NACCO INDUSTRIES INC
Form 10-Q
November 01, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q
(Mark One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended September 30, 2012
OR	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to

Commission file number 1-9172

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

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

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

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

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

YES þ NO o

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

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

YES þ NO o

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

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

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

YES o NO þ

Number of shares of Class A Common Stock outstanding at October 26, 2012: 6,811,999
Number of shares of Class B Common Stock outstanding at October 26, 2012: 1,582,311

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Part I
FINANCIAL INFORMATION
Item 1. Financial Statements

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

	SEPTEMBER 30 2012	DECEMBER 31 2011
	(In millions, except share data)	
ASSETS		
Current Assets		
Cash and cash equivalents	$155.7	$153.7
Accounts receivable, net	107.7	100.7
Inventories, net	205.4	161.3
Deferred income taxes	23.9	24.5
Prepaid expenses and other	14.9	10.6
Assets held for sale	1.5	31.4
Current assets of discontinued operations	—	893.9
Total Current Assets	509.1	1,376.1
Property, Plant and Equipment, Net	193.5	107.2
Goodwill	7.5	—
Coal Supply Agreement and Other Intangibles, Net	71.9	57.9
Long-term Deferred Income Taxes	—	0.3
Other Non-current Assets	40.0	48.6
Long-term Assets of Discontinued Operations	—	218.6
Total Assets	$822.0	$1,808.7
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$134.4	$94.2
Revolving credit agreements of subsidiaries - not guaranteed by the parent company	42.0	67.0
Current maturities of long-term debt of subsidiaries - not guaranteed by the parent company	7.0	6.7
Accrued payroll	18.0	19.1
Deferred revenue	1.6	1.3
Other current liabilities	40.8	41.5
Current liabilities of discontinued operations	—	661.4
Total Current Liabilities	243.8	891.2
Long-term Debt of Subsidiaries - not guaranteed by the parent company	158.4	74.5
Asset Retirement Obligations	34.6	23.4
Pension and other Postretirement Obligations	24.5	29.3
Long-term Deferred Income Taxes	24.0	20.0
Other Long-term Liabilities	45.6	34.6
Long-term Liabilities of Discontinued Operations	—	158.7
Total Liabilities	530.9	1,231.7
Stockholders' Equity		
Common stock:		
Class A, par value $1 per share, 6,803,999 shares outstanding (2011 - 6,778,346 shares outstanding)	6.8	6.8

Class B, par value $1 per share, convertible into Class A on a one-for-one basis, 1,590,311 shares outstanding (2011 - 1,595,581 shares outstanding)	1.6	1.6
Capital in excess of par value	24.9	22.7
Retained earnings	321.3	619.7
Accumulated other comprehensive loss	(63.5)	(74.6)
Total Stockholders' Equity	291.1	576.2
Noncontrolling Interest	—	0.8
Total Equity	291.1	577.0
Total Liabilities and Equity	$822.0	$1,808.7

See notes to unaudited condensed consolidated financial statements.

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

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2012	2011	2012	2011
	(In millions, except per share data)			
Revenues	$210.1	$194.6	$555.2	$516.5
Cost of sales	157.8	146.1	414.1	387.2
Gross Profit	52.3	48.5	141.1	129.3
Earnings of unconsolidated mines	11.5	11.1	34.1	32.7
Operating Expenses				
Selling, general and administrative expenses	52.1	46.4	150.1	140.4
Gain on sale of assets	(3.1)	(0.1)	(5.4)	(0.2)
	49.0	46.3	144.7	140.2
Operating Profit	14.8	13.3	30.5	21.8
Other (income) expense				
Interest expense	1.5	2.3	4.7	6.8
Applica settlement and litigation costs	—	—	—	(57.2)
Other	(0.3)	0.7	0.6	0.8
	1.2	3.0	5.3	(49.6)
Income Before Income Taxes	13.6	10.3	25.2	71.4
Income tax provision	3.4	2.1	6.7	21.8
Income From Continuing Operations	10.2	8.2	18.5	49.6
Discontinued operations, net of $1.3 tax benefit and $7.6 tax expense in three and nine months ended September 30, 2012, respectively, and net of $4.1 and $15.8 tax expense in three and nine months ended September 30, 2011, respectively.	27.8	17.5	66.5	58.1
Net Income	$38.0	$25.7	$85.0	$107.7
Basic Earnings per Share:				
Continuing operations	$1.22	$0.98	$2.21	$5.92
Discontinued operations	$3.31	$2.08	$7.93	$6.93
Basic Earnings per Share	$4.53	$3.06	$10.14	$12.85
Diluted Earnings per Share:				
Continuing operations	$1.21	$0.97	$2.20	$5.90
Discontinued operations	$3.31	$2.08	$7.92	$6.91
Diluted Earnings per Share	$4.52	$3.05	$10.12	$12.81
Dividends per Share	$0.5475	$0.5325	$1.6275	$1.5875
Basic Weighted Average Shares Outstanding	8.391	8.395	8.385	8.382
Diluted Weighted Average Shares Outstanding	8.409	8.416	8.401	8.407
Comprehensive Income	$48.9	$10.3	$96.1	$110.8

See notes to unaudited condensed consolidated financial statements.

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

	NINE MONTHS ENDED SEPTEMBER 30	
	2012	2011
	(In millions)	
Operating Activities		
Net income	$85.0	$107.7
Income from discontinued operations	66.5	58.1
Income from continuing operations	18.5	49.6
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation, depletion and amortization	11.4	11.9
Amortization of deferred financing fees	1.0	0.8
Deferred income taxes	4.3	(2.0)
Gain on sale of assets	(5.4)	(0.2)
Other non-current liabilities	2.4	8.2
Other	(0.2)	1.7
Working capital changes, excluding the effect of business acquisitions:		
Accounts receivable	(7.3)	22.7
Inventories	(44.2)	(21.1)
Other current assets	(4.6)	(6.0)
Accounts payable	35.4	5.5
Other current liabilities	(0.6)	(8.8)
Net cash provided by operating activities of continuing operations	10.7	62.3
Net cash provided by (used for) operating activities of discontinued operations	68.7	(11.0)
Investing Activities		
Expenditures for property, plant and equipment	(39.7)	(15.3)
Acquisition of business	(64.8)	—
Proceeds from the sale of assets	34.5	0.5
Proceeds from note receivable	14.5	—
Net cash used for investing activities of continuing operations	(55.5)	(14.8)
Net cash used for investing activities of discontinued operations	(10.5)	(10.5)
Financing Activities		
Additions to long-term debt	25.0	—
Reductions of long-term debt	(54.6)	(61.9)
Net additions to revolving credit agreements	86.9	14.0
Cash dividends paid	(13.7)	(13.3)
Cash dividends received from Hyster-Yale	5.0	10.0
Financing fees paid	(1.4)	—
Purchase of treasury shares	(0.6)	—
Other	0.2	(0.4)
Net cash provided by (used for) financing activities of continuing operations	46.8	(51.6)
Net cash used for financing activities of discontinued operations	(98.9)	(19.1)
Effect of exchange rate changes on cash of continuing operations	—	—
Effect of exchange rate changes on cash of discontinued operations	0.8	0.4

Cash and Cash Equivalents		
Decrease for the period	(37.9)	(44.3)
Net (increase) decrease related to discontinued operations	39.9	40.2
Balance at the beginning of the period	153.7	92.4
Balance at the end of the period	$155.7	$88.3

See notes to unaudited condensed consolidated financial statements.

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

					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 Cash Flow Hedging	Pension and Postretirement Plan Adjustment	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	(In millions, except per share data)									
Balance, December 31, 2010	$6.8	$ 1.6	$22.6	$475.4	$ 28.1	$(9.0)	$ (78.1)	$ 447.4	$ 0.8	$448.2
Stock-based compensation	—	—	1.8	—	—	—	—	1.8	—	1.8
Shares issued under stock compensation plans	—	—	0.4	—	—	—	—	0.4	—	0.4
Net income attributable to stockholders	—	—	—	107.7	—	—	—	107.7	—	107.7
Cash dividends on Class A and Class B common stock: $1.5875 per share	—	—	—	(13.3)	—	—	—	(13.3)	—	(13.3)
Current period other comprehensive income (loss)	—	—	—	—	(7.7)	(2.3)	(2.9)	(12.9)	—	(12.9)
Reclassification adjustment to net income	—	—	—	—	—	7.8	8.2	16.0	—	16.0
Net loss attributable to noncontrolling interest	—	—	—	—	—	—	—	—	(0.1)	(0.1)
Balance, September 30, 2011	$6.8	$ 1.6	$24.8	$569.8	$ 20.4	$(3.5)	$ (72.8)	$ 547.1	$ 0.7	$547.8
Balance, December 31, 2011	$6.8	$ 1.6	$22.7	$619.7	$ 13.2	$2.6	$ (90.4)	$ 576.2	$ 0.8	$577.0
Stock-based compensation	—	—	2.2	—	—	—	—	2.2	—	2.2
Shares issued under stock compensation plans	—	—	0.6	—	—	—	—	0.6	—	0.6
Purchase of treasury shares	—	—	(0.6)	—	—	—	—	(0.6)	—	(0.6)
Net income attributable to stockholders	—	—	—	85.0	—	—	—	85.0	—	85.0
	—	—	—	(13.7)	—	—	—	(13.7)	—	(13.7)

Cash dividends on Class A and Class B common stock: $1.6275 per share										
Stock dividend	—	—	—	(369.7)	—	—	—	(369.7)	(0.8)	(370.5)
Current period other comprehensive income (loss)	—	—	—	—	0.5	7.5	—	8.0	—	8.0
Reclassification adjustment to net income	—	—	—	—	—	(2.8)	5.9	3.1	—	3.1
Balance, September 30, 2012	$6.8	$ 1.6	$24.9	$ 321.3	$ 13.7	$7.3	$ (84.5)	$ 291.1	$ —	$291.1

See notes to unaudited condensed consolidated financial statements.

NACCO INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2012
(Tabular Amounts in Millions, Except Per Share and Percentage Data)

Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of NACCO Industries, Inc. (the “parent company” or “NACCO”) and its wholly owned subsidiaries (collectively, “NACCO Industries, Inc. and Subsidiaries” or the “Company”). Intercompany accounts and transactions are eliminated in consolidation. 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. On September 28, 2012, the Company spun-off Hyster-Yale Materials Handling, Inc. ("Hyster-Yale"), a former wholly owned subsidiary of the Company. The financial position, results of operations and cash flows of Hyster-Yale are reflected as discontinued operations for all periods presented through the date of the spin-off. See Note 13 to the Unaudited Condensed Consolidated Financial Statements for further details regarding the spin-off.

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, 2012 and the results of its operations for the three and nine months ended September 30, 2012 and 2011 and the results of its cash flows and changes in equity for the nine months ended September 30, 2012 and 2011 have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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

Operating results for the three and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2012. Because the HBB and KC businesses are seasonal, a majority of revenues and operating profit typically occurs in the second half of the calendar year when sales of small electric household appliances to retailers and consumers increase significantly for the fall holiday-selling season. For further information 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, 2011.

Note 2 - Recently Issued Accounting Standards

Accounting Standards Adopted in 2012:

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

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

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

On January 1, 2012, the Company adopted authoritative guidance issued by the FASB on testing goodwill for impairment. The revised accounting standard update is intended to simplify how an entity tests goodwill for impairment and will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The adoption of the guidance did not have a material effect on the Company's financial position, results of operations, cash flows or related disclosures.

On July 1, 2012, the Company adopted authoritative guidance issued by the FASB on testing indefinite-lived intangible assets other than goodwill for impairment. This guidance provides entities with an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The adoption of the guidance did not have a material effect on the Company's financial position, results of operations, cash flows or related disclosures.

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

Note 3 - Inventories

Inventories are summarized as follows:

	SEPTEMBER 30 2012	DECEMBER 31 2011
Coal - NACoal	$ 16.4	$ 13.1
Mining supplies - NACoal	12.8	11.1
Total inventories at weighted average	29.2	24.2
Sourced inventories - HBB	114.0	75.6
Retail inventories - KC	62.2	61.5
Total inventories at FIFO	176.2	137.1
	$ 205.4	$ 161.3

Note 4 - Current and Long-Term Financing

On May 31, 2012, HBB entered into an amended and restated credit agreement for a $115.0 million secured, floating-rate revolving credit facility (the “HBB Facility”). The HBB Facility expires in July 2017. Borrowings under the HBB Facility were used to repay HBB's previous term loan entered into in 2007. The obligations under the HBB Facility are secured by substantially all of HBB's assets. The approximate book value of HBB's assets held as collateral under the HBB Facility was $230 million as of September 30, 2012.

The maximum availability under the HBB Facility is governed by a borrowing base derived from advance rates against eligible accounts receivable, inventory and trademarks of the borrowers, as defined in the HBB Facility. Adjustments to reserves booked against these assets, including inventory reserves, will change the eligible borrowing base and thereby impact the liquidity provided by the HBB Facility. A portion of the availability is denominated in Canadian dollars to provide funding to HBB's Canadian subsidiary. Borrowings bear interest at a floating rate, which can be a base rate or LIBOR, as defined in the HBB Facility, plus an applicable margin. The applicable margins, effective September 30, 2012, for base rate loans and LIBOR loans denominated in U.S. dollars were 0.00% and 1.50%, respectively. The applicable margins, effective September 30, 2012, for base rate loans and bankers' acceptance loans denominated in Canadian dollars was 0.00% and 1.50%, respectively. The HBB Facility also requires a fee of 0.375% per annum on the unused commitment. The margins and unused commitment fee under the HBB Facility are subject to quarterly adjustment based on average excess availability.

At September 30, 2012, the borrowing base under the HBB Facility was $110.8 million. Borrowings outstanding under the HBB Facility were $52.3 million at September 30, 2012. Therefore, at September 30, 2012, the excess availability under the HBB Facility was $58.5 million. The floating rate of interest applicable to the HBB Facility at September 30, 2012 was 2.08% including the floating rate margin.

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The HBB Facility includes restrictive covenants, which, among other things, limit the payment of dividends to NACCO, subject to achieving availability thresholds. Dividends are limited to (i) $15.0 million from the closing date of the HBB Facility through December 31, 2012, so long as HBB has excess availability, as defined in the HBB Facility, of at least $30.0 million; (ii) the greater of $20.0 million or excess cash flow from the most recently ended fiscal year in each of the two twelve-month periods following the closing date of the HBB Facility, so long as HBB has excess availability under the HBB Facility of $25.0 million and maintains a minimum fixed charge coverage ratio of 1.0 to 1.0, as defined in the HBB Facility; and (iii) in such amounts as determined by HBB subsequent to the second anniversary of the closing date of the HBB Facility, so long as HBB has excess availability under the HBB Facility of $25.0 million. The HBB Facility also requires HBB to achieve a minimum fixed charge coverage ratio in certain circumstances, as defined in the HBB Facility. At September 30, 2012, HBB was in compliance with the financial covenants in the HBB Facility.

HBB incurred fees and expenses of $1.2 million in the first nine months of 2012 related to the HBB Facility. These fees were deferred and are being amortized as interest expense over the term of the HBB Facility.

On August 7, 2012, KC entered into an amended credit agreement for a five-year, $30.0 million secured revolving line of credit (the “KC Facility”). The KC Facility expires in August 2017. The obligations under the KC Facility are secured by substantially all assets of KC. The approximate book value of KC's assets held as collateral under the KC Facility was $85 million as of September 30, 2012.

The maximum availability under the KC Facility is derived from a borrowing base formula using KC's eligible inventory and eligible credit card accounts receivable, as defined in the KC Facility. Borrowings bear interest at a floating rate plus a margin based on the excess availability under the agreement, as defined in the KC Facility, which can be either a base rate plus a margin of 1.00% or LIBOR plus a margin of 2.00%. The KC Facility also requires a fee of 0.375% per annum on the unused commitment.

At September 30, 2012, the borrowing base under the KC Facility was $27.0 million. Borrowings outstanding under the KC Facility were $14.7 million at September 30, 2012. Therefore, at September 30, 2012, the excess availability under the KC Facility was $12.3 million. The floating rate of interest applicable to the KC Facility at September 30, 2012 was 2.95%, including the floating rate margin.

The KC Facility allows for the payment of dividends to NACCO, subject to certain restrictions based on availability and meeting a fixed charge coverage ratio as described in the KC Facility. Dividends are limited to (i) $6.0 million in any twelve-month period, so long as KC has excess availability, as defined in the KC Facility, of at least $7.5 million after giving effect to such payment and maintaining a minimum fixed charge coverage ratio of 1.1 to 1.0, as defined in the KC Facility; (ii) $2.0 million in any twelve-month period, so long as KC has excess availability, as defined in the KC Facility, of at least $7.5 million after giving effect to such payment and (iii) in such amounts as determined by KC, so long as KC has excess availability under the KC Facility of $15.0 million after giving effect to such payment.

KC incurred fees and expenses of $0.2 million in the first nine months of 2012 related to the KC Facility. These fees were deferred and are being amortized as interest expense over the term of the KC Facility.

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 subsidiary credit risk, which is Level 2 as defined in the fair value hierarchy. At September 30, 2012, the fair value of revolving credit agreements and long-term debt, excluding capital leases, was $204.1 million compared with the book value of $203.1 million. At December 31, 2011, the fair value of revolving credit agreements and long-term debt, excluding capital leases, was $146.1 million compared with the book value of $145.3 million.

Derivative Financial Instruments

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

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 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 comprehensive income (loss) in the same period as the gains or losses from the underlying transactions are recorded and are generally recognized in interest expense. The ineffective portion of derivatives that are classified as hedges is immediately recognized in earnings and included on the line “Other” in the “Other (income) expense” section of the unaudited condensed consolidated statements of comprehensive income (loss).

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

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

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

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

Foreign Currency Derivatives: HBB held forward foreign currency exchange contracts with total notional amounts of $15.4 million, at September 30, 2012, denominated in Canadian dollars. HBB held forward foreign currency exchange contracts with total notional amounts of $15.6 million, at December 31, 2011, denominated in Canadian dollars. The fair value of these contracts approximated a net liability of $0.1 million and a net asset of $0.4 million at September 30, 2012 and December 31, 2011, respectively.

Forward foreign currency exchange contracts that qualify for hedge accounting are used to hedge transactions expected to occur within the next twelve months. The mark-to-market effect of forward foreign currency exchange contracts that are considered effective as hedges has been included in OCI. Based on market valuations at September 30, 2012, $0.1 million of the amount included in OCI is expected to be reclassified as expense into the consolidated statement of comprehensive income (loss) over the next twelve months, as the transactions occur.

Interest Rate Derivatives: HBB has interest rate swap agreements that hedge interest payments on its three-month LIBOR borrowings. The following table summarizes the notional amounts, related rates and remaining terms of active interest rate swap agreements at September 30, 2012 and December 31, 2011:

	Notional Amount		Average Fixed Rate		
	SEPTEMBER 30 2012	DECEMBER 31 2011	SEPTEMBER 30 2012	DECEMBER 31 2011	Remaining Term at September 30, 2012
HBB	$25.0	$ 40.0	4.0 %	4.6 %	Various, extending to June 2013

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The fair value of all interest rate swap agreements was a net liability of $0.7 million and a net liability of $1.5 million at September 30, 2012 and December 31, 2011, respectively. The mark-to-market effect of interest rate swap agreements that are considered effective as hedges has been included in OCI. Based on market valuations at September 30, 2012, $0.6 million of the amount included in OCI is expected to be reclassified as expense into the consolidated statement of comprehensive income (loss) over the next twelve months, as cash flow payments are made in accordance with the interest rate swap agreements. The interest rate swap agreements held by HBB on September 30, 2012 are expected to continue to be effective as hedges.

The following table summarizes the fair value of derivative instruments reflected on a gross basis at September 30, 2012 and December 31, 2011 as recorded in the unaudited condensed consolidated balance sheets:

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	SEPTEMBER 30 2012	DECEMBER 31 2011	Balance Sheet Location	SEPTEMBER 30 2012	DECEMBER 31 2011
Derivatives designated as hedging instruments						
Interest rate swap agreements						
Current	Other current liabilities	$ —	$ —	Other current liabilities	$ 0.7	$ 1.1
Long-term	Other long-term liabilities	—	—	Other long-term liabilities	—	0.4
Foreign currency exchange contracts						
Current	Prepaid expenses and other	—	0.4	Prepaid expenses and other	0.1	—
	Other current liabilities	—	—	Other current liabilities	—	—
Total derivatives designated as hedging instruments		$ —	$ 0.4		$ 0.8	$ 1.5
Derivatives not designated as hedging instruments						
Interest rate swap agreements						
Current	Other current liabilities	$ —	$ —	Other current liabilities	$ —	$ —
Long-term	Other long-term liabilities	—	—	Other long-term liabilities	—	—
Foreign currency exchange contracts						
Current	Prepaid expenses and other	—	—	Prepaid expenses and other	—	—
	Other current liabilities	—	—	Other current liabilities	—	—
Total derivatives not designated as hedging instruments		$ —	$ —		$ —	$ —
Total derivatives		$ —	$ 0.4		$ 0.8	$ 1.5

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The following table summarizes the pre-tax impact of derivative instruments for the three and nine months ended September 30 as recorded in the unaudited condensed consolidated statements of comprehensive income (loss):

	Amount of Gain or (Loss) Recognized in OCI on Derivatives (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 Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)			
	THREE MONTHS		NINE MONTHS			THREE MONTHS		NINE MONTHS			THREE MONTHS		NINE MONTHS	
Derivatives in Cash Flow Hedging Relationships	2012	2011	2012	2011		2012	2011	2012	2011		2012	2011	2012	2011
Interest rate swap agreements	$—	$(0.1)	$(0.1)	$(0.4)	Interest expense	$(0.2)	$(0.4)	$(1.0)	$(1.5)	Other	$—	$—	$—	$—
Foreign currency exchange contracts	(0.5)	1.9	(0.7)	2.0	Cost of sales	(0.1)	0.2	(0.1)	0.8	N/A	—	—	—	—
Total	$(0.5)	$1.8	$(0.8)	$1.6		$(0.3)	$(0.2)	$(1.1)	$(0.7)		$—	$—	$—	$—

		Amount of Gain or (Loss) Recognized in Income on Derivatives			
		THREE MONTHS		NINE MONTHS	
Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	2012	2011	2012	2011
Interest rate swap agreements	N/A	$—	$—	$—	$—
Foreign currency exchange contracts	Cost of Sales or Other	—	—	(0.2)	(0.1)
Total		$—	$—	$(0.2)	$(0.1)

Note 6 - Unconsolidated Subsidiaries

Nine of NACoal's wholly owned subsidiaries each meet the definition of a variable interest entity: The Coteau Properties Company ("Coteau"); The Falkirk Mining Company ("Falkirk"); The Sabine Mining Company ("Sabine" and collectively with Coteau and Falkirk, the "project mining subsidiaries"); Demery Resources Company, LLC (“Demery”); Caddo Creek Resources Company, LLC (“Caddo Creek”); Camino Real Fuels, LLC (“Camino Real”); Liberty Fuels Company, LLC (“Liberty”); NoDak Energy Services, LLC ("NoDak") and North American Coal Corporation India Private Limited ("NACC India"). The project mining subsidiaries are capitalized primarily with debt financing, which the utility customers have arranged and guaranteed and which are without recourse to NACCO and NACoal. Demery, Caddo Creek, Camino Real and Liberty (collectively with the project mining subsidiaries, the "unconsolidated mines") were formed to develop, construct and operate surface mines under long-term contracts. NoDak was formed to operate and maintain a coal processing facility. The debt obligations of the unconsolidated mines are without recourse to NACCO and NACoal. NACC India was formed to provide technical advisory services to the third-party owners of a coal mine in India. The contracts with the customers of the nine unconsolidated subsidiaries allow 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 taxes resulting from the earnings of the unconsolidated mines and NoDak are solely the responsibility of the Company. The pre-tax income from the seven unconsolidated mines is reported on the line “Earnings of unconsolidated mines” in the unaudited condensed consolidated statements of comprehensive income (loss), with related taxes included in the provision for income taxes. The Company has included the pre-tax earnings of the unconsolidated mines above operating profit as they are an integral component of the Company's business and operating results. The pre-tax income from NoDak is reported on the line "Other" in the "Other (income) expense" section of the unaudited condensed consolidated statement of comprehensive income (loss), with the related income taxes included in the provision for income taxes. The net income from NACC India is reported on the line "Other" in the "Other (income) expense" section of the unaudited condensed consolidated statement of comprehensive income (loss). The investment in the nine unconsolidated operations and related tax position was $22.5 million and $22.0 million at September 30, 2012 and December 31, 2011, 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 $5.2 million and $6.3 million at September 30, 2012 and December 31, 2011, respectively.

Summarized financial information for the nine unconsolidated operations is as follows:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2012	2011	2012	2011
Revenues	$144.2	$131.3	$413.6	$364.1
Gross profit	$19.0	$16.5	$56.4	$52.3
Income before income taxes	$11.9	$11.4	$35.3	$33.7
Income from continuing operations	$9.9	$8.9	$28.3	$25.8
Net income	$9.9	$8.9	$28.3	$25.8

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, 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.

Past results of operations have not been materially affected by a change in estimate of HBB's environmental exposure at known 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 September 30, 2012, HBB had accrued approximately $4.8 million for environmental investigation and remediation activities at these sites. In addition, HBB estimates that it is reasonably possible that it may incur additional expenses in the range of $0 to $3.5 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.

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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 warranty obligations are as follows:

	2012
Balance at January 1	$4.2
Current year warranty expense	4.3
Payments made	(4.9)
Balance at September 30	$3.6

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.

A reconciliation of the Company's consolidated federal statutory and effective income tax on income from continuing operations is as follows:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2012	2011	2012	2011
Income before income taxes:	$13.6	$10.3	$25.2	$71.4
Statutory taxes at 35%	$4.8	$3.6	$8.8	$25.0
Discrete items:				
Other	(0.3)	(0.2)	(0.3)	(0.4)
	(0.3)	(0.2)	(0.3)	(0.4)
Other permanent items:				
NACoal percentage depletion	(1.5)	(0.7)	(2.4)	(3.6)
Foreign tax rate differential	(0.1)	(0.7)	(0.1)	(0.8)
Other	0.5	0.1	0.7	1.6
	(1.1)	(1.3)	(1.8)	(2.8)
Income tax provision	$3.4	$2.1	$6.7	$21.8
Effective income tax rate	25.0 %	20.4 %	26.6 %	30.5 %

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 are frozen for all employees other than certain NACoal employees of the project mining subsidiaries. All other eligible employees of the Company, including employees whose pension benefits are frozen, receive retirement benefits under defined contribution retirement plans.

The Company previously disclosed in its Annual Report on Form 10-K for the year ended December 31, 2011 that it expected to contribute approximately $8.0 million and $5.0 million, which included Hyster-Yale, to its U.S. and non-U.S. pension plans, respectively, in 2012. Excluding the contributions of Hyster-Yale prior to the spin-off, the Company expects to contribute

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approximately $7.0 million to its remaining U.S. pension plans in 2012. The Company does not expect to contribute to its remaining non-U.S. pension plans in 2012.

The Company also maintains health care plans which provide benefits to eligible retired employees. 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 (income) expense are set forth below:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2012	2011	2012	2011
U.S. Pension				
Service cost	$—	$—	$—	$—
Interest cost	0.8	0.9	2.4	2.6
Expected return on plan assets	(1.1)	(1.1)	(3.3)	(3.4)
Amortization of actuarial loss	0.7	0.6	2.1	1.8
Amortization of prior service credit	—	(0.1)	(0.1)	(0.1)
Total	$0.4	$0.3	$1.1	$0.9
Non-U.S. Pension				
Service cost	$—	$—	$—	$—
Interest cost	0.1	0.1	0.2	0.2
Expected return on plan assets	(0.1)	(0.1)	(0.2)	(0.3)
Amortization of actuarial loss	—	—	0.1	—
Total	$—	$—	$0.1	$(0.1)
Postretirement				
Service cost	$—	$—	$0.1	$0.1
Interest cost	—	—	0.1	0.1
Amortization of prior service credit	—	—	(0.1)	(0.1)
Total	$—	$—	$0.1	$0.1

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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.

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. Other transactions among reportable segments are recognized based on current market prices of similar third-party transactions.

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2012	2011	2012	2011
Revenues from external customers				
NACoal	$38.0	$21.0	$81.5	$58.3
HBB	124.8	126.7	340.4	331.6
KC	48.2	48.9	135.8	129.8
NACCO and Other	—	—	—	—
Eliminations	(0.9)	(2.0)	(2.5)	(3.2)
Total	$210.1	$194.6	$555.2	$516.5
Operating profit (loss)				
NACoal	$8.6	$7.0	$29.7	$21.8
HBB	8.7	7.9	15.9	14.8
KC	(1.9)	(0.6)	(11.6)	(10.3)
NACCO and Other	(0.6)	(0.9)	(3.6)	(4.5)
Eliminations	—	(0.1)	0.1	—
Total	$14.8	$13.3	$30.5	$21.8
Income (loss) from continuing operations				
NACoal	$8.2	$5.8	$24.5	$17.5
HBB	5.3	4.1	8.5	6.4
KC	(1.2)	(0.5)	(7.2)	(6.5)
NACCO and Other	(1.1)	(0.7)	(4.2)	33.0
Eliminations	(1.0)	(0.5)	(3.1)	(0.8)
Total	$10.2	$8.2	$18.5	