NACCO INDUSTRIES INC
Form 10-Q
July 30, 2014

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 June 30, 2014
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	Smaller reporting company o
		(Do not check if a smaller reporting company)	

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

YES o NO þ

Number of shares of Class A Common Stock outstanding at July 25, 2014: 6,046,238
Number of shares of Class B Common Stock outstanding at July 25, 2014: 1,580,590

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

	JUNE 30 2014	DECEMBER 31 2013	JUNE 30 2013
	(In thousands, except share data)		
ASSETS			
Cash and cash equivalents	$60,907	$ 95,390	$85,058
Accounts receivable, net	85,001	120,789	81,271
Accounts receivable from affiliates	36,351	32,636	29,029
Inventories, net	188,148	184,445	167,470
Deferred income taxes	12,740	14,452	13,701
Prepaid expenses and other	23,195	13,578	16,111
Total current assets	406,342	461,290	392,640
Property, plant and equipment, net	254,362	219,256	185,626
Coal supply agreements and other intangibles, net	57,929	59,685	65,666
Other non-current assets	70,160	69,725	54,185
Total assets	$788,793	$ 809,956	$698,117
LIABILITIES AND EQUITY			
Accounts payable	$99,319	$ 133,016	$90,334
Revolving credit agreements of subsidiaries - not guaranteed by the parent company	74,524	23,460	27,264
Current maturities of long-term debt of subsidiaries - not guaranteed by the parent company	7,877	7,859	6,969
Accrued payroll	14,837	29,030	18,378
Other current liabilities	37,868	44,754	30,510
Total current liabilities	234,425	238,119	173,455
Long-term debt of subsidiaries - not guaranteed by the parent company	147,257	152,431	129,687
Mine closing reserves	35,930	29,764	28,928
Pension and other postretirement obligations	7,355	7,648	14,573
Long-term deferred income taxes	23,026	24,786	22,961
Other long-term liabilities	66,013	59,428	60,487
Total liabilities	514,006	512,176	430,091
Stockholders' equity			
Common stock:			
Class A, par value $1 per share, 6,046,238 shares outstanding (December 31, 2013 - 6,290,414 shares outstanding; June 30, 2013 - 6,454,764 shares outstanding)	6,046	6,290	6,455
Class B, par value $1 per share, convertible into Class A on a one-for-one basis, 1,580,590 shares outstanding (December 31, 2013 - 1,581,106 shares outstanding; June 30, 2013 - 1,581,835 shares outstanding)	1,581	1,581	1,582
Capital in excess of par value	—	941	4,185
Retained earnings	279,922	301,227	275,662
Accumulated other comprehensive loss	(12,762)	(12,259)	(19,858)

Total stockholders' equity	274,787	297,780	268,026
Total liabilities and equity	$788,793	$ 809,956	$698,117

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 JUNE 30		SIX MONTHS ENDED JUNE 30	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Revenues	$200,370	$196,017	$377,783	$392,069
Cost of sales	163,847	148,387	305,089	298,178
Gross profit	36,523	47,630	72,694	93,891
Earnings of unconsolidated mines	11,567	10,281	24,005	22,379
Operating expenses				
Selling, general and administrative expenses	50,990	48,489	99,419	98,785
Amortization of intangible assets	991	619	1,756	1,660
	51,981	49,108	101,175	100,445
Operating profit (loss)	(3,891)	8,803	(4,476)	15,825
Other expense (income)				
Interest expense	1,950	1,148	3,404	2,452
(Income) loss from other unconsolidated affiliates	420	(336)	32	(727)
Closed mine obligations	308	272	624	677
Other, net, including interest income	(273)	476	(151)	343
	2,405	1,560	3,909	2,745
Income (loss) before income tax provision (benefit)	(6,296)	7,243	(8,385)	13,080
Income tax provision (benefit)	(2,672)	2,096	(3,237)	3,511
Net income (loss)	$(3,624)	$5,147	$(5,148)	$9,569
Basic earnings (loss) per share	$(0.47)	$0.63	$(0.66)	$1.16
Diluted earnings (loss) per share	$(0.47)	$0.63	$(0.66)	$1.16
Dividends per share	$0.2575	$0.2500	$0.5075	$0.5000
Basic weighted average shares outstanding	7,712	8,179	7,777	8,259
Diluted weighted average shares outstanding	7,718	8,184	7,787	8,284

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 JUNE 30		SIX MONTHS ENDED JUNE 30	
	2014	2013	2014	2013
	(In thousands)			
Net income (loss)	$(3,624)	$5,147	$(5,148)	$9,569
Foreign currency translation adjustment	258	(543)	84	(64)
Deferred gain on available for sale securities	174	48	237	292
Current period cash flow hedging activity, net of $583 and $808 tax benefit in the three and six months ended June 30, 2014, respectively, and $356 and $432 tax expense in the three and six months ended June 30, 2013, respectively.	(1,043)	577	(1,450)	697
Reclassification of hedging activities into earnings, net of $91 and $187 tax benefit in the three and six months ended June 30, 2014, respectively, and $77 and $170 tax benefit in the three and six months ended June 30, 2013, respectively.	173	124	353	273
Reclassification of pension and postretirement adjustments into earnings, net of $77 and $160 tax benefit in the three and six months ended June 30, 2014, respectively, and $264 and $408 tax benefit in the three and six months ended June 30, 2013, respectively.	115	363	273	805
Total other comprehensive income (loss)	$(323)	$569	$(503)	$2,003
Comprehensive income (loss)	$(3,947)	$5,716	$(5,651)	$11,572

See notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

	SIX MONTHS ENDED JUNE 30	
	2014	2013
	(In thousands)	
Operating activities		
Net income (loss)	$(5,148)	$9,569
Adjustments to reconcile from net income (loss) to net cash used for operating activities:		
Depreciation, depletion and amortization	12,597	10,209
Amortization of deferred financing fees	270	295
Deferred income taxes	(248)	(3,333)
Other	7,569	(12,444)
Working capital changes:		
Accounts receivable	31,466	40,334
Inventories	(3,723)	2,070
Other current assets	(9,163)	(4,131)
Accounts payable	(33,695)	(37,738)
Other current liabilities	(21,337)	(7,389)
Net cash used for operating activities	(21,412)	(2,558)
Investing activities		
Expenditures for property, plant and equipment	(41,180)	(13,816)
Other	380	1,101
Net cash used for investing activities	(40,800)	(12,715)
Financing activities		
Additions to long-term debt	1,553	1,768
Reductions of long-term debt	(1,710)	(7,264)
Net additions (reductions) to revolving credit agreements	46,063	(8,280)
Cash dividends paid	(3,957)	(4,134)
Purchase of treasury shares	(14,247)	(21,608)
Other	2	(10)
Net cash provided by (used for) financing activities	27,704	(39,528)
Effect of exchange rate changes on cash	25	4
Cash and cash equivalents		
Decrease for the period	(34,483)	(54,797)
Balance at the beginning of the period	95,390	139,855
Balance at the end of the period	$60,907	$85,058

See notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

					Accumulated Other Comprehensive Income (Loss)				
	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	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, 2013	$6,771	$ 1,582	$24,612	$270,227	$ (574)	$292	$(286)	$ (21,293)	$ 281,331
Stock-based compensation	78	—	787	—	—	—	—	—	865
Purchase of treasury shares	(394)	—	(21,214)	—	—	—	—	—	(21,608)
Net income (loss)	—	—	—	9,569	—	—	—	—	9,569
Cash dividends on Class A and Class B common stock: $0.50 per share	—	—	—	(4,134)	—	—	—	—	(4,134)
Current period other comprehensive income (loss)	—	—	—	—	(64)	292	697	—	925
Reclassification adjustment to net income (loss)	—	—	—	—	—	—	273	805	1,078
Balance, June 30, 2013	$6,455	$ 1,582	$4,185	$275,662	$ (638)	$584	$684	$ (20,488)	$ 268,026
Balance, January 1, 2014	$6,290	$ 1,581	$941	$301,227	$ (803)	$1,021	$676	$ (13,153)	$ 297,780
Stock-based compensation	22	—	840	—	—	—	—	—	862
Purchase of treasury shares	(266)	—	(1,781)	(12,200)	—	—	—	—	(14,247)
Net income (loss)	—	—	—	(5,148)	—	—	—	—	(5,148)
Cash dividends on Class A and Class B common stock: $0.5075 per share	—	—	—	(3,957)	—	—	—	—	(3,957)
Current period other comprehensive income (loss)	—	—	—	—	84	237	(1,450)	—	(1,129)
Reclassification adjustment to net income (loss)	—	—	—	—	—	—	353	273	626
Balance, June 30, 2014	$6,046	$ 1,581	$—	$279,922	$ (719)	$1,258	$(421)	$ (12,880)	$ 274,787

See notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

NACCO INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014
(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 appliances, as well as commercial products for restaurants, bars and hotels. The Kitchen Collection, LLC (“KC”) is a national specialty retailer of kitchenware and gourmet foods operating under the Kitchen Collection® and Le Gourmet Chef® store names in outlet and traditional malls throughout the United States.

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 June 30, 2014 and the results of its operations, comprehensive income (loss), cash flows and changes in equity for the six months ended June 30, 2014 and 2013 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, 2013.

The 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. GAAP for complete financial statements.

Operating results for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2014. 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, 2013.

Certain amounts in the prior periods' Unaudited Condensed Consolidated Financial Statements have been reclassified to conform to the current period's presentation.

NOTE 2—Recently Issued Accounting Standards

Accounting Standards Adopted in 2014: In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which includes amendments that change the requirements for reporting discontinued operations and require additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations - that is, a major effect on the organization's operations and financial results should be presented as discontinued operations. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. Additionally, the ASU requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The Company adopted this guidance during the first quarter of 2014. The adoption did not have an effect on the Company’s financial position, results of operations or cash flows.

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

Table of Contents

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, and cash flows.

NOTE 3—Inventories

Inventories are summarized as follows:

	JUNE 30 2014	DECEMBER 31 2013	JUNE 30 2013
Coal - NACoal	$24,377	$24,710	$22,154
Mining supplies - NACoal	19,659	17,406	15,994
Total inventories at weighted average cost	44,036	42,116	38,148
Sourced inventories - HBB	97,545	90,713	79,778
Retail inventories - KC	46,567	51,616	49,544
Total inventories at FIFO	144,112	142,329	129,322
	$188,148	$184,445	$167,470

NOTE 4—Stockholders' Equity

Stock Repurchase Program: On November 8, 2011, the Company announced that its Board of Directors approved the repurchase of up to $50 million of the Company's Class A Common Stock outstanding (the "2011 Stock Repurchase Program"). The original authorization for the 2011 Stock Repurchase Program was set to expire on December 31, 2012; however, in November 2012 the Company's Board of Directors approved an extension of the 2011 Stock Repurchase Program through December 31, 2013. In total, the Company repurchased $35.6 million of Class A Common Stock under the 2011 Stock Repurchase Program.

On November 12, 2013, the Company's Board of Directors terminated the 2011 Stock Repurchase Program and approved a new 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 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 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.

During the three months ended June 30, 2014, the Company repurchased a total of 175,359 shares of Class A Common Stock for an aggregate purchase price of $9.3 million under the 2013 Stock Repurchase Program at an average purchase price of $52.82 per share. During the six months ended June 30, 2014, the Company repurchased a total of 266,337 shares of Class A Common Stock for an aggregate purchase price of $14.2 million under the 2013 Stock Repurchase Program at an average purchase price of $53.49 per share.

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 June 30		SIX MONTHS ENDED June 30		
Details about AOCI Components	2014	2013	2014	2013	Location of (gain) loss reclassified from AOCI into income (loss)
(Gain) loss on cash flow hedging					
Foreign exchange contracts	$(114)	$(27)	$(202)	$(17)	Cost of sales
Interest rate contracts	378	228	742	460	Interest expense
	264	201	540	443	Total before income tax benefit
	(91)	(77)	(187)	(170)	Income tax benefit
	$173	$124	$353	$273	Net of tax
Pension and postretirement plan					
Actuarial loss	$209	$682	$469	$1,313	(a)
Prior-service credit	(17)	(55)	(36)	(100)	(a)
	192	627	433	1,213	Total before income tax benefit
	(77)	(264)	(160)	(408)	Income tax benefit
	$115	$363	$273	$805	Net of tax
Total reclassifications for the period	$288	$487	$626	$1,078	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.

9

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)
	June 30, 2014			
Assets:				
Available for sale securities	$6,906	$6,906	$—	$—
Interest rate swap agreements	278	—	278	—
	$7,184	$6,906	$278	$—
Liabilities:				
Interest rate swap agreements	$602	$—	$602	$—
Foreign currency exchange contracts	393	—	393	—
Contingent consideration	1,597	—	—	1,597
	$2,592	$—	$995	$1,597
	December 31, 2013			
Assets:				
Available for sale securities	$6,540	$6,540	$—	$—
Interest rate swap agreements	937	—	937	—
Foreign currency exchange contracts	83	—	83	—
	$7,560	$6,540	$1,020	$—
Liabilities:				
Foreign currency exchange contracts	$14	$—	$14	$—
Contingent consideration	1,581	—	—	1,581
	$1,595	$—	$14	$1,581
	June 30, 2013			
Assets:				
Available for sale securities	$5,869	$5,869	$—	$—
Interest rate swap agreements	764	—	764	—
Foreign currency exchange contracts	326	—	326	—
	$6,959	$5,869	$1,090	$—
Liabilities:				
Contingent consideration	$1,564	$—	$—	$1,564
	$1,564	$—	$—	$1,564

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 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 and in the table above.

Table of Contents

Interest rate swap agreements and forward foreign currency exchange contracts held by the Company have been designated as hedges of forecasted cash flows. The Company does not currently hold any nonderivative instruments designated as hedges or any derivatives designated as fair value hedges. The Company 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. The Company uses a present value technique that incorporates the LIBOR-swap curve, foreign currency spot rates and foreign currency forward rates to value its derivatives, including its interest rate swap agreements and foreign currency exchange contracts, and also incorporates the effect of its subsidiary and counterparty credit risk into the valuation.

The valuation techniques and Level 3 inputs used to estimate the fair value of contingent consideration payable in connection with the Company's 2012 acquisition of Reed Minerals are described below. The following table summarizes changes in Level 3 liabilities measured at fair value on a recurring basis:

	Contingent Consideration
Balance at January 1, 2014	$1,581
Accretion expense	16
Payments	—
Balance at June 30, 2014	$1,597

The contingent consideration is structured as an earn-out payment to the sellers of Reed Minerals. The earn-out is calculated as a percentage by which the monthly average coal selling price exceeds an established threshold multiplied by the number of tons sold during the month. The earn-out period covers the first 15.0 million tons of coal sold from certain Reed Minerals coal reserves. There is no monetary cap on the amount payable under this contingent payment arrangement. The liability for contingent consideration is included in Other long-term liabilities in the Unaudited Condensed Consolidated Balance Sheets. Earn-out payments, if payable, are paid quarterly. No earn-out payments were made during the three and six months ended June 30, 2014.

The estimated fair value of the contingent consideration was determined based on the income approach with key assumptions that include future projected metallurgical coal prices, forecasted coal deliveries and the estimated discount rate used to determine the present value of the projected contingent consideration payments. Future projected coal prices were estimated using a stochastic modeling methodology based on Geometric Brownian Motion with a risk neutral Monte Carlo simulation. Significant assumptions used in the model include coal price volatility and the risk-free interest rate based on U.S. Treasury yield curves with maturities consistent with the expected life of the contingent consideration. Volatility is considered a significant assumption and is based on historical coal prices. A significant increase or decrease in any of the aforementioned key assumptions related to the fair value measurement of the contingent consideration may result in a significantly higher or lower reported fair value for the contingent consideration liability.

The future anticipated cash flow for the contingent consideration was discounted using an interest rate that appropriately captures a market participant's view of the risk associated with the liability. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy.

There were no transfers into or out of Levels 1, 2 or 3 during the three and six months ended June 30, 2014 and 2013.

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 June 30, 2014, both the fair value and the book value of the revolving credit agreements and long-term debt, excluding capital leases, was $217.3 million. At December 31, 2013, both the fair value and the book value of the revolving credit agreements and long-term debt, excluding capital leases, was $170.7 million. At June 30, 2013, the fair value of the revolving credit agreements and long-term debt, excluding capital leases, was $152.9 million compared with the book value of $152.5 million.

Table of Contents

NOTE 6—Unconsolidated Subsidiaries

NACoal has two consolidated mining operations: Mississippi Lignite Mining Company (“MLMC”) and Reed Minerals. NACoal also provides dragline mining services for independently owned limerock quarries in Florida. NACoal has ten 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")
North American Coal Corporation India Private Limited ("NACC India")

Coteau, Falkirk and Sabine were developed between 1974 and 1981 and operate lignite coal mines under long-term contracts with various utility customers. Coteau, Falkirk and Sabine are capitalized primarily with debt financing, which the utility customers have arranged and guaranteed, and are without recourse to NACCO and NACoal. Demery, Caddo Creek, Coyote Creek, Camino Real and Liberty (collectively with Coteau, Falkirk and Sabine, the "Unconsolidated Mines") were formed to develop, construct and operate surface mines under long-term contracts. Demery commenced delivering coal to its customer in 2012 and is expected to reach full production levels in late 2015. Liberty commenced production in 2013 and is expected to increase production levels gradually from approximately 0.5 million tons in 2014 to full production of approximately 4.7 million tons of coal annually in 2019. Caddo Creek, Coyote Creek and Camino Real are still in development and are not expected to be at full production for several years. NoDak was formed to operate and maintain a coal processing facility. NACC India was formed to provide technical advisory services to the third-party owners of a coal mine in India. See Note 13 to the Unaudited Condensed Consolidated Financial Statements in this Form 10-Q for a discussion of a subsequent event related to NACC India's contract with its Indian customer.

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 position 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. The net income or loss from NACC India 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.

The investments in the Unconsolidated Mines, NoDak and NACC India and related tax positions totaled $30.3 million, $33.1 million, and $34.5 million at June 30, 2014, December 31, 2013, and June 30, 2013, respectively, and is 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 $4.5 million, $5.4 million, and $4.2 million at June 30, 2014, December 31, 2013, and June 30, 2013 respectively.

Included in "Accounts receivable from affiliates" is $32.5 million, $27.9 million and $25.9 million as of June 30, 2014, December 31, 2013 and June 30, 2013, respectively, due from Coyote Creek, primarily for the purchase of a dragline from NACoal.

Table of Contents

Summarized financial information for the Unconsolidated Mines, NoDak and NACC India is as follows:

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2014	2013	2014	2013
Revenues	$148,075	$141,302	$286,598	$280,938
Gross profit	$17,126	$17,515	$36,619	$37,012
Income before income taxes	$10,994	$10,695	$24,162	$23,478
Net income	$8,530	$8,191	$18,674	$17,992

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. 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 material costs 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.

At June 30, 2014, December 31, 2013, and June 30, 2013, HBB had accrued an undiscounted obligation of $10.3 million, $6.9 million and $7.1 million, respectively, for environmental investigation and remediation activities. In addition, HBB estimates that it is reasonably possible that it may incur up to $4.2 million of additional expenses related to the environmental investigation and remediation at these sites.

During the three and six months ended June 30, 2014, HBB recorded a $3.3 million charge to increase the liability for environmental investigation and remediation activities at the Picton, Ontario facility as a result of an environmental study performed in the second quarter of 2014. Partially offsetting the increase in the Picton, Ontario facility environmental reserve in the first six months of 2014 is a $0.8 million reduction in selling, general and administrative expenses in the second quarter and the first six months of 2014 as a result of a third-party's commitment to share in anticipated remediation costs at HBB's Southern Pines and Mt. Airy locations. During the three and six months ended June 30, 2013, HBB recorded a $2.3 million charge to establish a liability for environmental investigation and remediation activities at the Picton, Ontario facility.

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.

Table of Contents

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:

	2014
Balance at January 1	$5,343
Warranties issued	3,541
Settlements made	(4,567)
Balance at June 30	$4,317

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.

The effective income tax rates for the three and six months ended June 30, 2014 were 42.4% and 38.6%, respectively. These rates were impacted by favorable net discrete tax items totaling $1.4 million in the three and six months ended June 30, 2014 primarily resulting from the conclusion of the 2011 and 2012 U.S. federal tax return examinations. The effective income tax rates for the three and six months ended June 30, 2013 were 28.9% and 26.8%, respectively. Discrete tax items impacting the three and six months ended June 30, 2013 were not significant.

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.

Table of Contents

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

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2014	2013	2014	2013
U.S. Pension and Postretirement Health Care				
Service cost	$17	$18	$35	$38
Interest cost	695	686	1,489	1,466
Expected return on plan assets	(1,141)	(1,087)	(2,408)	(2,303)
Amortization of actuarial loss	190	651	434	1,252
Amortization of prior service credit	(17)	(55)	(36)	(100)
Total	$(256)	$213	$(486)	$353
Non-U.S. Pension				
Service cost	$—	$—	$—	$—
Interest cost	50	51	99	101
Expected return on plan assets	(75)	(71)	(149)	(143)
Amortization of actuarial loss	19	31	35	61
Total	$(6)	$11	$(15)	$19

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 JUNE 30		SIX MONTHS ENDED JUNE 30	
	2014	2013	2014	2013
Revenues				
NACoal	$49,780	$43,567	$89,652	$94,714
HBB	118,385	114,651		