,662,214 shares outstanding; March 31, 2014 - 6,218,289 shares outstanding)	5,575	5,662	6,218
Class B, par value $1 per share, convertible into Class A on a one-for-one basis, 1,572,647 shares outstanding (December 31, 2014 - 1,573,292 shares outstanding; March 31, 2014 - 1,580,870 shares outstanding)	1,573	1,573	1,581

Capital in excess of par value	—	—	—
Retained earnings	216,927	224,428	294,183
Accumulated other comprehensive loss	(21,125)	(20,189)	(12,439)
Total stockholders' equity	202,950	211,474	289,543
Total liabilities and equity	$653,637	$ 770,520	$780,000

See notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

	THREE MONTHS ENDED MARCH 31	
	2015	2014
	(In thousands, except per share data)	
Revenues	$193,734	$177,413
Cost of sales	155,545	141,242
Gross profit	38,189	36,171
Earnings of unconsolidated mines	12,553	12,438
Operating expenses		
Selling, general and administrative expenses	46,416	48,429
Amortization of intangible assets	1,085	765
	47,501	49,194
Operating profit (loss)	3,241	(585)
Other expense (income)		
Interest expense	2,125	1,454
Income from other unconsolidated affiliates	(1,172)	(388)
Closed mine obligations	402	316
Other, net, including interest income	479	122
	1,834	1,504
Income (loss) before income tax provision (benefit)	1,407	(2,089)
Income tax provision (benefit)	380	(565)
Net income (loss)	$1,027	$(1,524)
Basic earnings (loss) per share	$0.14	$(0.19)
Diluted earnings (loss) per share	$0.14	$(0.19)
Dividends per share	$0.2575	$0.2500
Basic weighted average shares outstanding	7,189	7,848
Diluted weighted average shares outstanding	7,208	7,848

See notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

	THREE MONTHS ENDED MARCH 31	
	2015	2014
	(In thousands)	
Net income (loss)	$1,027	$(1,524)
Foreign currency translation adjustment	(823)	(174)
Deferred gain on available for sale securities	38	63
Current period cash flow hedging activity, net of $320 and $225 tax benefit in the three months ended March 31, 2015 and March 31, 2014, respectively.	(595)	(407)
Reclassification of hedging activities into earnings, net of $99 and $96 tax benefit in the three months ended March 31, 2015 and March 31, 2014, respectively.	185	180
Reclassification of pension and postretirement adjustments into earnings, net of $108 and $83 tax benefit in the three months ended March 31, 2015 and March 31, 2014, respectively.	259	158
Total other comprehensive loss	$(936)	$(180)
Comprehensive income (loss)	$91	$(1,704)

See notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

	THREE MONTHS ENDED MARCH 31	
	2015	2014
	(In thousands)	
Operating activities		
Net income (loss)	$1,027	$(1,524)
Adjustments to reconcile from net income (loss) to net cash provided by (used for) operating activities:		
Depreciation, depletion and amortization	5,758	5,979
Amortization of deferred financing fees	631	184
Deferred income taxes	5,150	1,796
Other	(8,216)	(3,559)
Working capital changes:		
Accounts receivable	83,716	46,307
Inventories	3,286	(9,469)
Other current assets	(8,641)	(7,949)
Accounts payable	(24,800)	(26,899)
Other current liabilities	(20,439)	(30,882)
Net cash provided by (used for) for operating activities	37,472	(26,016)
Investing activities		
Expenditures for property, plant and equipment	(2,386)	(31,845)
Other	864	(57)
Net cash used for investing activities	(1,522)	(31,902)
Financing activities		
Additions to long-term debt	2,876	1,553
Reductions of long-term debt	(363)	(354)
Net additions (reductions) to revolving credit agreements	(61,488)	38,352
Cash dividends paid	(1,850)	(1,964)
Purchase of treasury shares	(6,911)	(4,986)
Other	(21)	—
Net cash provided by (used for) financing activities	(67,757)	32,601
Effect of exchange rate changes on cash	(16)	(3)
Cash and cash equivalents		
Decrease for the period	(31,823)	(25,320)
Balance at the beginning of the period	61,135	95,390
Balance at the end of the period	$29,312	$70,070

See notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss): Foreign Currency Translation Adjustment	Deferred Gain (Loss) on Available for Sale Securities	Deferred Gain (Loss) on Cash Flow Hedging	Pension and Postretirement Plan Adjustment	Total Stockholders' Equity
	(In thousands, except per share data)								
Balance, January 1, 2014	$6,290	$ 1,581	$941	$301,227	$ (803)	$1,021	$676	$ (13,153)	$ 297,780
Stock-based compensation	19	—	398	—	—	—	—	—	417
Purchase of treasury shares	(91)	—	(1,339)	(3,556)	—	—	—	—	(4,986)
Net loss	—	—	—	(1,524)	—	—	—	—	(1,524)
Cash dividends on Class A and Class B common stock: $0.25 per share	—	—	—	(1,964)	—	—	—	—	(1,964)
Current period other comprehensive income (loss)	—	—	—	—	(174)	63	(407)	—	(518)
Reclassification adjustment to net income (loss)	—	—	—	—	—	—	180	158	338
Balance, March 31, 2014	$6,218	$ 1,581	$—	$294,183	$ (977)	$1,084	$449	$ (12,995)	$ 289,543
Balance, January 1, 2015	$5,662	$ 1,573	$—	$224,428	$ (2,699)	$1,463	$56	$ (19,009)	$ 211,474
Stock-based compensation	34	—	112	—	—	—	—	—	146
Purchase of treasury shares	(121)	—	(112)	(6,678)	—	—	—	—	(6,911)
Net income	—	—	—	1,027	—	—	—	—	1,027
Cash dividends on Class A and Class B common stock: $0.2575 per share	—	—	—	(1,850)	—	—	—	—	(1,850)
Current period other comprehensive income (loss)	—	—	—	—	(823)	38	(595)	—	(1,380)
Reclassification adjustment to net income (loss)	—	—	—	—	—	—	185	259	444
	$5,575	$ 1,573	$—	$216,927	$ (3,522)	$1,501	$(354)	$ (18,750)	$ 202,950

Balance, March 31, 2015

See notes to Unaudited Condensed Consolidated Financial Statements.

6

Table of Contents

NACCO INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2015
(In thousands, except as noted and per share amounts)

NOTE 1—Basis of Presentation

The accompanying Unaudited Condensed Consolidated Financial Statements include the accounts of NACCO Industries, Inc. (the “parent company” or “NACCO”) and its wholly owned subsidiaries (collectively, “NACCO Industries, Inc. and Subsidiaries” or the “Company”). Intercompany accounts and transactions are eliminated in consolidation. The Company's subsidiaries operate in the following principal industries: mining, small appliances and specialty retail. The Company manages its subsidiaries primarily by industry.

The North American Coal Corporation and its affiliated companies (collectively, “NACoal”) mine and market steam and metallurgical coal for use in power generation and steel production and provide selected value-added mining services for other natural resources companies. Hamilton Beach Brands, Inc. (“HBB”) is a leading designer, marketer and distributor of small electric household and specialty housewares appliances, as well as commercial products for restaurants, bars and hotels. The Kitchen Collection, LLC (“KC”) is a national specialty retailer of kitchenware in outlet and traditional malls throughout the United States.

These financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") 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. GAAP 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 at March 31, 2015 and the results of its operations, comprehensive income (loss), cash flows and changes in equity for the three months ended March 31, 2015 and 2014 have been included. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

The balance sheet at December 31, 2014 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. GAAP for complete financial statements.

Operating results for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2015. The HBB and KC businesses are seasonal and a majority of revenues and operating profit typically occurs in the second half of the calendar year when sales of small electric household appliances to retailers and consumers increase significantly for the fall holiday selling season. For further information regarding seasonality of these businesses, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

NOTE 2—Recently Issued Accounting Standards

Accounting Standards Not Yet Adopted: In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which supersedes most current revenue recognition guidance, including industry-specific guidance, and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and is to be applied retrospectively, with early application not permitted. The Company is currently assessing the impact of implementing this guidance on the Company's financial position, results of operations, cash flows and related disclosures.

In August 2014, the FASB issued ASU No. 2014-15, "Preparation of Financial Statements - Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern," to provide guidance about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. Specifically, the amendments (1) provide a definition of the term “substantial doubt,” (2) require an evaluation every reporting period, (3) provide principles for considering the mitigating effect of management’s plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management’s plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that financial statements are issued. ASU 2014-15 is effective for fiscal years ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is

Table of Contents

permitted. The Company does not expect the adoption of this guidance to have an effect on the Company's financial position, results of operations, cash flows or related disclosures.

In April 2015, the FASB issued ASU No. 2015-03, "Interest—Imputation of Interest," to simplify the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early application is permitted. The Company does not expect the adoption of this guidance to have a material effect on the Company's financial position, results of operations, cash flows or related disclosures.

NOTE 3—Inventories

Inventories are summarized as follows:

	MARCH 31 2015	DECEMBER 31 2014	MARCH 31 2014
Coal - NACoal	$26,306	$29,576	$29,521
Mining supplies - NACoal	19,445	19,774	17,920
Total inventories at weighted average cost	45,751	49,350	47,441
Sourced inventories - HBB	104,258	104,746	97,322
Retail inventories - KC	37,087	36,286	49,150
Total inventories at FIFO	141,345	141,032	146,472
	$187,096	$190,382	$193,913

NOTE 4—Stockholders' Equity

Stock Repurchase Program: On November 12, 2013, the Company's Board of Directors approved a stock repurchase program (the "2013 Stock Repurchase Program") providing for the purchase of up to $60 million of the Company's Class A Common Stock outstanding through December 31, 2015. The timing and amount of any repurchases under the 2013 Stock Repurchase Program are 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 2013 Stock Repurchase Program does not require the Company to acquire any specific number of shares. It may be modified, suspended, extended or terminated by the Company at any time without prior notice and may be executed through open market purchases, privately negotiated transactions or otherwise. All or part of the repurchases under the 2013 Stock Repurchase Program 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 under applicable securities laws.

During the three months ended March 31, 2015 and March 31, 2014, the Company repurchased 121,763 and 90,978 shares of Class A Common Stock for an aggregate purchase price of $6.9 million and $5.0 million under the 2013 Stock Repurchase Program at a weighted average purchase price of $56.76 and $54.80 per share, respectively.

Table of Contents

Amounts Reclassified out of Accumulated Other Comprehensive Income (Loss): The following table summarizes the amounts reclassified out of Accumulated other comprehensive income (loss) ("AOCI") and recognized in the Unaudited Condensed Consolidated Statements of Operations:

	Amount Reclassified from AOCI THREE MONTHS ENDED March 31		
Details about AOCI Components	2015	2014	Location of (gain) loss reclassified from AOCI into income (loss)
(Gain) loss on cash flow hedging			
Foreign exchange contracts	$(85)	$(88)	Cost of sales
Interest rate contracts	369	364	Interest expense
	284	276	Total before income tax benefit
	(99)	(96)	Income tax benefit
	$185	$180	Net of tax
Pension and postretirement plan			
Actuarial loss	$381	$260	(a)
Prior-service credit	(14)	(19)	(a)
	367	241	Total before income tax benefit
	(108)	(83)	Income tax benefit
	$259	$158	Net of tax
Total reclassifications for the period	$444	$338	Net of tax

(a) These AOCI components are included in the computation of pension and postretirement health care (income) expense. See Note 10 for further discussion.

Table of Contents

NOTE 5—Fair Value Disclosure

Recurring Fair Value Measurements: The following table presents the Company's assets and liabilities accounted for at fair value on a recurring basis:

		Fair Value Measurements at Reporting Date Using		
Description	Date	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	March 31, 2015			
Assets:				
Available for sale securities	$7,279	$7,279	$—	$—
Foreign currency exchange contracts	634	—	634	—
	$7,913	$7,279	$634	$—
Liabilities:				
Interest rate swap agreements	$1,242	$—	$1,242	$—
	$1,242	$—	$1,242	$—
	December 31, 2014			
Assets:				
Available for sale securities	$7,220	$7,220	$—	$—
Interest rate swap agreements	181	—	181	—
Foreign currency exchange contracts	292	—	292	—
	$7,693	$7,220	$473	$—
Liabilities:				
Interest rate swap agreements	412	—	412	—
	$412	$—	$412	$—
	March 31, 2014			
Assets:				
Available for sale securities	$6,638	$6,638	$—	$—
Interest rate swap agreements	594	—	594	—
Foreign currency exchange contracts	125	—	125	—
	$7,357	$6,638	$719	$—
Liabilities:				
Foreign currency exchange contracts	$46	$—	$46	$—
Contingent consideration	1,589	—	—	1,589
	$1,635	$—	$46	$1,589

Bellaire Corporation (“Bellaire”) is a non-operating subsidiary of the Company with legacy liabilities relating to closed mining operations, primarily former Eastern U.S. underground coal mining operations. In connection with Bellaire's normal permit renewal with the Pennsylvania Department of Environmental Protection ("DEP"), Bellaire established a $5.0 million mine water treatment trust (the "Mine Water Treatment Trust") to provide a financial assurance mechanism in order to assure the long-term treatment of post-mining discharges. Bellaire's Mine Water Treatment Trust invests in available for sale securities that are reported at fair value based upon quoted market prices in active markets for identical assets; therefore, they are classified as Level 1 within the fair value hierarchy.

The Company uses significant other observable inputs to value derivative instruments used to hedge foreign currency and interest rate risk; therefore, they are classified within Level 2 of the valuation hierarchy. The fair value for these contracts is determined based on exchange rates and interest rates, respectively.

Table of Contents

There were no transfers into or out of Levels 1, 2 or 3 during the three months ended March 31, 2015 and 2014.

Other Fair Value Measurement Disclosures: The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term nature of these instruments. Revolving credit agreements and long-term debt are recorded at carrying value in the Unaudited Condensed Consolidated Balance Sheets. The fair value of revolving credit agreements approximates their carrying value as the stated rates of the debt reflect recent market conditions. The fair values of revolving credit agreements and long-term debt, excluding capital leases, were determined using current rates offered for similar obligations taking into account subsidiary credit risk, which is Level 2 as defined in the fair value hierarchy. At March 31, 2015, December 31, 2014 and March 31, 2014, both the fair value and the book value of the revolving credit agreements and long-term debt, excluding capital leases, was $177.6 million, $236.3 million and $210.6 million, respectively.

NOTE 6—Unconsolidated Subsidiaries

NACoal has two consolidated mining operations: Mississippi Lignite Mining Company (“MLMC”) and Centennial Natural Resources ("Centennial"), and provides dragline mining services for independently owned limerock quarries in Florida. Reed Minerals was renamed Centennial on January 1, 2015 for coal marketing and other operational reasons. NACoal also has the following wholly owned unconsolidated subsidiaries that each meet the definition of a variable interest entity and are accounted for using the equity method:

The Coteau Properties Company ("Coteau")
The Falkirk Mining Company ("Falkirk")
The Sabine Mining Company ("Sabine")
Demery Resources Company, LLC (“Demery”)
Caddo Creek Resources Company, LLC (“Caddo Creek”)
Coyote Creek Mining Company, LLC (“Coyote Creek”)
Camino Real Fuels, LLC (“Camino Real”)
Liberty Fuels Company, LLC (“Liberty”)
NoDak Energy Services, LLC ("NoDak")

The unconsolidated subsidiaries, with the exception of NoDak (collectively, the "Unconsolidated Mines"), were formed to develop, construct and operate surface coal mines under long-term contracts and are capitalized primarily with debt financing provided by or supported by their respective customers, and without recourse to NACCO and NACoal. Coteau, Falkirk, Sabine, Liberty and Coyote supply lignite coal for power generation. Demery and Caddo Creek supply lignite coal for the production of activated carbon. Camino Real supplies sub-bituminous coal for power generation. NoDak operates and maintains a coal processing facility.

The contracts with the customers of the Unconsolidated Mines provide for reimbursement at a price based on actual costs plus an agreed pre-tax profit per ton of coal sold or actual costs plus a management fee. Although NACoal owns 100% of the equity and manages the daily operations of these entities, the Company has determined that the equity capital provided by NACoal is not sufficient to adequately finance the ongoing activities or absorb any expected losses without additional support from the customers. The customers have a controlling financial interest and have the power to direct the activities that most significantly affect the economic performance of the entities. As a result, NACoal is not the primary beneficiary and, therefore, does not consolidate these entities' financial positions or results of operations. The income taxes resulting from the operations of the Unconsolidated Mines are solely the responsibility of the Company. The pre-tax income from the Unconsolidated Mines is reported on the line “Earnings of unconsolidated mines” in the Unaudited Condensed Consolidated Statements of Operations, with related income taxes included in the provision for income taxes. The Company has included the pre-tax earnings of the Unconsolidated

Mines above operating profit because they are an integral component of the Company's business and operating results. The pre-tax income from NoDak is reported on the line "(Income) loss from other unconsolidated affiliates" in the "Other expense (income)" section of the Unaudited Condensed Consolidated Statements of Operations, with the related income taxes included in the provision for income taxes.

North American Coal Corporation India Private Limited ("NACC India") was formed to provide technical business advisory services to the third-party owner of a coal mine in India. During the third quarter of 2014, NACC India's customer defaulted on its contractual payment obligations and as a result of this default, NACC India has terminated its contract with the customer and is pursuing contractual remedies. Prior to contract termination, NACC India met the definition of a variable interest entity of which NACoal was not the primary beneficiary and was accounted for using the equity method with net income or loss reported on the line "(Income) loss from other unconsolidated affiliates" in the "Other expense (income)" section of the

Table of Contents

Consolidated Statements of Operations. Subsequent to contract termination, NACC India is no longer a variable interest entity and its financial position and results of operations are consolidated by NACoal as of the contract termination date.

The investments in the Unconsolidated Mines and related tax positions totaled $31.2 million, $28.2 million and $34.1 million at March 31, 2015, December 31, 2014 and March 31, 2014, respectively. These amounts are included on the line “Other Non-current Assets” in the Unaudited Condensed Consolidated Balance Sheets. The Company's maximum risk of loss relating to these entities is limited to its invested capital, which was $4.0 million at both March 31, 2015 and December 31, 2014, and $5.3 million at March 31, 2014, respectively.

Included in "Accounts receivable from affiliates" was $53.2 million and $29.6 million as of December 31, 2014 and March 31, 2014, respectively, due from Coyote Creek, primarily for the purchase of a dragline from NACoal and mine development. Coyote Creek repaid NACoal the amount outstanding during the first quarter of 2015 as a result of Coyote Creek’s completion of third party financing.

NACoal is a party to certain guarantees related to Coyote Creek. Under certain circumstances of default or termination of Coyote Creek’s Lignite Sales Agreement (“LSA”), NACoal would be obligated for payment of a "make-whole" amount to Coyote Creek’s third party lenders. The “make-whole” amount is based on the excess, if any, of the discounted value of the remaining scheduled debt payments over the principal amount. In addition, in the event Coyote Creek’s LSA is terminated on or after January 1, 2024 by Coyote Creek’s customers, NACoal is obligated to purchase Coyote Creek’s dragline and rolling stock for the then net book value of those assets. To date, no payments have been required from NACoal since the inception of these guarantees. The Company believes that the likelihood of NACoal’s future performance under the guarantees is remote, and no amounts related to these guarantees have been recorded.

Summarized financial information for the Unconsolidated Mines is as follows:

	THREE MONTHS ENDED MARCH 31	
	2015	2014
Revenues	$148,071	$138,523
Gross profit	$18,878	$19,493
Income before income taxes	$13,119	$13,168
Net income	$10,155	$10,146

NOTE 7—Contingencies

Various legal and regulatory proceedings and claims have been or may be asserted against NACCO and certain subsidiaries relating to the conduct of their businesses, including product liability, patent infringement, asbestos-related claims, environmental and other claims. These proceedings and claims are incidental to the ordinary course of business of the Company. Management believes that it has meritorious defenses and will vigorously defend the Company in these actions. The Company's policy is to expense legal fees as services are rendered and to accrue for liabilities when losses are probable and reasonably estimable. Although the ultimate disposition of these proceedings is not presently determinable, management believes, after consultation with its legal counsel, that the likelihood is remote that material losses will be incurred in excess of accruals already recognized.

HBB is investigating or remediating historical environmental contamination at some current and former sites operated by HBB or by businesses it acquired. Based on the current stage of the investigation or remediation at each known site, HBB estimates the total investigation and remediation costs and the period of assessment and remediation activity required for each site. The estimate of future investigation and remediation costs is primarily based on variables associated with site clean-up, including, but not limited to, physical characteristics of the site, the nature and extent of the contamination and applicable regulatory programs and remediation standards. No assessment can fully characterize all subsurface conditions at a site. There is no assurance that additional assessment and remediation efforts will not result in adjustments to estimated remediation costs or the time frame for remediation at these sites.

HBB's estimates of investigation and remediation costs may change if it discovers contamination at additional sites or additional contamination at known sites, if the effectiveness of its current remediation efforts change, if applicable federal or state regulations change or if HBB's estimate of the time required to remediate the sites changes. HBB's revised estimates may differ materially from original estimates.

Table of Contents

At March 31, 2015, December 31, 2014 and March 31, 2014, HBB had accrued undiscounted obligations of $9.3 million, $9.7 million and $6.8 million, respectively, for environmental investigation and remediation activities. In addition, HBB estimates that it is reasonably possible that it may incur additional expenses in the range of zero to $5.0 million related to the environmental investigation and remediation at these sites.

NOTE 8—Product Warranties

HBB provides a standard warranty to consumers for all of its products. The specific terms and conditions of those warranties vary depending upon the product brand. In general, if a product is returned under warranty, a refund is provided to the consumer by HBB's customer, the retailer. Generally, the retailer returns those products to HBB for a credit. 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.

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

Changes in the Company's current and long-term recorded warranty liability are as follows:

	2015
Balance at January 1	$5,856
Warranties issued	2,164
Settlements made	(2,815)
Balance at March 31	$5,205

NOTE 9—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 and net operating 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 other unusual or non-recurring tax adjustments are reflected in the period in which they occur as an addition to, or reduction from, the income tax provision, rather than included in the estimated effective annual income tax rate.

Table of Contents

NOTE 10—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 were frozen for all employees effective as of the close of business on December 31, 2013. All eligible employees of the Company, including employees whose pension benefits are frozen, receive retirement benefits under defined contribution retirement plans.

The Company also maintains postretirement health care plans which provide benefits to eligible retired employees. All health care plans of the Company have a cap on the Company's share of the costs. These plans have no assets. Under the Company's current policy, plan benefits are funded at the time they are due to participants.

The components of pension and postretirement health care expense (income) are set forth below:

	THREE MONTHS ENDED MARCH 31	
	2015	2014
U.S. Pension and Postretirement Health Care		
Service cost	$17	$18
Interest cost	717	794
Expected return on plan assets	(1,277)	(1,267)
Amortization of actuarial loss	311	244
Amortization of prior service credit	(14)	(19)
Total	$(246)	$(230)
Non-U.S. Pension		
Interest cost	$39	$49
Expected return on plan assets	(70)	(74)
Amortization of actuarial loss	11	16
Total	$(20)	$(9)

Table of Contents

NOTE 11—Business Segments

NACCO is a holding company with the following principal subsidiaries: NACoal, HBB and KC. See Note 1 for a discussion of the Company's industries and product lines. NACCO's non-operating segment, NACCO and Other, includes the accounts of the parent company and Bellaire Corporation ("Bellaire"), a non-operating subsidiary of the Company.

Financial information for each of NACCO's reportable segments is presented in the following table. The line "Eliminations" in the Revenues section eliminates revenues from HBB sales to KC. The amounts of these revenues are based on current market prices of similar third-party transactions. No other sales transactions occur among reportable segments.

	THREE MONTHS ENDED MARCH 31	
	2015	2014
Revenues		
NACoal	$41,319	$39,872
HBB	123,293	101,325
KC	29,967	36,876
Eliminations	(845)	(660)
Total	$193,734	$177,413
Operating profit (loss)		
NACoal	$5,207	$6,653
HBB	2,188	937
KC	(3,045)	(6,514)
NACCO and Other	(1,289)	(1,352)
Eliminations	180	(309)
Total	$3,241	$(585)
Net income (loss)		
NACoal	$4,547	$5,705
HBB	618	350
KC	(1,893)	(4,033)
NACCO and Other	(1,239)	(1,197)
Eliminations	(1,006)	(2,349)
Total	$1,027	$(1,524)

NOTE 12—Acquisition

Weston Brands: On December 16, 2014, HBB completed the asset acquisition of Weston Products, LLC, which HBB refers to as Weston Brands, in exchange for cash consideration of $25.4 million, of which $25.0 million was paid at closing. The final purchase price was subject to customary post-closing adjustments based on net working capital and EBITDA calculations. The net working capital and EBITDA adjustment is $0.4 million and will be paid in the second quarter of 2015. During 2014 and the first three months of 2015, the Company incurred $0.4 million and less than $0.1 million, respectively, in acquisition costs related to Weston Brands.

Weston Brands markets a range of game and garden food processing equipment including, but not limited to, meat grinders, bag sealers, dehydrators and meat slicers under the Weston® brand as well as several private label brands. The results of Weston Brands operations have been included in the Company's Consolidated Financial Statements since the date of acquisition.

The Weston Brands acquisition allows HBB to expand beyond its small kitchen and commercial appliance businesses into the growing, hunting, wild game processing, specialty food processing and specialty housewares industries. The acquisition is also fully supportive of HBB's strategic initiatives, including enhancing placements in the North American consumer market, enhancing internet sales and participating in the only-the-best market.

Table of Contents

The following table summarizes the fair values of the assets acquired and liabilities assumed of Weston Brands as of the acquisition date:

Accounts receivable	$6,100
Inventory	5,113
Other current assets	624
Property, plant and equipment	590
Intangible assets	10,100
Total assets acquired	22,527
Current liabilities acquired	3,367
Net assets acquired	19,160
Purchase price	25,413
Goodwill	$6,253

The goodwill arising from the acquisition is expected to be deductible for tax purposes.

Table of Contents

Item 2. - Management's Discussion and Analysis of Financial Condition and Results of Operations
(Dollars in thousands, except as noted and per share data)

NACCO Industries, Inc. (the “parent company” or “NACCO”) and its wholly owned subsidiaries (collectively, the “Company”) operate in the following principal industries: mining, small appliances and specialty retail. Results of operations and financial condition are discussed separately by subsidiary, which corresponds with the industry groupings.

The North American Coal Corporation and its affiliated coal companies (collectively, “NACoal”) mine and market steam and metallurgical coal for use in power generation and steel production and provide selected value-added mining services for other natural resources companies. Hamilton Beach Brands, Inc. (“HBB”) is a leading designer, marketer and distributor of small electric household and specialty housewares appliances, as well as commercial products for restaurants, bars and hotels. The Kitchen Collection, LLC (“KC”) is a national specialty retailer of kitchenware in outlet and traditional malls throughout the United States.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES
Please refer to the discussion of the Company's Critical Accounting Policies and Estimates as disclosed on pages 34 through 37 in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. The Company's Critical Accounting Policies and Estimates have not materially changed since December 31, 2014.

THE NORTH AMERICAN COAL CORPORATION

NACoal mines and markets steam and metallurgical coal for use in power generation and steel production and provides selected value-added mining services for other natural resources companies. Coal is surface mined from NACoal's developed mines in North Dakota, Texas, Mississippi, Louisiana and Alabama. Total coal reserves approximate 2.0 billion tons with approximately 1.1 billion tons committed to customers pursuant to long-term contracts.

NACoal has two consolidated mining operations: Mississippi Lignite Mining Company (“MLMC”) and Centennial Natural Resources ("Centennial"), and provides dragline mining services for independently owned limerock quarries in Florida. Reed Minerals was renamed Centennial on January 1, 2015. NACoal also has the following wholly owned unconsolidated subsidiaries that each meet the definition of a variable interest entity and are accounted for using the equity method:

The Coteau Properties Company ("Coteau")
The Falkirk Mining Company ("Falkirk")
The Sabine Mining Company ("Sabine")
Demery Resources Company, LLC (“Demery”)
Caddo Creek Resources Company, LLC (“Caddo Creek”)
Coyote Creek Mining Company, LLC (“Coyote Creek”)
Camino Real Fuels, LLC (“Camino Real”)
Liberty Fuels Company, LLC (“Liberty”)
NoDak Energy Services, LLC ("NoDak")

The unconsolidated subsidiaries, with the exception of NoDak, were formed to develop, construct and operate surface coal mines under long-term contracts and are capitalized primarily with debt financing provided by or supported by their respective customers, and without recourse to NACCO and NACoal. Coteau, Falkirk, Sabine, Liberty and Coyote supply lignite coal for power generation. Demery and Caddo Creek supply lignite coal for the production of activated carbon. Camino Real supplies sub-bituminous coal for power generation. NoDak operates and maintains a coal processing facility.

Coteau, Falkirk and Sabine were developed between 1974 and 1981. Demery commenced delivering coal to its customer in 2012 and full production levels are expected to be reached in 2016. Liberty commenced production in 2013 but has not delivered any coal to its customer. Production levels are expected to increase gradually beginning in the second half of 2015 to full production of approximately 4.4 million tons of coal annually beginning in 2020. Construction of the Kemper County Energy Facility adjacent to Liberty is still in process, and the pace of completion may affect the pace of the increase in deliveries. Caddo Creek commenced delivering coal in late 2014. Camino Real expects initial deliveries in the second half of 2015, and expects to mine approximately 2.5 million to 3.0 million tons of coal annually when at full production. Coyote Creek received its mining permit in October 2014 and is developing a mine in Mercer County, North Dakota, from which it expects to deliver approximately 2.5 million tons of coal annually beginning in mid-2016.

Table of Contents

The contracts with the customers of the unconsolidated subsidiaries provide for reimbursement to the company at a price based on actual costs plus an agreed pre-tax profit per ton of coal sold or actual costs plus a management fee.

North American Coal Corporation India Private Limited (“NACC India”) was formed to provide technical business advisory services to the third-party owner of a coal mine in India. During the third quarter of 2014, NACC India's customer defaulted on its contractual payment obligations and, as a result of this default, NACC India has terminated its contract with the customer and is pursuing contractual remedies.

FINANCIAL REVIEW

Tons of coal sold by NACoal's operating mines were as follows for the three months ended March 31:

	2015	2014
	(In millions)	
Coteau	3.8	4.0
Falkirk	1.9	2.0
Sabine	1.0	1.1
Other	0.1	—
Unconsolidated mines	6.8	7.1
MLMC	0.9	0.6
Centennial	0.1	0.2
Consolidated mines	1.0	0.8
Total tons sold	7.8	7.9

The limerock dragline mining operations sold 4.5 million and 5.0 million cubic yards of limerock in the three months ended March 31, 2015 and March 31, 2014, respectively.

The results of operations for NACoal were as follows for the three months ended March 31:

	2015		2014	
Revenue - consolidated mines	$39,087		$37,496	
Royalty and other	2,232		2,376	
Total revenues	41,319		39,872	
Cost of sales - consolidated mines	39,666		36,582	
Cost of sales - royalty and other	500		445	
Total cost of sales	40,166		37,027	
Gross profit	1,153		2,845	
Earnings of unconsolidated mines (a)	12,553		12,438	
Selling, general and administrative expenses	7,759		7,865	
Amortization of intangible assets	740		765	
Operating profit	5,207		6,653	
Interest expense	1,681		1,071	
Other (income) or loss, including (income) loss from other unconsolidated affiliates	(1,485	)	(473	)
Income before income tax provision	5,011		6,055	
Income tax provision	464		350	
Net income	$4,547		$5,705	
Effective income tax rate (b)	9.3	%	5.8	%

(a) See Note 6 to the Unaudited Condensed Consolidated Financial Statements for a discussion of the Company's unconsolidated subsidiaries, including summarized financial information.

(b) The NACoal effective income tax rate is affected by the benefit of percentage depletion. See further information regarding the consolidated effective income tax rate in Note 9 to the Unaudited Condensed Consolidated Financial Statements.

Table of Contents

First Quarter of 2015 Compared with First Quarter of 2014

The following table identifies the components of change in revenues for the first quarter of 2015 compared with the first quarter of 2014:

	Revenues
2014	$39,872
Increase (decrease) from:	
Consolidated mining operations	1,651
Royalty and other income	(204)
2015	$41,319

Revenues increased in the first quarter of 2015 compared with the first quarter of 2014 due to an increase in revenues at the consolidated mining operations. The increase in revenues at the consolidated mining operations was primarily the result of more tons sold at MLMC, as its customer's power plant did not have a planned outage in the first quarter of 2015 in contrast to a significant outage during the first quarter of 2014, and increased reimbursable costs at the limerock dragline mining operations. The increase in revenues at MLMC and the limerock dragline mining operations was partially offset by a decrease in revenues at Centennial primarily due to reduced coal requirements at a customer's power plant, in part as a result of a significant planned outage during the first quarter of 2015.

The following table identifies the components of change in operating profit for the first quarter of 2015 compared with the first quarter of 2014:

	Operating Profit
2014	$6,653
Increase (decrease) from:	
Consolidated mining operations	(1,468)
Royalty and other income	(199)
Earnings of unconsolidated mines	116
Selling, general and administrative expenses	105
2015	$5,207

Operating profit decreased in the first quarter of 2015 from the first quarter of 2014 primarily as a result of lower operating results at the consolidated mining operations. The decrease at the consolidated mining operations was primarily attributable to a higher operating loss at Centennial resulting from a reduction in tons sold and no capitalized costs related to mine development in the first quarter of 2015, partially offset by a substantial improvement in operating results at MLMC due to an increase in tons sold in the first quarter of 2015 compared with the first quarter of 2014.

NACoal recognized net income of $4.5 million in the first quarter of 2015 compared with net income of $5.7 million in the first quarter of 2014. The decrease in net income was primarily due to the factors affecting operating profit and increased interest expense as a result of higher debt outstanding during the first quarter of 2015, partially offset by $0.9 million in other income related to a dividend received in the first quarter of 2015.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The following tables detail the changes in cash flow for the three months ended March 31:

	2015	2014	Change
Operating activities:			
Net income	$4,547	$5,705	$(1,158)
Depreciation, depletion and amortization	4,403	4,778	(375)
Other	(3,548)	(4,237)	689
Working capital changes	66,025		